

# RMB Internationalization Update

## *The Evolution Continues*

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# Agenda

- Overview of RMB internationalization tools
- Progress to date
- Global infrastructure to support RMB business
- Using RMB for payments, cash management, funding and investment
- Questions

# RMB Internationalization: The Big Picture

Deregulation in China has given rise to greater cross-border use of the RMB.



# Free Trade Zones: Laboratories for Reform

China has created a series of free trade zones (FTZ) to test regulatory changes before launching them nationwide.



Existing FTZs



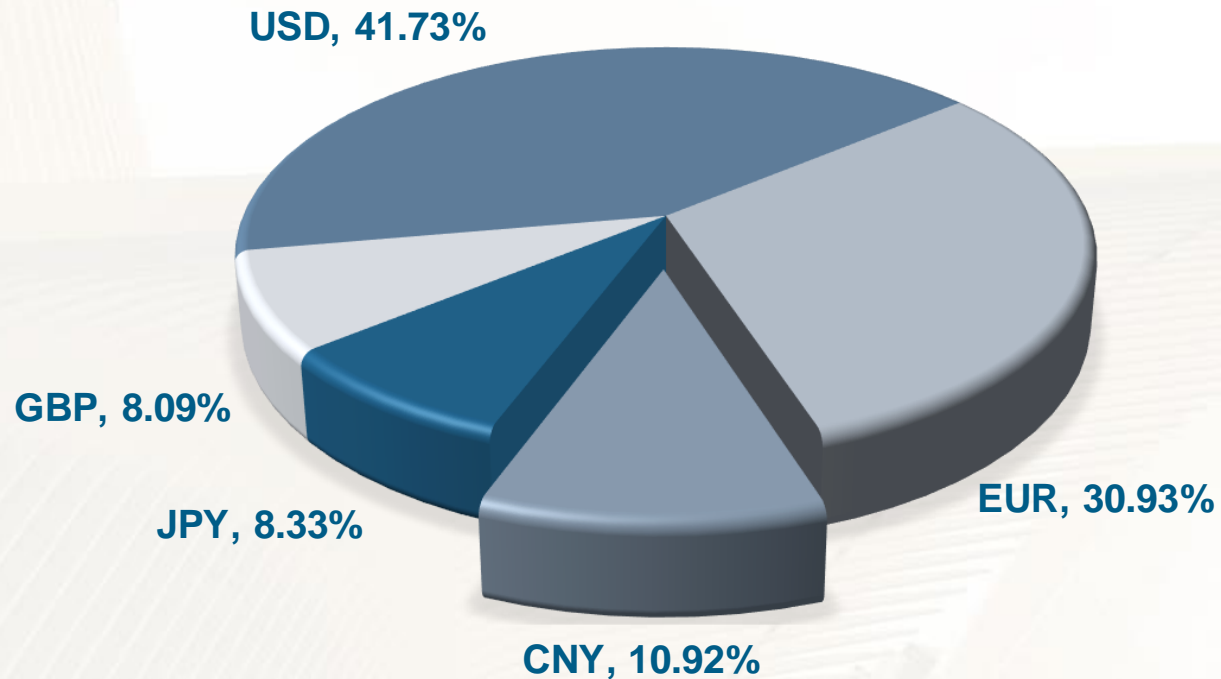
New FTZs:

1. Chongqing
2. Henan
3. Hubei
4. Liaoning
5. Sichuan
6. Shaanxi
7. Zhejiang

# RMB: An Official Reserve Currency

On October 1, 2016, the RMB became the fifth currency in the International Monetary Fund's (IMF) Special Drawing Rights (SDR) basket, joining the ranks of official reserve currencies.

