



# BNP PARIBAS IN CHINA

*BNP Paribas (China) Limited*



**BNP PARIBAS** | The bank for a changing world

# AGENDA

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POLITICAL PANORAMA

ECONOMIC PANORAMA

BNPP CHINA OVERVIEW

BNPP CHINA CAPABILITIES



# POLITICAL PANORAMA

## CHINA - ON THE POLITICAL FRONT

- Lack of information on the 18th Party Congress casts some cloud on the political stability and the leader for the next decade for China
- Absence of Xi Jinping, the rumored successor to Hu Jingtiao, as President and General Secretary, since Sept 1 also added to the uncertainty
- On Sept 19, Xi finally re-appeared, after 2-weeks' absence, met US Defense Secretary Leon Penetta in Beijing erased some of the concerns about his health and political standing
- No dates have been announced for the upcoming 18th Party Congress, which should have been announced end of August, suggesting political power transition arrangement at the top level has not been completed, and perhaps bargaining and compromising among power groups are still going on
- We expect the Party Congress would be held in mid-October with the latest version being Oct 10-25.
- Our view is that current political uncertainty has affected the policy formulation to counter current economic growth challenges

## TWO concerns

Internal environment

External environment

## CHINA/JAPAN RELATIONSHIP OVER DIAOYU ISLAND

- China has made unprecedented reaction against the Japanese Government's action nationalizing the Diaoyu Island
- Such dispute would seriously affect the diplomatic and trade relationship between Japan and China
- Hints of trade sanctions by the Chinese have been dropped on the Japanese, potentially leading to a trade sanction by both countries
- In 2011, Chinese exports to Japan amounted to USD 148.4 bn. Japan is the 3rd largest export destination of China, behind the EU and USA
- China imported USD 194.7 bn worth of products from Japan in 2011
- Up to July 2012, Japan's FDI into China reached USD 85 bn (6% of the total FDI into China), while China's ODI to Japan amounted to USD 0.75 bn.
- For Japanese corporates, they generate 48% of profit from Asia, and China is Japan's most important Asian market



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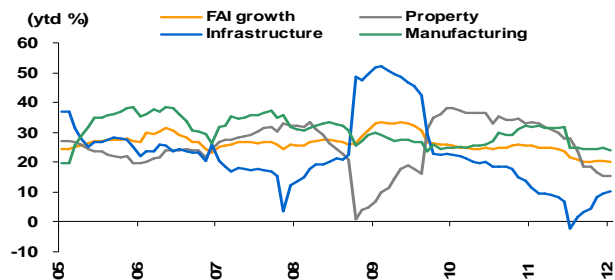
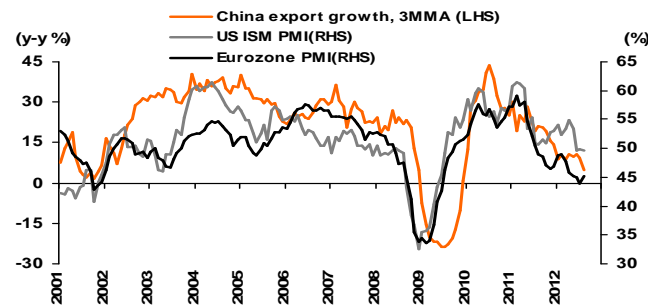
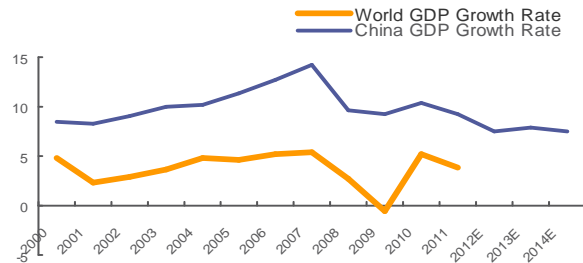
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# ECONOMIC PANORAMA (1/2)

## DATA & CHARTS



## ACTUAL

### Growth still declining

- We are still approaching the bottom
- Major indicators in July, IP, power output, trade, inflation, new loans and M1, were even lower than those in June

### Policy option limited

- Policy easing and stimulus have not worked well to offset weakening external and domestic demand
- We maintain a cautiously optimistic view that implementation will improve after the political power transition

### Market implications

Investors need to face the reality that a recovery may be further delayed and less pronounced.

## FORECAST: ECONOMIC SLOWDOWN

### Growth: teetering towards recovery

- Global economy enters a new stage of lower growth (unresolved EU Debt Crisis and US recovery headwinds)
- Chinese economy growth will come off to 7-8% from around 10% in the past 30 years
- Impediments to growth: Overcapacity and elevated local debt restrains investment; soft external demand; distorted income distribution hinders consumption; Peaking demographic dividend reduces trend growth

### Trade: pessimistic export situation

- China's market share in the global export market is probably near the peak, at 11.4% in 2011.
- Soft external demand is pervasive across borders and product lines.
- Rising labour costs and RMB appreciation erodes the competitiveness of Chinese products.

