



Singapore – A Potential Hub for Offshore Renminbi Clearing

by Carl Wegner, Greater China Head of Global Transaction Banking, Deutsche Bank



Carl Wegner

Despite a softening in growth projections, China remains a major consumer of both hard and soft commodities and imports of these continue to grow, particularly base metals and agricultural commodities. With many soft commodities such as palm oil, rubber and other agricultural products traded in Singapore, relentless demand for commodities is likely to prove a major factor in the emergence of Singapore as a potential renminbi regional hub for the ASEAN-China trade corridor.

We have already witnessed significant developments in Singapore's growth as a renminbi centre this year. On its first day of operation on 27 May 2013, RMB 1.6bn¹ worth of transactions were cleared in Singapore. Although the offshore renminbi market in Singapore remains a fraction of the size of that in Hong Kong, this is a vital step in its evolution, further supported by the Singapore government's recent doubling of a currency swap agreement with China to RMB 300bn.

The choice of Singapore as a centre for offshore renminbi is both a logical and an attractive one, not least due to its leading role in soft commodities trading. Commodity transactions in the ASEAN region have traditionally been denominated and settled in USD, but this convention becomes less logical when USD is not the base currency of either counterparty: for example in a Chinese company's purchase of Malaysian rubber. Instead, it would be more cost efficient to use the base currency of one or the other counterparty – which could help reduce as much as 2% of a transaction's cost. As China's prominence in world trade and on-going process of currency liberalisation continues, Singapore is set to be one of the drivers and beneficiaries of this important development in both commodity trading and the wider financial markets.

Singapore is already a popular location for regional treasury centres (RTCs), not only among North American or European multinational corporations, but also for companies headquartered in China or ASEAN countries. As the renminbi becomes increasingly important for multinational corporations irrespective of size, industry and headquarters location, the potential for banks in Singapore to develop new renminbi products to meet these companies' growing renminbi needs is substantial.

At Deutsche Bank, we continue to expand and reinforce our footprint in the ASEAN region, and we work with many RTCs to help refine their strategy for the region to take advantage of the opportunities that this fast-growing market presents.

Over the coming year, we anticipate continued development of Singapore's offshore renminbi capabilities alongside its existing competences. As a growing number of companies choose to transact in renminbi, it will become increasingly important for them to access the right expertise to fully leverage the benefits of using the currency. For example, adopting the renminbi is not a case of simply switching currency – treasurers need to understand how to price it, particularly from the seller's side – and also deal with the technical, operational and accounting implications.

As a bank with a global leadership position in FX, we bring considerable expertise to our customers on how to optimise their cross-border trade while managing the associated risks. This applies to both North American and European businesses operating in Asia, as well as Asian corporations expanding their international footprint, whether across ASEAN, China or into Europe and the Americas. As a number of companies widen their international reach, the renminbi can offer them the opportunity to rethink their trading strategy. Even global and regional treasurers, who have reviewed their activities in the past one or two years, may find that progress towards the internationalisation of the currency has since resulted in new opportunities to simplify account structures, centralise or streamline payments, conduct cross-border trade more easily or enhance liquidity management.

Deutsche Bank is a major international bank in China and plays an active role in new initiatives that bring value to its customers, such as the simplified documentation process for renminbi cross-border trade transactions that the bank piloted in June 2012. Deutsche Bank is able to provide customised renminbi trade and treasury solutions for RTCs.

Further demonstrating its broader commitment to the renminbi, Deutsche Bank launched the first investable offshore renminbi bond index and was among the first to execute onshore renminbi FX option trades, as well as offshore renminbi cross-currency swaps and forwards. The bank also recently executed the first SGD – RMB spot trade cleared in Singapore and priced the first renminbi-denominated Formosa bond by a foreign entity in Taiwan. Leveraging its strength as a leading transactional and FX bank, Deutsche Bank is committed to supporting its clients globally with their renminbi needs. □

Source:

1 *Caijing*, "Singapore Launches RMB Clearing Service", 4 June 2013