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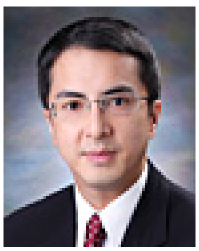
RMB Programme Gains Traction and Delivers Benefits



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The RMB trade settlement programme has gained strong traction since its launch in mid-2009 and its growing success is driving the next generation of efficiencies in Asian trade finance and cash management in Asia.

The Changing Landscape of Asian Trade Finance

As intra-Asian trade grows in importance to the regional economy and the relationships between Asian corporates and their cross-border peers develop in sophistication and complexity, banks and regulators are responding to the changing landscape. One key initiative on the regulatory level has been the RMB trade settlement programme. Launched by the Chinese government in 2009 and subsequently expanded, the programme is a crucial step on the path toward globalizing usage of the RMB.

Under the programme, eligible corporates based on the Chinese mainland — those from one of the 20 provinces involved in the pilot — are allowed to settle trade transactions using RMB. Prior to this programme, both sides of the deal would have to convert from local currency into US dollars in order to settle the transaction, with both sides having to factor currency conversion costs into their pricing strategies.

Benefits to Buyers and Suppliers

The programme is delivering a variety of benefits to both buyers and suppliers. Corporates have greater access to the Chinese markets, and corporates buying from China can come to expect more transparent and efficient pricing while corporates selling into China stand to benefit from the anticipated appreciation of the RMB, as well as also gaining access to the larger pool of Chinese clients that might have difficulty gaining access to foreign currency.

The option of using a different funding currency is a key benefit of the programme. Corporates with RMB receivables and payables are better able to manage their foreign currency exposures. The ability to open RMB accounts and settle their transactions in the same currency functions as a natural hedge for their RMB exposures and is especially useful in times of volatility. Apart from providing an additional avenue for mitigating FX risk, the programme also provides more options for financing and investment in RMB. It comes as no surprise that since the programme's inception, demand has been strong and volumes have risen consistently.

Growing RMB Usage in Hong Kong and Beyond

Being the largest RMB centre outside of mainland China, Hong Kong is currently taking the lead in bringing RMB-denominated products and services to market. Indeed, in July 2010, the Hong Kong Monetary Authority (HKMA) introduced a range of regulatory changes designed to facilitate the growth of RMB financial services.

For example, the procedures for corporates wishing to open RMB accounts in Hong Kong have been brought into line with those for opening regular accounts — with corporates no longer needing to provide details of their trading partners on the Chinese mainland. The responsibility for verifying cross-border RMB transactions has also shifted to mainland authorities so Hong Kong-based banks no longer need to check the eligibility of the Chinese corporates in question — something that has greatly sped up the turnaround time for transactions of this type.

Within Hong Kong, corporates are now able to freely convert non-trade related RMB funds into other currencies. For multinationals, this means that funds received from China can now be easily converted and repatriated back to their international headquarters. And the HKMA is also allowing the issuance of RMB-denominated loans and financings, increasing the level of RMB circulation and catering for the expansion of the local RMB interbank market.

Alongside these initiatives, China has also entered into several bilateral agreements to introduce the RMB into overseas markets. For example, currency swap agreements have been signed with, among others, South Korea, Singapore, Malaysia, Belarus, Argentina, Indonesia and Iceland. These agreements should pave the way for more intra-Asian and cross-regional activities involving the currency.

Corporates' and Banks' Response – What Lies Ahead

While the USD remains the dominant currency in the region, thanks in part to the trade settlement programme, corporates are expected to start increasingly turning to the RMB as an alternative business currency. As a consequence, leading providers are stepping up their RMB offering across a range of areas. Indeed, the rise of the RMB is providing new opportunities for banks to leverage their reach, technology and expertise to assist corporates in driving greater efficiencies from their cash management arrangements.

Deutsche Bank, for example, has recently been working closely with clients in the region to develop a comprehensive range of RMB services that leverage its global FX leadership. These solutions will allow clients to take full advantage of the efficiencies offered through participation in the trade settlement programme. This is in addition to products such as inward and outward remittances, time deposits and loans.

Overall, the internationalisation of the RMB has the potential to offer significant long-term benefits for corporates and their trading partners doing business with China. As a global bank and leading provider of corporate treasury services, Deutsche Bank is in a unique position to develop solutions that are tailored to meet clients' requirements and that help them achieve their business aspirations across the globe.