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# The Unstoppable Rise of the Renminbi



By

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Driven by the launch of the renminbi (RMB) trade settlement programme in 2009, there has been a rapid growth in the international use of the Chinese currency. A key factor behind this growth has been the need from corporates transacting with counterparties in China, who would previously have had these transactions denominated in US dollars.

With different legs of a transaction denominated in different currencies — for example, RMB within China and international currencies outside — managing foreign exchange risk can be very inefficient. It is likely that multiple centres within a single organization would have to be involved, inhibiting the development of a centralized and more efficient liquidity within some corporates. Now, thanks to the RMB trade settlement programme, corporates trading with China can denominate the entire transaction in RMB, consolidating their foreign exchange position and making the management of currency risk more efficient.

A further driver of RMB usage has been the need for corporates to grow their investment options. The rapid development of offshore RMB markets in locations such as Hong Kong has meant that these corporates can now easily obtain the RMB instruments and investment vehicles that suit their needs. Indeed, it is likely that such avenues for RMB investment will also begin to open up in Europe and North America.

## Rapid Growth

Given the opportunities for heightened efficiency that the RMB trade settlement programme has opened up, it is not surprising that it has been very warmly received

by the market. However, while it was expected that the currency would develop in a robust and sustainable fashion, the rapid growth in RMB-denominated trade volumes certainly took some by surprise.

For instance, in the first quarter of 2010, only 0.5% of China's trade was RMB-denominated, while this had grown to 7% in Q1 2011. And on a quarter-by-quarter basis the figures are no less impressive: The total value of RMB-denominated trade grew 20% between Q4 2010 and Q1 2011. These numbers give a perspective on the market response to developments and all of these underpin real underlying trade transactions with China.\*

These figures give some idea of the rapid change being experienced in this market, making it crucial for both banks and their corporate clients to keep on top of the large number of RMB-related regulatory guidelines being promulgated from Hong Kong and China. This will likely involve transaction banks playing the role of advisor and consultant in order to help corporates understand the full implications of any changes. And building new infrastructure to facilitate transacting in a new currency will also be a crucial aspect of fully capitalizing on these changes.

## Future Development

The Chinese authorities are taking a phased approach to RMB internationalization and a dialogue between banks and regulators regarding the construction of new guidelines is ongoing. However, there still remains some disparity of understanding between banks regarding the new landscape, while the same also applies to corporates. In this respect, continued engagement between corporates, banks (and their representative associations) and the regulators is crucial in terms of narrowing these gaps and bringing all market participants up to speed.

In the future, we would expect other global financial centres — such as London, New York and Singapore — to introduce domestic clearing mechanisms that enable market participants to trade RMB in a more efficient and local way within their own time zones. Alongside this, the suite of RMB-denominated investment products will gradually broaden to match the other international currencies — bringing greater trade and cash management efficiency to all international corporates that maintain trading relationships with China.

\* Source: "Yuan role in trade is rising quickly" - The Wall Street Journal, 19 April 2011 (Asia edition)