RISE OF THE RENMINBI

Treasurers must soon prepare for the Chinese currency to go global, says Sherie Morais

Renminbi internationalisation may be in its early stages, but its role in global trade is certainly set to broaden. Corporate treasurers need to start thinking now about how their companies can prepare for, and benefit from, doing business in the Chinese currency – or they risk missing out on key opportunities.

The role of the treasurer has become increasingly important in recent years, as companies confront the effects of the global downturn and board members demand more information about corporate cash flows. It is no surprise that we're now seeing many companies give the treasurer a seat in the boardroom.

While the treasurer often focuses on crucial factors, such as funding, liquidity and risk management, there is another phenomenon that also deserves their attention: the rise of the Chinese renminbi as an international trading currency.

This is important because, within the next 10 to 20 years, the renminbi will become prominent on the international stage. Companies doing business with China that rely on today's major currencies should look at renminbi-denominated trade. The shift will have consequences, and treasurers need to identify those consequences now, if their companies are to successfully embrace this change.

A viable, well-structured renminbi strategy will help treasurers achieve their leading priorities, including unlocking and redeploying working capital to maximise returns, reducing external financing needs, understanding and managing operational and credit risk, and improving the visibility of their company's cash positions.

This is because global trade with China is only going to go in one direction: upwards. The Chinese economy is projected to grow by about 8% annually over the next four years, according to data from the Economist Intelligence Unit. That's not as healthy as in recent years, but it is much stronger than the economies of the US, the EU and Japan, where growth is expected to be about 2% or less.

China and the Middle East

Nowhere are the ramifications of trade with China being more strongly felt than in the Middle East – the Gulf region's trading relationship with China is accelerating rapidly. China is now the largest exporter to Gulf Cooperation Council countries, and it accounted for 15% of imports to the United Arab Emirates (UAE) in 2010.

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The growing importance of the relationship between the Middle East and China was shown by Chinese premier Wen Jiabao's high-profile visit to Qatar, Saudi Arabia and the UAE earlier this year. The trip reflected China's wish to solidify trade ties, especially in the energy sector, and boost its already-growing investment in the region.

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"Trade in the offshore renminbi (CNH), which may be a precursor to making the renminbi fully convertible, has grown dramatically," says Simon Penney, RBS's CEO, Middle East and Africa. "In Hong Kong, where almost all CNH trade takes place, CNH-denominated deposits now total some CNH 500bn (about $78bn), compared with nearly zero four years ago."

The renminbi sprawl

Use of the renminbi is certainly spreading. A property company made China's first renminbi-denominated equity initial public offering in Hong Kong last year. The first renminbi-denominated bond issued outside China was listed on the London Stock Exchange in early 2012, and the City of London has been in talks with China over making London a Western hub for renminbi trading. Meanwhile, trade in the onshore renminbi, known as CNY, is slowly being liberalised.

These and other developments mean that overseas companies have ever-increasing opportunities to diversify their investment options by investing in renminbi-denominated assets.

Bringing the renminbi into corporate trade and investment plans is essential if companies are to maximise their potential for developing new business in Asia. Renminbi internationalisation will be challenging for treasurers, but it also offers potentially huge advantages for well-prepared companies.

Many Chinese firms are likely to settle cross-border transactions in renminbi in order to reduce their costs and currency risks in the future. Foreign firms ready to do business on that basis will be in a good position to negotiate favourable terms with their Chinese partners, as well as potentially mitigating their own currency risk. For buyers from China, goods can be priced and settled in renminbi without any mark-up from FX.

Treasurers will also benefit from the flexibility of adding an extra currency to their portfolio – a currency that could prove to be as strong as, or stronger than, the existing major trading currencies. While the US dollar and the euro have both shown weakness during the financial crisis, the renminbi has remained relatively stable.

The growth of the renminbi as an international currency will be accompanied by the expansion of renminbi-denominated instruments, including hedging tools, which will enable companies to better manage their renminbi liquidity. Holding a renminbi cash position is a natural hedge for trade flows with China.

Taken together, all these factors mean that firms need to address their renminbi strategies as soon as possible. This applies particularly to companies that have substantial trade volumes with China – such as those in the retail and commodity industries – as well as firms keen to diversify their investment portfolio and enjoy the potential appreciation of the renminbi.

There is still time to put a renminbi strategy in place, but it is an element of planning that needs to be placed firmly on the corporate radar now. The sooner treasurers start planning and developing their strategy, the sooner they will reap the benefits as renminbi internationalisation evolves over the coming years.

For more on the internationalisation of the renminbi, see A yearning for yuan (*The Treasurer*, September 2012)

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BUSINESS IN CHINA

As a treasurer, you should be asking yourself a number of key questions:

Do your company's business opportunities in China mean that you will have a long-term commitment there?

Does your business in China account for a significant share of your overall business, and is that likely to increase?

If you bid for a large purchase by a Chinese state-owned enterprise, will it make you more competitive if you can settle with the Chinese counterparty in renminbi?

If you pay Chinese firms supplying such a contract – who may be suffering due to dollar depreciation – in renminbi, will it make those suppliers more loyal to you, or help you to access a greater number of suppliers?

Can the renminbi be exchanged and used as a hedging tool locally?

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