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Asian Trade Finance in Review – Top Trends of 2010



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With strong growth in volumes, liquidity returning to near pre-crisis levels and generally improved market conditions across the region, 2010 has been a positive year for Asian trade finance.

Recovery

While certain areas of the global economy are still experiencing some challenges, the trade finance market in Asia has gained strong momentum and is faring well with volumes registering an increase of over 30% over the course of 2010. This has largely been fuelled by strong intra-Asian trade figures.

The growth of trade in Asia is being driven, at least in part, by rising incomes and the rapid expansion of the middle classes in many countries. These demographic shifts have made domestic consumption — rather than just production and export — an important contributor to Asian growth, with manufacturers of consumer goods doing increasing amounts of business in their home markets.

Financial Supply Chain Solutions

We have seen interest in specific areas of trade finance being driven by the evolving needs of corporates in the region. The financial supply chain and receivables

management continue to grow in prominence as clients appreciate the benefits that financial supply chain solutions can bring them, such as improved liquidity management and a stronger network of suppliers. Take up of these solutions accelerates and the deals being structured grow in complexity.

In addition to providing financial supply chain solutions tailored to clients' requirements, Deutsche Bank's response to this demand has been to introduce even greater efficiency to the whole process through improved and increased automation of the electronic platforms that clients use to undertake these transactions with us.

Risk Management

Even though there has been marked improvement in market conditions regionally, risk management remains high on the agenda.

There has been a shift away from pure open account trading that had been gaining popularity before the recent financial meltdown. Letters of Credit (LCs) still remain a popular form of payment along with other more traditional instruments like Bills of Exchange and Guarantees. We have also seen increased interest in trade-related insurance products such as credit insurance.

Banking Relationships

Another trend we are observing is an increasing propensity for corporates to diversify and broaden their banking relationships. Many corporates observed the reticence of some banks to lend at the height of the crisis and this has led to the introduction of tighter counterparty limits and corporates putting in place contingency plans to address the possibility of a particular credit line becoming unavailable.

Furthermore, as one of the features of financial supply chain solutions is to support a corporate's wide network of suppliers, the financing of such deals put in place for multinational clients may be simply too large to be supported by a single bank. This has led to opportunities for more financial institutions to participate or get a share in providing facilities to these big name corporates in the region.

RMB Trade Settlement

The roll-out of the RMB trade settlement scheme is another success story for the region and a reflection of the growing importance of intra-Asian trade. This step toward further liberalisation of the Chinese currency has allowed selected corporates to settle trade transactions using RMB. The result has been a rapid expansion in

RMB-denominated financial services — especially in Hong Kong — and Deutsche Bank has been at the forefront of providing its transaction banking clients with the necessary tools to capitalise on these changes. Indeed, this is a development that will be key to shaping trade finance in the region in the coming years.

Outlook

While the overall outlook for 2011 is a promising one, there are still reasons for corporates and financial institutions to be wary. Despite the increasing resilience of Asian economies and their decreasing reliance on trade with the EU and the US, any further financial shocks originating in the West would still have some effect on Asian trade finance markets and the broader economy. Alongside this, the strong growth in volumes that we are currently experiencing is likely to drive down margins in this space, making the environment tougher for smaller players that are not processing sufficient volumes to enjoy economies of scale.