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RMB Rising – What Does This Mean for Corporates in Asia?



By
Eric Koo
Head of Global Transaction
Banking, Hong Kong
eric.koo@db.com



And
Roger Packham
Regional Head of Trade
Finance for Asia Pacific
roger.packham@db.com

Since June 2009, the coverage of the RMB trade settlement scheme has expanded from Hong Kong, Macau and ASEAN countries to include all overseas countries and regions. The People's Bank of China ("PBOC") has also expanded the RMB trade settlement scheme to include 20 mainland provinces and cities.*

Enterprises in these provinces and cities in mainland China can settle their merchandise imports, service trades and other current account transactions in RMB. In 2010 December, the number of mainland designated enterprises (MDEs) increased from 365 to 67,359.** These eligible enterprises will be able to settle their merchandise exports in RMB.

Besides the business scope expansion, the development of the offshore RMB market offers an important additional way to take and manage RMB risk. Meanwhile, Non-Deliverable Forwards, as a tool for managing onshore RMB FX risk, continue to provide the best liquidity for large positions, as corporates in Asia can choose between different yield curves for hedging.

What These Developments Mean for Corporates in Asia and for Their Cross-border Counterparties

The RMB trade settlement gives corporates the option of using the RMB as the underlying currency for trade transactions between corporates in Asia and their cross-border counterparties in China.

If an overseas corporate/exporter uses RMB as the billing currency for its export of goods to China, it will receive RMB either in a non-resident RMB account within China or an offshore RMB account in Hong Kong or any other country.

Overseas corporates/buyers in Asia may be asked by their China suppliers (MDEs) to pay in RMB when importing goods from China. They can pay RMB from their non-resident RMB account in China or from their offshore RMB account in Hong Kong or any other country where they have an offshore RMB account.

All of the above helps overseas corporates reduce foreign exchange risks and trading cost, making cross-border trade easier and more efficient.

According to a recent industry survey, in the first half of 2010, total trade settlement in Hong Kong reached RMB27bn (approximately EUR3bn). In June alone, the settlement volume reached RMB13bn (approximately EUR1.45bn), reflecting a significant demand for RMB-based trade transactions. The study indicates that while the US dollar remains the dominant currency for cross-border trade, exporters and importers in key markets in Asia recognize the value of RMB-denominated trade. Approximately 54% of exporters and importers in Hong Kong, 49% in Malaysia and 24% in mainland China expect to settle some trade transactions in RMB from October 2010 to March 2011. Indeed, exporters and importers in Hong Kong showed the strongest propensity for RMB trade settlement. A fifth of traders in the territory expect the RMB to be their primary trade currency from October 2010 to March 2011, the highest globally.

Common Questions Corporates Have Regarding the RMB Trade Settlement Programme

Corporates considering whether to participate in the RMB trade settlement programme often have some key financial and operational concerns. These are mainly centered around how and where to open an RMB account, account operating procedures, obtaining funds in RMB for trade settlement and how to manage RMB FX and operational risk. Deutsche Bank plays the role of trusted consultant and advisor who comes alongside our clients to address their questions and show them the mechanics of how they may participate in the programme.

Deutsche Bank's Response

Deutsche Bank continues to develop its global platforms in order to provide state-of-the-art solutions to meet changing demands related to RMB needs. Our strategic goals are to provide comprehensive solutions and excellent on-the-ground service levels to clients, as well as operational consistency and efficiency. Significant investments underpin our commitment to the RMB business and determination to remain a long-term leader in providing best-in-class RMB trade settlement solutions in the region.

We offer a comprehensive suite of RMB solutions and are a leading provider of corporate treasury services throughout our network. We offer cash management services, liquidity, funding management and trade finance partnered with our award-winning capital market products, enabling corporates in Asia to conduct RMB trade settlement easier and more efficiently.

Through our Hong Kong office newsletters, and by hosting client meetings and seminars, we also help corporates reap the maximum benefits and efficiencies from the latest developments in the offshore RMB programme and provide solutions to the market. In addition, we conduct regular ongoing education and training at Deutsche Bank branches on the RMB trade settlement programme.

Furthermore, we continue to engage in ongoing dialogues with the People's Bank of China and Hong Kong Monetary Authority, the key regulators behind the RMB trade settlement programme, to understand the latest regulations and provide feedback from the banking industry. Such interaction with regulators helps us develop and provide the appropriate RMB programme to meet our clients' needs.

*source:

http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2010/20100713160217813265701/20100713160217813265701_.html

**source:

http://www.pbc.gov.cn/publish/bangongting/82/2010/20101206184442957396214/20101206184442957396214_.html