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RMB Internationalisation Rings in Changes

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The internationalisation of the Chinese renminbi (RMB) has become a key topic in trade finance — testament to the growing economic power of Asia, the rising importance of intra-developing market trade and the need for trade finance providers and corporates alike to evolve and adapt to rapidly changing market conditions.

While the currency's recent expansion has been both swift and significant, China's recent slowdown has dampened expectations for the RMB's rate of progression. But as emergence of new trade routes in Asia shows no signs of abating, it is clear that market players must understand and prepare for the RMB's role on the world stage in order to effectively reap its benefits.

Rise of the RMB

Certainly, the RMB has come a long way since its domestic-only use just a few years ago. July 2009 marked the launch of the first RMB cross-border trade settlement programme, and today the currency already dominates 12.3%* of China's cross-border trade.

There are further markers of the currency's success. Hong Kong is home to a fully functional offshore RMB market. In fact, RMB-settled trade between China and Hong Kong soared from RMB 38.5 billion to RMB 239 billion during the last five months of 2011**.

Furthermore, there is growing interest in RMB activity outside of China, particularly in Europe. In April 2012, London hosted the launch of the first RMB (or "dim sum") bond outside of Chinese sovereign territories — a significant milestone for the RMB and an expansion of what is already (via Hong Kong) a growing investment space.

That said, the recent slowdown in China has dampened expectations with regard to the *rate* of the RMB's progress. Indeed, the RMB depreciated for the first time since 2005***. But short-term challenges will not affect long-term trends. While the RMB's international expansion may now proceed at a more moderate pace, there is no doubt its importance will continue to grow.

Reaping the Benefits

Certainly, the growing accessibility of the RMB brings a number of benefits to both domestic corporates and their regional and international trade counterparts. Prior to recent developments, the stringent domestic-only limitations placed on the use of RMB necessitated reliance on the US dollar (USD) by Chinese companies for cross-border settlement. This situation in turn led to increased settlement times and foreign exchange (FX) costs for both domestic and foreign corporates. Unfortunately, such a scenario often led to a lack of transparency.

Now, this situation is changing with the growing use of the RMB in cross-border settlement. Not only can Chinese corporates eliminate FX costs and mitigate FX risk thanks to reduced rates exposure, they can also use the domestic RMB currency to streamline transactions, which will increase price transparency and remove the need for hedging. Furthermore, Chinese importers selling into the domestic market can conduct all transactions in a single currency, leading to an increase in the speed and transparency of commerce, while lowering costs and risk.

Of course, there are benefits for non-Chinese corporates as well. Foreign firms that can settle in RMB can enjoy faster payment cycles and increased efficiency.

Certainly, exporters to China who can invoice customers in RMB will be in a strong position to negotiate more favourable trade terms and will also have the potential to expand their customer base. In addition, corporates with RMB capabilities enjoy more flexibility as they can reduce their dependency on the USD and the euro by holding RMB and accessing RMB-denominated loans and investment products.

Development of RMB Capabilities

Although the benefits for corporates are clear, successfully realising them will require effective development of RMB capabilities — a challenge not just in terms of the cost of investment but also adaptation to the fast-changing regulatory environment.

Without a doubt, understanding and utilising the rising currency will require significant specialist expertise.

It is therefore necessary for corporates to partner with a specialist trade services provider that has global trade experience — one that can provide a full range of RMB-denominated solutions to execute international and domestic trade settlements. As the RMB continues its international ascent, such capabilities are essential for a corporate's growth aspirations.

With the needs of corporates in China in mind, Deutsche Bank has developed a suite of RMB-denominated solutions covering all aspects of trade and cash management, including liquidity management, cross-border payments, letters of credit-based services, financial supply chain solutions and trade finance for financial institutions, as well as bond, loan and escrow services, and real estate investment trust services.

In addition, Deutsche Bank actively engages with regulatory authorities to keep abreast of RMB developments. This, combined with the Bank's renowned technological strength, puts us in an optimal position to help our clients reap the benefits of the RMB and gain a competitive advantage as the currency continues on its ascent on the world stage.

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* http://www.ibtimes.com/global-rmb-trading-expands-844313
** HKMA / Deutsche Bank Research
*** http://www.asiamoney.com/Article/3069368/Chinas-slowdown-could-prompt-further-renminbi-depreciation.html