### Investment: structural decline

- Recent increased approvals and projects will carry FAI growth at 20% in 2012 and 2013.
- FAI is likely to fall off from 2014, as projects in the 12th Five-Year Plan are largely completed by then
- Capacity in manufacturing and infrastructure may be saturation after a decade of rapid investment
- Domestic and international weak growth momentum will dampen investor confidence

### Consumption: looking for steady growth

- The new government aims to rebalance national income distribution, enhance social welfare and contain property prices
- Otherwise, consumption will continue to lag GDP growth.

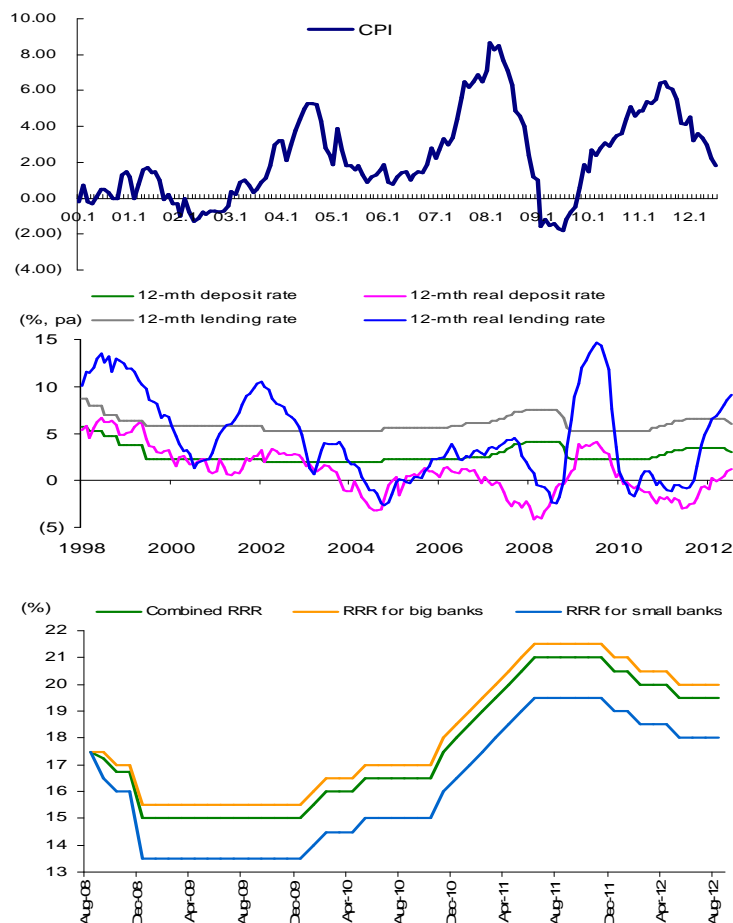
### Mild Inflation

- Inflation has dipped to cyclical low
- Deflation risk is remote, given 7-8% GDP growth forecast
- Inflation push-up risks: uncertain weather, labour cost increase & price reform of resource products



# ECONOMIC PANORAMA (2/2)

## DATA & CHARTS



## MONETARY POLICY: AMPLE LIQUIDITY

**Monetary policy: ample liquidity in the market currently but limited room for relaxing monetary policy in the future after over-stimulus in 2008/2009**

### Interest rate:

- The effect of the two interest rate cuts seems insufficient to boost confidence
- There is still chance to see another interest rates cut this year to further lower lending costs and to shore up the economy.
- In 2014, we expect 25bps hike in interest rate following quarters of negative real deposit rates.

### RRR:

- We expect continued RRR cut in the following years, because FX purchase of the central bank, through which China create base money, is slowing down steadily in the backdrop of less capital inflow and reduced FX intervention of PBOC.

### Exchange rate:

- Policymakers believe USD/RMB has reached equilibrium rate.
- After PBOC expanded the daily trading band of RMB against USD, RMB exhibited conspicuous two-way movement instead of one-way appreciation. Over a longer horizon, we still expect slow RMB appreciation given China's productivity gain is quicker than the US.



