Overview of RMB Internationalisation

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Why is RMB important?

- China overtook US as the **largest** goods trading nation in 2012
  - China: $3.87trn, US: $3.82trn in 2012\(^1\)

- China-Turkey bilateral trade grew **20-fold** between 2001-2011\(^2\)
  - Aim to increase from USD24bn in 2011 to $100bn by 2020\(^3\)

- HSBC expects RMB trade settlement will account for **one-third** of China’s total trade by 2015\(^4\)
  - Around 10% of total China’s external trade for 2012

- RMB will be the **third largest global trade** currency by 2015\(^4\)

- HSBC forecasts RMB to become **fully convertible** within five years\(^4\)

Notes:
- 1. Source: PBOC, China Customs, US Commerce Department
- 4. HSBC Research: “The rise of the redback II” March 2013
Rise of the redback
Timeline unfolding rapidly

1. A global trade currency
   Trade helps establish pools of RMB liquidity worldwide
   - Jul 2009: RMB trade settlement pilot kicks off
   - Aug 2010: China Interbank Bond Market open to eligible offshore investors
   - Aug 2011: RMB trade settlement expanded to nationwide
   - Dec 2011: Launch of RQFII
   - Mar 2012: All companies in China can settle trade in RMB
   - Jul 2010: Launch of offshore RMB product platform
   - Jan 2011: Launch of RMB Overseas Direct Investment
   - Oct 2011: RMB Foreign Direct Investment formalised
   - Mar 2012: All companies in China can settle trade in RMB

2. A global investment currency
   Investment and savings options make RMB useful and attractive
   - Aug 2011: RMB trade settlement expanded to nationwide
   - Dec 2011: Launch of RQFII
   - Jul 2012: RQFII A-share ETF debut on HKEx
   - Feb 2013: RMB clearing bank appointed in Singapore

3. A global reserve currency
   Reserve use signals 'arrival' of RMB as a world currency
   - Jul 2012: RMB Foreign Direct Investment formalised
   - Dec 2012: RMB clearing bank appointed in Taiwan

Source: HSBC
One currency, two markets
On/offshore connectivity and convergence

One currency

“RMB”
“Yuan”
Renminbi - People’s Currency
Basic unit of currency

Two markets

“CNY”
Onshore Renminbi

RMB in Mainland China
- Subject to Mainland China regulations
- Mainland authorities and local banks responsible for verification of RMB transactions
- CNY FX rates can be accessed offshore only for documented goods trade with Mainland China

Regulated interest and exchange rates

“CNH”
Offshore Renminbi

RMB outside Mainland China
- Major offshore RMB centre: HK, Singapore, UK and more
- Conforms to prevailing market practice for other foreign currencies
- Offshore RMB markets build up breath and depth with deepened liquidity

Fully liberalised interest and exchange rates
Liberalisation accelerated in 2012

- Current account – fully liberalized for RMB trade settlement
  - Around 10% of total China’s external good trade\(^1\), 1/3 expected by 2015
  - Ease of transact: Replaced MDE list with a watch list\(^2\), simplify trade documentation in Shanghai & Guangdong province\(^3\)
  - RMB ‘going out’: major sources of offshore RMB

- Capital account – opening up with objective to full convertibility
  - RMB Foreign Direct Investment (FDI) was launched in October 2011 with clear and transparent application and approval process\(^4\)
  - RMB FDI has increased to 31% of total FDI in 2012 from 12% in 2011
  - China allowed RMB Outward Direct Investment (ODI) since January 2011, total volume reached RMB29.2bn in 2012, up 45% from 2011\(^4\)

RMB trade settlement taking off

RMB cross-border transactions by types (YTD3Q12)\(^4\)

Notes:
1. Source: PBOC, HSBC
2. The list will not be made public but has been uploaded to the RMB Cross-border Payments Management Information System (RCPMIS)
4. Source: CEIC, PBOC, HSBC
2013: The Year of Renminbi
Rapid expansion of RMB use outside China

150+ countries doing RMB business in a typical month
50 countries with HSBC RMB capabilities
20 territories with swap / settlement agreements
4 offshore RMB centres

Source: SWIFT, HSBC
Offshore RMB Liquidity

Hong Kong is pioneer… other financial centers are uprising

- RMB trade settlement in Hong Kong – major source of RMB
- Hong Kong banks handled around 80% of Mainland’s RMB trade transactions in 2012

Total international RMB liquidity consists of:
- Offshore RMB fungible
- Bilateral swap agreement

Notes:
2. RMB deposits in Hong Kong and Taiwan as of Feb 2013, Macao in Jan 2013, Paris in Jun 2012, London in Jun 2012. RMB deposits in Singapore were reported by Xinhua on 13 Jun 2012. CDs are included in Hong Kong.
Source: HKMA, City of London commissioned study, Xinhua, CENS, HSBC, Reuters, HSBC Global Research “Offshore RMB Bond, Dim Sum Tracker, March 2013”
Implication for corporate

Corporate considerations

1. How can I manage the FX risk?
2. What type of financing are available?
3. Where can I invest?

Expanding offshore RMB platform

TRADE
- Trade instruments: RMB L/C, D/C
- Development of offshore RMB (CNH) market
- Improving liquidity and market depth
- Expanding hedging and risk management
- More financial tools available: CNH deliverable forwards, options, interest rate swap etc.

CAPITAL FLOW
- Cross-border financing: RMB trade finance, bilateral and syndicated loan, Offshore RMB bond issuance
- Pilots on liquidity management solution e.g. cross-border intercompany RMB lending
- Offshore investment: Bank deposits, CDs, dim sum bonds, bond investment funds, RMB equities, A-share ETFs
- Expanding onshore channels for investment: RFDI, RQFII

Note:
1 Estimated total combined daily turnover of CNH spot and forward.
Potential RMB internationalisation roadmap
A wide range of reforms already under way

RMB Trade Settlement
- China International Payment System CIPS for RMB

Capital Account - FDI and ODI: Progressively relaxed and ultimately no restriction

Launched of CNH Markets since 7/2010

Expansion of onshore derivatives and treasury products

More CNY direct quote currency pairs, more market driven CNY exchange rates

China domestic market access

Offshore RMB Dim Sum bond: Increasing issuer types

Offshore RMB IPOs: Increasing volume

Onshore financing by overseas entities e.g. Guangdong province, Qianhai

Offshore borrowing: increasing types permitted (HK bank lending to onshore, intra group lending)

Interest rate: Progressive liberalisation with more market driven controls

Loosening of RMB conversion and transfer control for Personal account

HSBC Research expects
Fully Convertible RMB in Five Year by 2017

Development may occur by.....

Note:
Source: HSBC Global Research “China’s Big Bang, 7 November 2012”
Source: HSBC analysis
Risk Disclosure

Renminbi (RMB) is currently not freely convertible and conversion of RMB through banks in Hong Kong is subject to certain restrictions. Clients should be reminded of conversion risk in RMB products. In addition, there is a liquidity risk associated with RMB products, especially if such investments do not have an active secondary market and their prices have large bid/offer spreads. RMB products are denominated and settled in RMB deliverable in Hong Kong, which represents a market which is different from that of RMB deliverable in Mainland China. For individual clients who are Hong Kong residents (i.e. holders of Hong Kong Identity Card), conversion of RMB is subject to a daily limit, clients may have to allow time for conversion of RMB from/to another currency of an amount exceeding such daily limit.

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