## SDR Basket Composition



Source: IMF

- IMF Executive Board declares the RMB is a "freely usable" currency
- Validates the progress made in reforms to China's monetary, foreign exchange, and financial systems
- Improves the attractiveness of the RMB as an international reserve asset by diversifying the basket
- Inclusion is expected to further support increasing use of global RMB trading
- If borrowing members select China, they will receive RMB and will need to repay RMB



# Central Banks Support China's Initiative

Since the financial crisis in 2008, China has signed over RMB 3.3 trillion of bilateral currency swaps with 35 central banks around the world to promote the use of RMB outside China.

## RMB Bilateral Currency Swap Agreements

Americas		EMEA				Asia	
Country	CNY (bn)	Country	CNY (bn)	Country	CNY (bn)	Country	CNY (bn)
Canada	200	ECB	350	Hungary*	10	Hong Kong	400
Brazil	190	England*	350	Pakistan	10	South Korea*	360
Argentina	70	Switzerland*	150	Morocco	10	Singapore*	300
Chile*	22	Russia*	150	Belarus*	7	Australia*	200
Suriname	1	Qatar	35	Kazakhstan	7	Malaysia*	180
<b>Total</b>	<b>483</b>	UAE	35	Iceland	3.5	Indonesia*	130
		South Africa*	30	Tajikistan	3	Thailand*	70
		Egypt	18	Albania	2	New Zealand*	25
		Ukraine	15	Armenia	1	Mongolia	10
		Turkey	12	Uzbekistan	0.7	Sri Lanka*	10
		<b>Total</b>	<b>1,199.2</b>	<b>Total</b>	<b>1,685</b>		

Source: PBOC

Note: Asterisk indicates central bank has publicly announced holding RMB in foreign currency reserves.

# RMB Hubs: China's Outposts

Offshore RMB clearing centers are populating the globe, offering greater access to the currency and speeding adoption of its use.

## Offshore RMB Clearing Banks

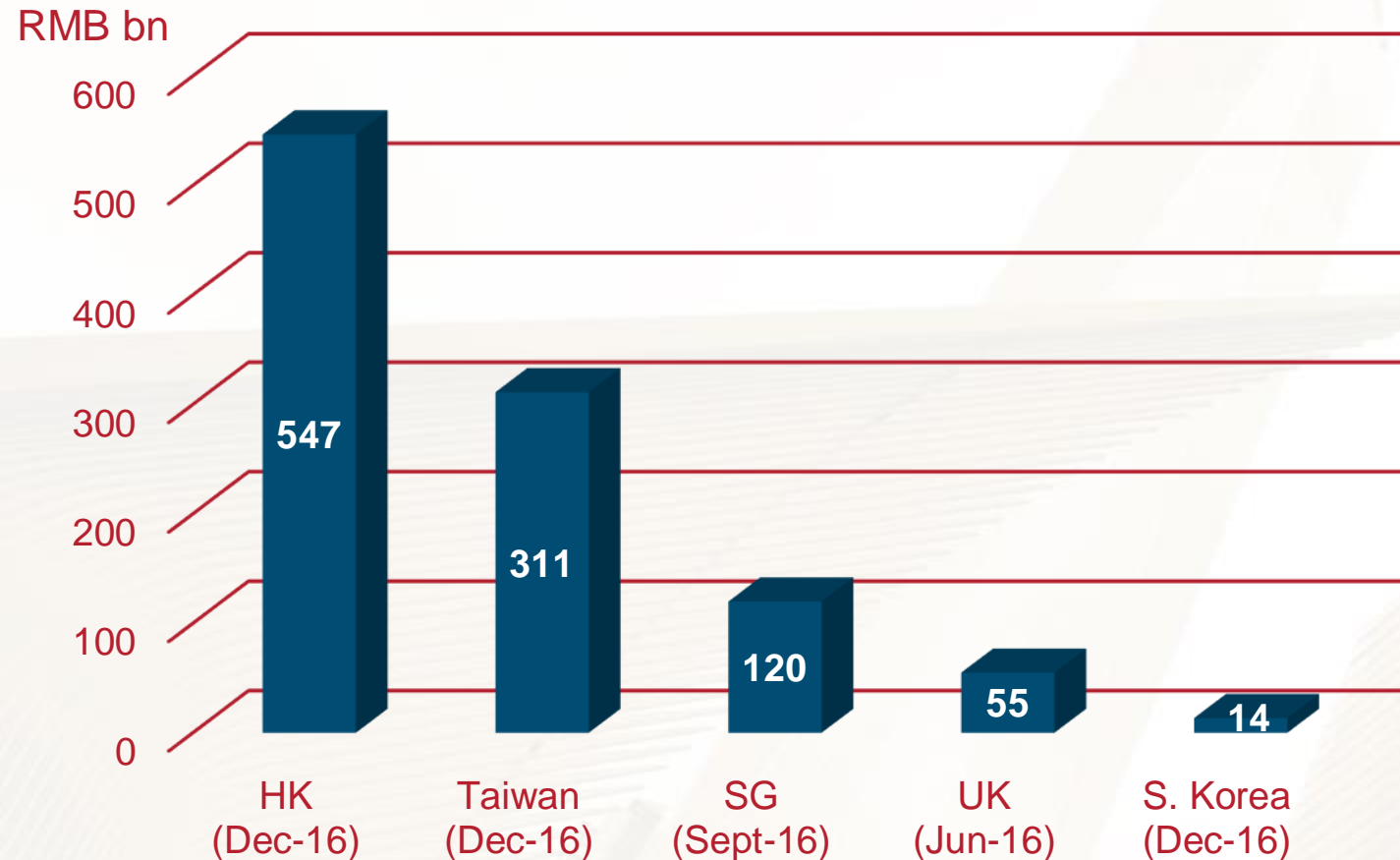
Asia	
Country	Clearing Bank
Hong Kong	Bank of China
Macau	Bank of China
Taiwan	Bank of China
Singapore	ICBC
South Korea	Bank of Communications
Australia	Bank of China
Malaysia	Bank of China
Thailand	ICBC