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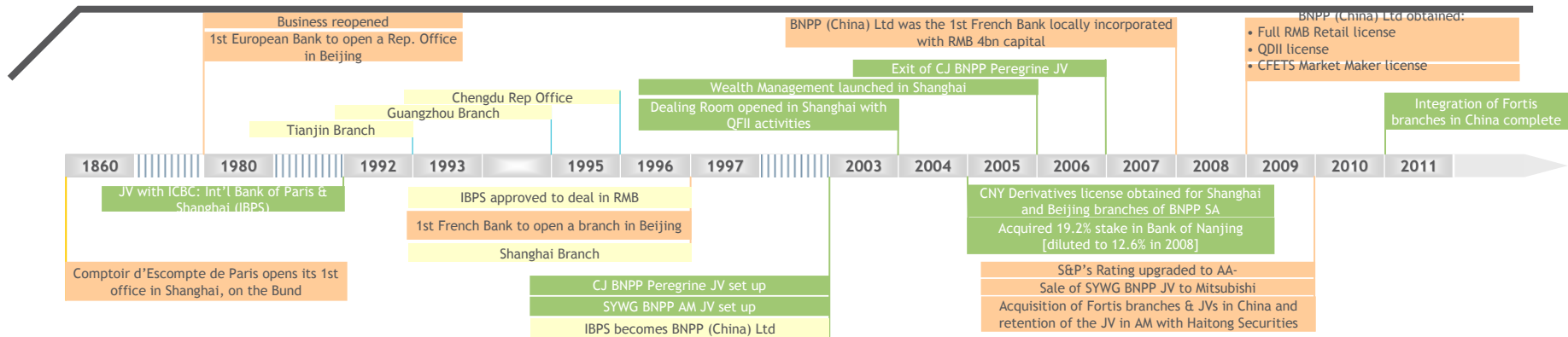
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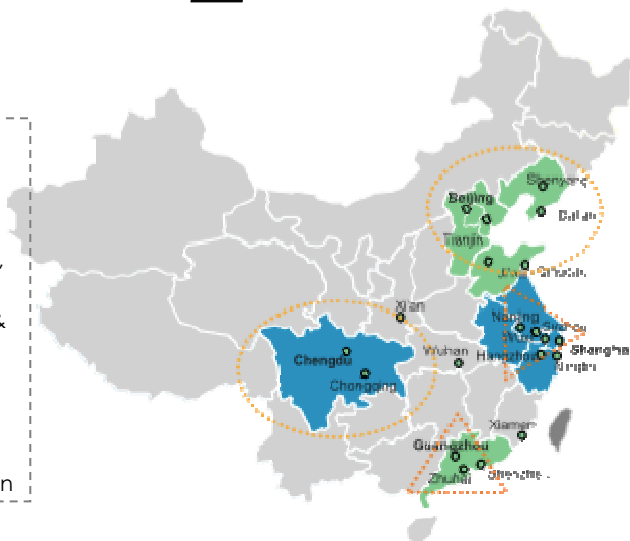
# BNPP CHINA OVERVIEW



## 1 MILESTONE OVERVIEW 2

### CHENGDU REP. OFFICE IN MID-WEST REGION

- Key cities: Chengdu, Chongqing
- Key industries : Iron & Steel, Coal, Agriculture, Energy, Chemicals
- 135 Fortune 500 companies set up operations in Sichuan



### BEIJING BRANCH & TIANJIN BRANCH IN NORTHEAST REGION

- **Key cities:** Beijing, Tianjin, Shenyang, Dalian, Qingdao
- **Key industries :** Heavy Industry, Financial, IT, Agriculture, Energy
- More than 70% of large scale State Owned Enterprises (SOEs) are registered in Beijing and majority of local banks have their Head Offices in Beijing

### SHANGHAI HEADQUARTER IN EAST REGION

- Key cities: Shanghai, Hangzhou, Suzhou, Nanjing, Ningbo
- Key industries : Auto, Financial, Electronics, Petrochemicals
- A large population of MNCs and factories are located in this region

### GUANGZHOU BRANCH IN SOUTH REGION

- Key cities: Guangzhou, Shenzhen, Zhuhai
- Key industries : Textile, Manufacturing, IT
- A large population of MNCs and factories are located in this region





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# BNPP CHINA CAPABILITIES (1/2)

## FROM DAY TO DAY NEEDS

## TO STRATEGIC/SPECIALIZED TOPICS

1

### SETTLEMENT MANAGEMENT

- Payments and collections
- E-banking : Connexis
- LC issuance

- Cash Pooling
- Multi-Bank Solution
- AR / AP Reconciliation
- LC forfeiting
- Supply Chain Solutions/ AR discount/ AP financing

2

### LIQUIDITY MANAGEMENT

- Deposits
- Entrust loan

- Qualified Domestic Institutional Investor
- Structured Deposit

3

### RISK MANAGEMENT

- FX spot/ Forward

- Commodity Hedging
- Interest Rate Derivatives

4

### MANAGING BUSINESS GROWTH

- Capital injection
- Shareholder loan
- RMB bank accepted draft discount
- Working capital Loans
- Loan syndication

- Acquisition Finance
- Export Finance
- Project Finance
- Leasing
- CNH bond issuance
- RMB onshore bond (Panda) issuance
- Mergers & Acquisitions
- Corporate Advisory
- Equity Capital Market

