News

Renminbi: From a Local Currency to a Currency for Cross-Border Trade and Investments

Carl Wegner, Greater China head of Global Transaction Banking, and Joe M.K. Ng, head of renminbi payments product management – Asia-Pacific at Deutsche Bank

Over the past few months, the internationalisation of the renminbi has accelerated following initiatives by the People's Bank of China (PBoC) to create multiple offshore clearing centres as well as to progressively liberalise cross-border capital flows. The renminbi is gradually becoming the currency of choice for European multinational companies (MNCs) and small & medium enterprises (SMEs) for payments with China. For example, according to Swift, renminbi payments between Germany and China increased by 71 percent in May 2013 compared to the previous month.

Deutsche Bank

In April 2013, 47 countries used renminbi for more than 10 percent of their payments with Mainland China and Hong Kong. Meanwhile, the United Kingdom and France became the world's top and fourth-largest renminbi users, respectively, outside of Mainland China and Hong Kong, according to Swift's RMB Tracker. In addition, the Bank of England signed a three-year currency swap agreement in June 2013 worth RMB 200bn (EUR 25bn) with the PBoC, in order to further facilitate renminbi liquidity for trade settlement, financing and investments with China, which should boost renminbi usage further.

The ongoing policy changes pertaining to the renminbi provide European MNCs and SMEs with the flexibility to reduce costs when trading with China. According to PBoC research, using renminbi for cross-border trade settlement can help reduce 2 to 3 percent of transaction costs compared to foreign currency-denominated transactions. These policy changes also help corporates to enhance their working capital management, and gain easier access to Chinese suppliers and buyers by using renminbi for trade and investments with China.

Moreover, as MNCs increasingly need to use the renminbi from a global treasury management perspective, the PBoC has initiated several pilot schemes, which can enable movements of renminbi funds from MNCs' onshore domestic cash pool to their offshore global cash pools. This could potentially encourage European corporate treasurers to centralise the management of their renminbi positions in offshore Regional Treasury Centres (RTCs), which may be located in places such as Hong Kong or Singapore, and to deploy the currency as part of their international treasury management and investment strategies.

» The PBoC has initiated several pilot schemes which enable movements of renminbi funds from MNCs' onshore to their offshore global cash pools.«

Carl Wegner, Greater China head of Global Transaction Banking at Deutsche Bank

» Managing renminbi payments through offshore RTCs allows MNCs to save costs and gain efficiencies throughout the cross-border supply chain.«

Joe M.K. Ng, head of renminbi payments product management – Asia-Pacific at Deutsche Bank

Managing renminbi payments through offshore RTCs can provide other advantages related to currency conversion, FX hedging, trade financing and debt capital market funding, thereby allowing MNCs to save costs and gain efficiencies throughout the cross-border supply chain.

However, since the US dollar and the euro have been the key currencies for trade settlement with China for decades, using renminbi as a treasury management currency will necessitate changes to corporates' existing systems and operating procedures, which may create some challenges. A key component in this process will be the involvement of banks, particularly those with a track record in offering renminbi products and services, as well as global markets expertise. They are committed to helping European corporate treasurers understand the advantages of using the renminbi as a currency for bilateral trade, and to assisting them with their renminbi trade settlement and foreign exchange transaction needs across the globe.

With the latest developments in London regarding the city's renminbi business and more broadly across Europe, the conditions are all in place to facilitate another turning point in the internationalisation of the currency, which should be a driver for more European companies to choose the renminbi as the currency for trade and investment with China.

Deutsche Bank

It is now a defining moment for European corporate treasurers to better understand renminbi – the currency of the world's second-largest economy – in order to take full advantage of the opportunities that it presents now, and will present in the future.