Europe, Africa, Middle East	
Country	Clearing Bank
UK	CCB
Germany	Bank of China
France	Bank of China
Luxembourg	ICBC
Qatar	ICBC
Hungary	Bank of China
Switzerland	CCB
South Africa	Bank of China
Zambia	Bank of China
Russia	ICBC
UAE	ABC

Americas	
Country	Clearing Bank
Argentina	ICBC
Canada	ICBC
Chile	CCB
<b>USA</b>	<b>Bank of China</b>

# Offshore Deposits

Greater international use of the currency has resulted in the accumulation of over RMB 1 trillion in the five major offshore deposit hubs.



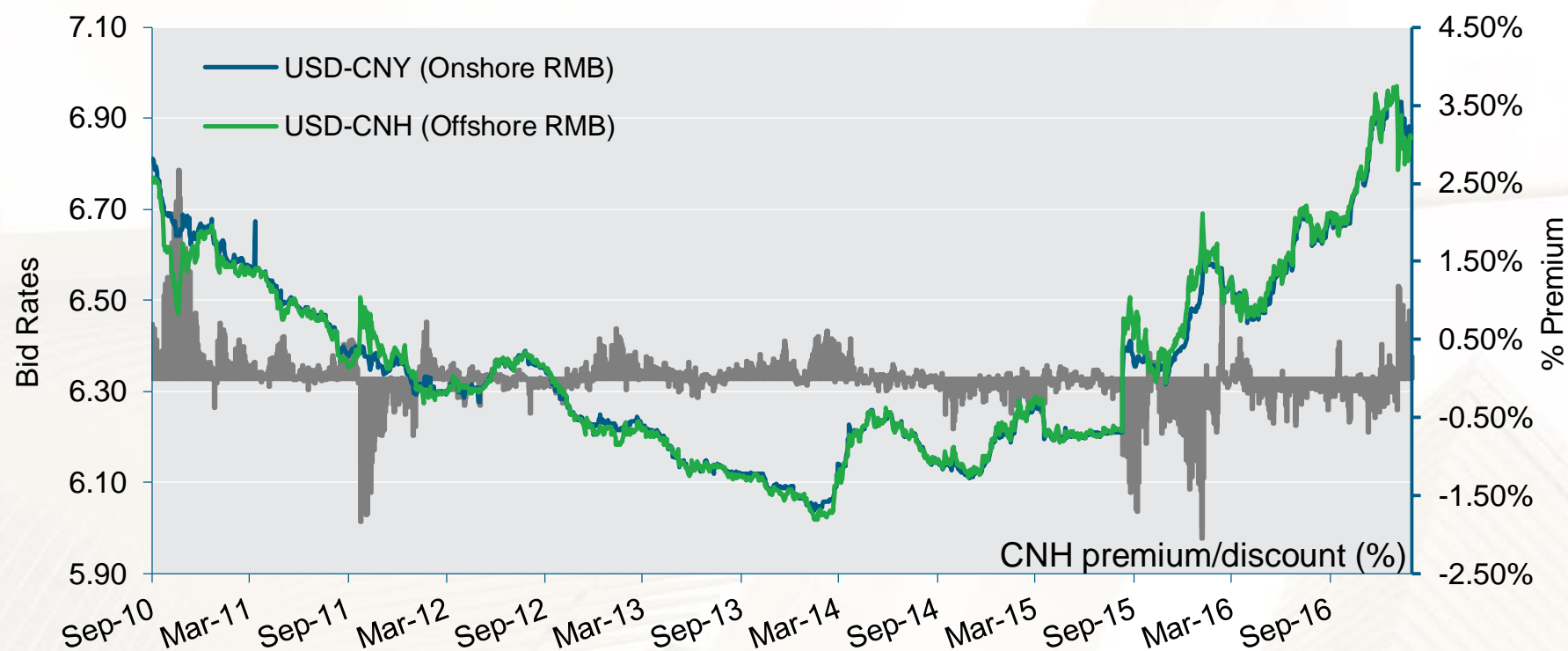
Sources: HKMA, Central Bank of the Republic of China, Monetary Authority of Singapore, City of London, Bank of Korea



# RMB FX: No Longer a One-Way Bet

CNY volatility is expected to increase as the PBOC allows the market to play a bigger role in setting the currency.

## Historic RMB Spot Rates



# RMB Payments are Key to Internationalization

Since launching its initial trade pilot program in 2009, regulatory reforms have catapulted the RMB into a top global payment currency.

