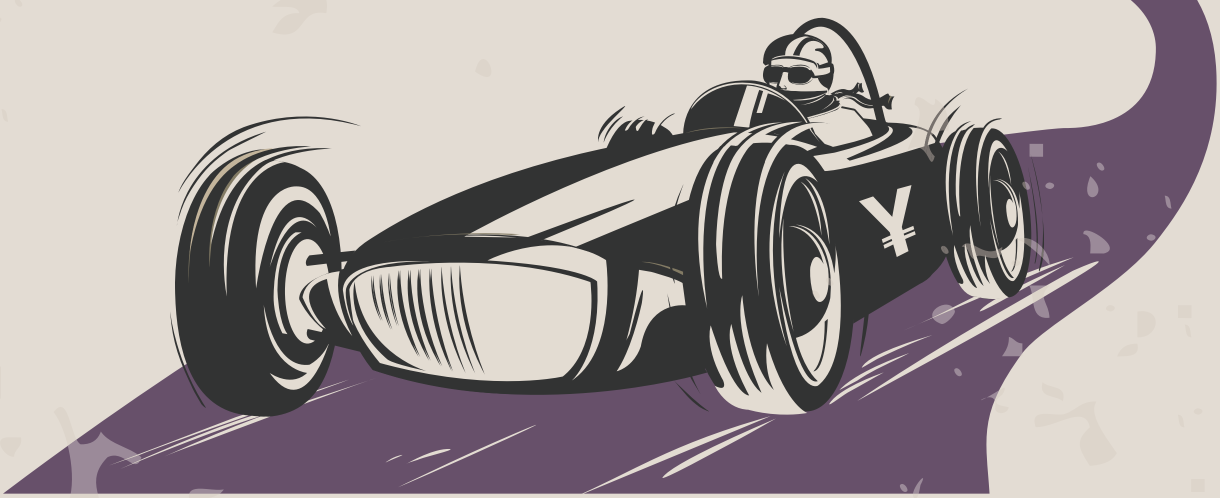
RACE FOR THE Renminbi



COMPANIES SHOULDN'T WAIT TO TAKE ADVANTAGE OF THE OPPORTUNITIES THAT COME WITH THE INTERNATIONALISATION AND LIBERALISATION OF CHINA'S CURRENCY, ARGUES MONIE LINDSEY

As the world's second-largest economy and largest exporter, China currently accounts for over 10% of nominal global GDP. But its currency accounted for less than 1% of global FX turnover as recently as 2010. Through its deliberate and measured efforts to internationalise the renminbi, which began in the early 2000s, but dramatically accelerated from 2009, China seeks to better align its currency with its place in the global economy.

Now, the internationalisation of the renminbi is moving at a dizzying pace. Already trading as a major global currency, the renminbi is destined to become a global reserve currency within a decade, if not sooner.

Significant events in 2013 accelerated both the processes of internationalisation (making the renminbi a fully convertible currency) and liberalisation (relaxation of government restrictions on the currency). As a result, they opened up further opportunities for corporates doing business in and/or with China:

- Offshore renminbi clearing centres were established in Singapore and Taiwan, and London secured its position as a global hub for China's currency. Sterling is the fourth currency to trade directly against the renminbi and the euro is expected to follow shortly.
- China-based companies were allowed to lend renminbi overseas to offshore parent, subsidiary and/or affiliate companies. This means multinationals can include China in their global treasury-pooling scheme and it addresses the huge pain point of 'trapped cash'. A pilot programme is currently under way for renminbi loans from multinationals into their China-based companies.
- The China Securities Regulatory Commission loosened restrictions to enable foreign funds based in Hong Kong and offshore branches of Chinese banks to apply for renminbi-qualified foreign institutional investors scheme status. This move opens up

CORPORATE NEED	RENMINBI LIBERALISATIONS
Payments/trade	• Renminbi settlement for cross-border trade • Relaxation of physical evidence/documentation requirements for cross-border settlement transactions
Liquidity	• Renminbi overseas lending/sweeping for China-based companies to offshore parents, subsidiaries, affiliate companies • Ability to net payables and receivables • Renminbi and foreign currency cross-border cash pooling
Risk management	• Renminbi settlement for cross-border trade and CNH liquidity pools, enabling centralisation • Ability to net payables and receivables, reducing FX exposure • CNH deliverable forwards

China's domestic investments, improves domestic equity markets and encourages further use of the Chinese currency for trade.

Efforts to internationalise the renminbi are already paying off as the following developments show:

- Renminbi made the list of the 10 most actively traded currencies in 2013, according to the Bank for International Settlements. Renminbi turnover increased almost fourfold from $34bn in 2010 to $120bn in 2013, reflecting a 2.2% share in global trading volumes. A recent report by messaging provider SWIFT placed it as the eighth most traded currency in the world.
- In October 2013, SWIFT identified the renminbi as the 12th-largest global payments currency, up from 20th in January 2012 and virtual non-existence prior to 2009.
- The Standard Chartered Renminbi Globalisation Index (with a base of 100 at 31 December 2010) stood at 1,148 as of August 2013. The index measures renminbi offshore deposits, dim sum bonds, certificates of deposit, trade settlement and other cross-border payments, and FX turnover.