WHAT  
WE  
CAN  
DO



# BNPP CHINA CAPABILITIES (2/2)

**Bank of Nanjing--Trade Finance**

A/R Financing, Dealer Financing, Bank Draft discounting

**Hai Futong**

Money Market Fund – alternative investment solution to Structured Deposit

**CNH (Dim-Sum):**

Bond underwriting (ranked #4 as of Aug 2012)

**RMB Onshore (Panda):**

Advisory and structuring

**Project Finance:**

Advisory and structuring

**ECA Finance:**

Inbound and outbound

**Loan Syndication:**

Onshore RMB and USD underwriting and distribution

**Cash Management:**

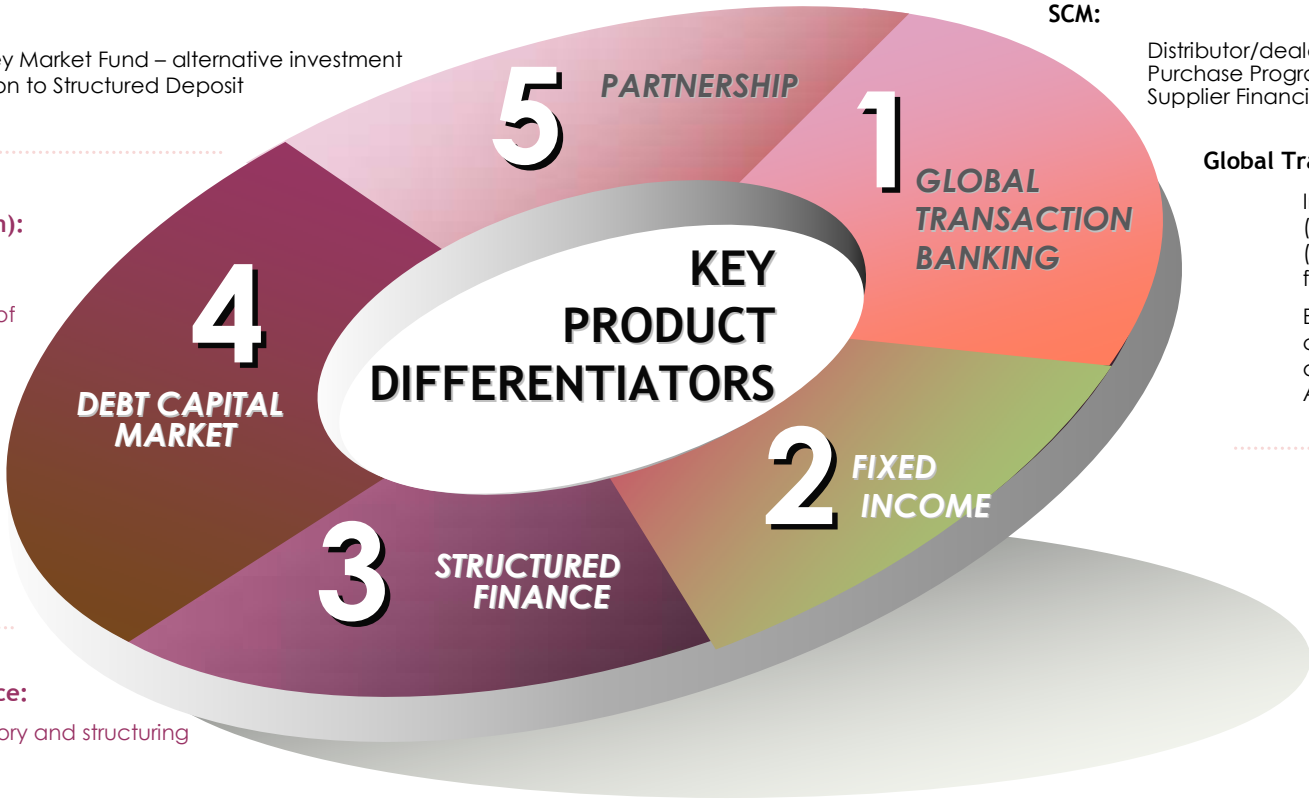
- Multibank Solution (cross-bank sweeping),
- Optimized Internal Rate Scheme, Electronic FX Payment Declaration

**SCM:**

Distributor/dealer financing, Non-recourse AR Purchase Program – Portfolio/Single Obligor, Supplier Financing

**Global Trade:**

Import: RMB L/C issuance (onshore) + discounting (offshore), Overseas payment financing  
 Export: L/C forfeiting (Foreign currency L/C discounting) E-bank acceptance draft (launched in Apr 2012)



**Structured Deposit:**

Linked to LIBOR, FX or Gold

**Risk hedging:**

All currencies incl RMB.  
 Forward, Option,  
 Cross-currency swap, commodities

**Structured Solution:**

Cash optimization structure to utilize onshore excess cash





**THANK YOU**



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