**RMB as % of World Payment Currencies**



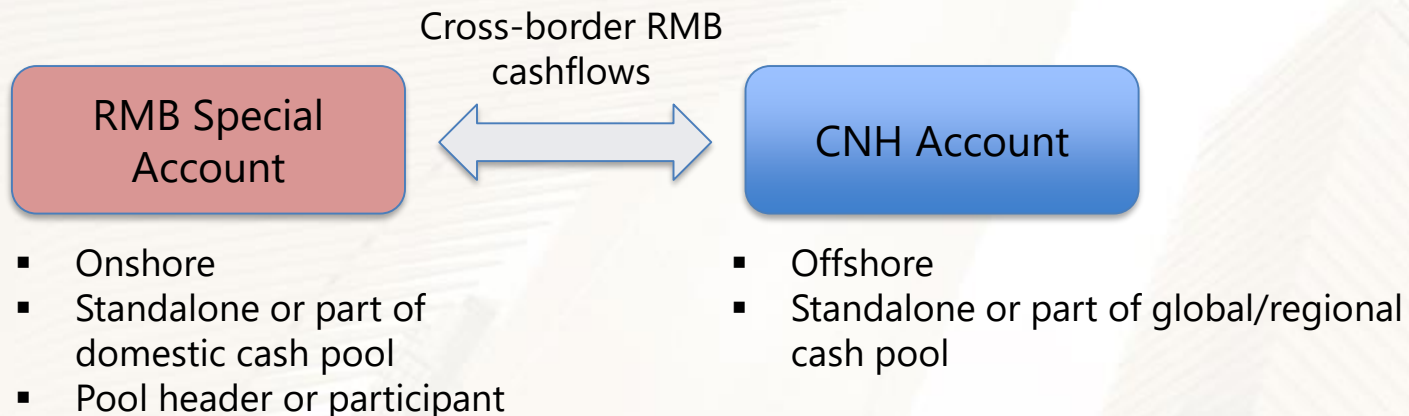
# Mobilizing Excess RMB in China

The PBOC has unleashed a variety of programs designed to help corporates integrate RMB cash management in China with their global strategies.

## Evolution of PBOC RMB Cross-Border Lending Programs



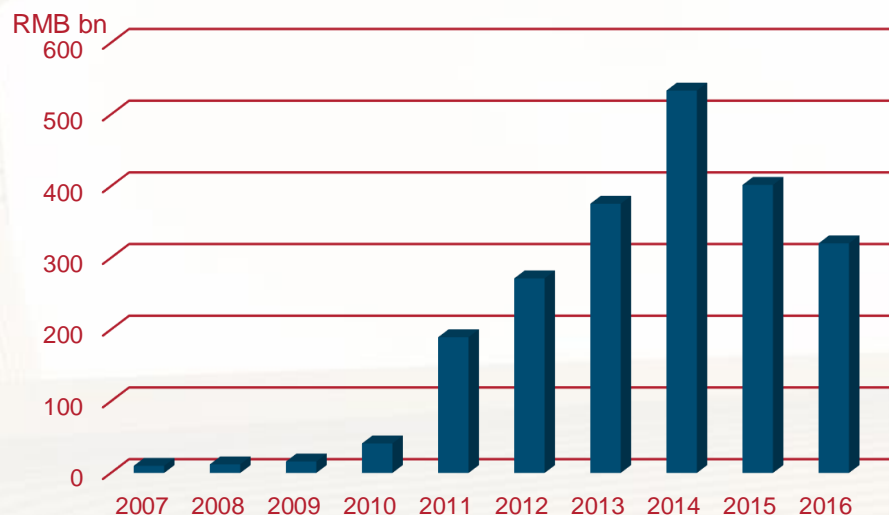
## Basic Structure



# RMB Funding in the Offshore Market

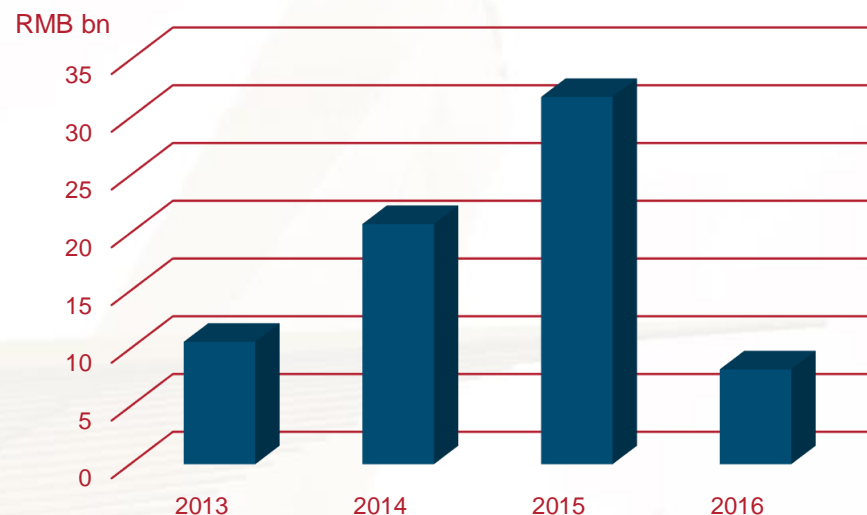
Offshore RMB bond issuance is a viable way for borrowers to access the currency.