And the pace of reform is expected to accelerate. Up to 35% of China's trade is forecast to be denominated in renminbi by the end of this decade, and the continued opening of China's capital account will facilitate direct investment flows. Offshore investors will have greater access to onshore capital markets and China is set to have a fully operational renminbi clearing system – China International Payment System – by 2015.

Corporate needs

Liberalisation of the renminbi is facilitating solutions to address companies' needs with regard to liquidity, payments and risk. (See table on page 38.)

Adoption of renminbi by foreign corporations is uneven. Some are fully embracing the renminbi in their payments, liquidity, hedging and intercompany lending practices, and others are adopting it as business requires (for example, local China operations receiving and making local payments).

According to SWIFT's *RMB Tracker*, Asia (beyond China and Hong Kong) has led adoption of the renminbi to date, although Europe has more recently come close to par in absolute value with Asia, reflecting the strong trade ties between China and Europe. The US has lagged due to challenges including inertia and systems set up to invoice only in US dollars.

A survey by Treasury Strategies of global companies last year found that renminbi adoption varied according to annual turnover. For example, 77% of companies with annual turnover in excess of $10bn are receiving and making cross-border renminbi payments, compared with 40% for companies with turnover between $2bn and $10bn. Similarly, 83% versus 53% have seen their volume of renminbi payments increase in the past 24 months while 54% versus 13% maintain a CNH (offshore renminbi) pool in Hong Kong.

Banks are stepping up

Banks have been as quick to introduce solutions for the corporate market as liberalisation has allowed. This includes facilitating trade; managing liquidity; investing or borrowing; providing credit; and managing FX risk. (See box – Recent developments in bank renminbi solutions – above.)

Given the fast pace of renminbi internationalisation and liberalisation, and the equally fast evolution of accompanying bank solutions, understanding what is the right course of action can be daunting for corporates. It is premature to talk about 'best practices' since China and associated renminbi solutions are not unlike the 'Wild West': there are tremendous opportunities and myriad routes to pursue them. Solutions are available as never before to more effectively manage liquidity, risks, payments and trade. Waiting for regulations and practices to settle down and become more standardised is a mistake.

There is too much benefit to be realised now. Current 'best practice' for a company means proactively assessing renminbi flows, exposures and processes. Companies need to work with their banks to implement the accounts, structures and solutions that enable them to take best advantage of renminbi internationalisation and liberalisation.

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RECENT DEVELOPMENTS IN BANK RENMINBI SOLUTIONS

October 2013 – Citi Peru is the first bank in Latin America to issue a letter of credit denominated in renminbi.

September 2013 – Bank of America Merrill Lynch announces developments in its China trade and supply chain finance product suite to facilitate domestic renminbi draft settlements.

September 2013 – Citi is the first bank to launch a renminbi cross-border automatic sweep.

July 2013 – China grants HSBC a renminbi investment licence to invest renminbi onshore.

May 2013 – Deutsche Bank executes the first Singapore dollar/renminbi spot trade that will be cleared out of Singapore.

May 2013 – Citibank China launches a multi-currency notional pooling with renminbi capability.

March 2013 – HSBC implements a renminbi cross-border payments and collections solution in China.

November 2012 – Standard Chartered introduces the first industry benchmark to track the progress of renminbi business activity – the Renminbi Globalisation Index.

June 2012 – Deutsche Bank China completes the first cross-border renminbi payment under the People's Bank of China simplified payment pilot scheme.

June 2012 – Hong Kong Monetary Authority, Euroclear Bank and JPMorgan launch a cross-border collateral management service.

October 2010 – Standard Chartered issues the banking industry's first renminbi bid bond.

July 2009 – HSBC becomes the first foreign bank to settle cross-border trade in renminbi.

RENMINBI LIBERALISATION: CORPORATE PAIN POINTS

1. The lack of technology and automated solutions in place with mainland China banks:
   - While they initiate SWIFT FIN messages, they show few signs of developing more sophisticated connectivity and other technology solutions; and
   - Making domestic payments in China is painful.
2. The absence of CNH options in risk systems – price and risk management database systems do not include CNH as an option, limiting automation/straight-through confirmations. Manual intervention is required.
3. The discrepancy between the promise and the reality of liberalised regulations:
   - China-based banks are more flexible in their interpretation of new, more liberalised regulations; and
   - Foreign banks are under closer scrutiny from the government and are therefore more cautious and less flexible, often demanding more onerous documentation.
4. The situational nature of doing business in China – the lack of consistency and predictability makes planning and forecasting more challenging.

SOURCE: INTERVIEWS WITH US-BASED MULTINATIONALS, TREASURY STRATEGIES