## CNH Bond Issuance



Source: Bloomberg

## CNH Formosa Bond Issuance (Taiwan)



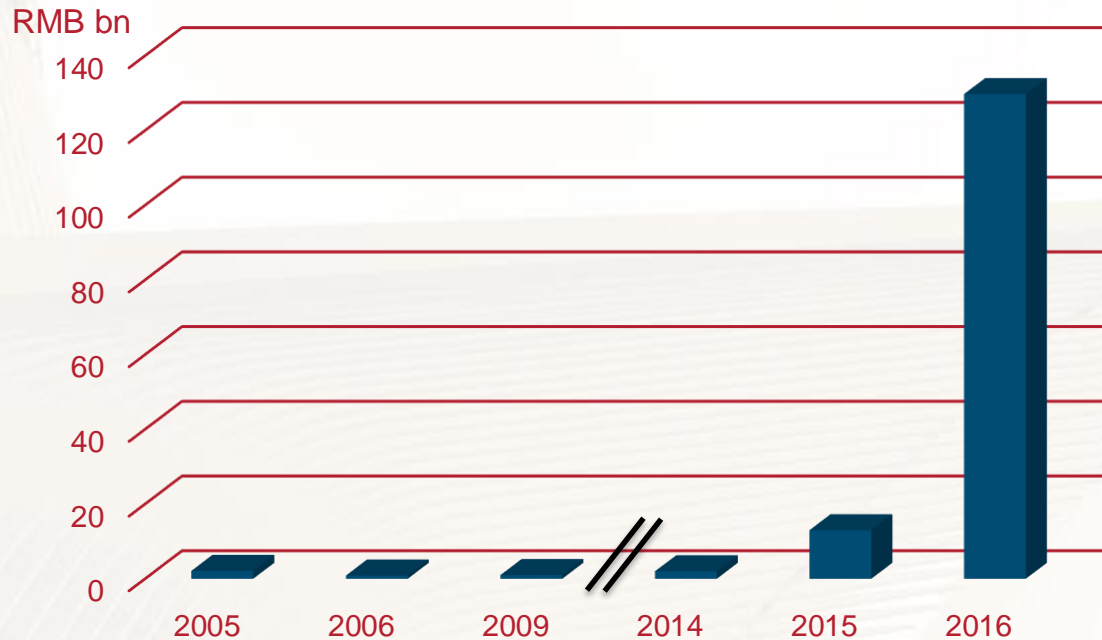
## Issuers from the Americas



# Panda Bond Market: The New Zoo

The Panda bond market has become an attractive way for foreign borrowers to access RMB funding in the Mainland.

## Panda Bond Issuance Volumes Since Market Inception



- 37 borrowers, mainly Red Chip corporates
- Tenors out to 10 years
- Low onshore yields led to surge of issuance in 2016
- Application process involves numerous regulators
- Financial reporting remains issue for US GAAP based borrowers
- Use of proceeds determined on a case-by-case basis



# Growing Number of Investment Channels

China is rapidly opening its capital markets to offshore investors.

## Accessing China's Onshore Capital Markets

China Interbank  
Bond Market

Bond Connect  
(Coming Soon)



Shanghai-Hong  
Kong Stock  
Connect

Shenzhen-Hong  
Kong Stock  
Connect

RQFII

Mutual  
Recognition of  
Funds

# Summary

RMB internationalization continues to evolve on a number of fronts.

- Global infrastructure is in place to support RMB business across multiple time zones
- RMB trade flows are set to grow
- More ways to plug RMB cash into global pools
- Onshore and offshore bond markets available to support RMB funding requirements
- Regulations for accessing China's onshore capital markets starting to ease for foreign investors

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