The pace of change in the renminbi market in 2012 has exceeded expectations. This has been welcomed by foreign firms and financial institutions, with an increasing number using or planning to use the renminbi as a currency of choice.

Renminbi initiatives in 2012 have come right across the board - from the capital account to trade settlement to infrastructure - signaling the acceleration of renminbi internationalisation. So much has evolved that it would have been easy to miss some of the most important developments.

Beyond the initiatives in the trade settlement sphere for renminbi internationalisation (see highlights on second page) we have seen other measures introduced, such as the increased ease for Chinese enterprises to issue dim sum bonds, and greater liberalisation of interest and currency exchange rates that further demonstrates the positive environment for internationalisation.

The most recent announcement may also prove to be one of the most far-reaching, and it increases the momentum of liberalisation into 2013 that begins to show multinational companies (MNCs) that including the renminbi alongside the dollar in their global liquidity and payment structures is not too far away in the future.

In the last few weeks of 2012, the Chinese regulator began piloting quotas for cross-border lending, and in November 2012, Standard Chartered was the first foreign bank to secure this quota for its client - 3.3 billion renminbi for a US manufacturing and technology firm. The scheme will allow both foreign and local MNCs to channel surplus renminbi capital in mainland China to fund renminbi-denominated activities overseas, moving away from the traditional entrustment loan solution which was only usable between onshore subsidiaries. This is not a one-off, and we expect many other firms to join the scheme in the near future.

The ability to lend cross-border gives additional flexibility in corporate treasury management both for local and foreign MNCs, allowing corporates to negotiate lending frequency and rates according to their actual needs and use previously trapped cash more effectively.

Sweeping is generally a key component of typical global liquidity management and FX exposure optimisation, structures, and this new regulation aligns well with the increasing trend for MNCs to set up regional dim sum treasury centres, and with the liberalisation of trade settlement.

From a broader perspective, the ability to loan offshore is positive because it further encourages the offshore circulation of renminbi. It completes the circle: while programmes like Renminbi Qualified Foreign Institutional Investor (RQFII) have allowed more renminbi to flow back into China, this new scheme is notable because it allows renminbi to flow in the other direction.

What’s next?

With the solid foundation 2012 has given us, we expect a range of developments next year. For example, after the China-Taiwan memorandum of understanding (MOU), we expect the Taiwanese renminbi business to see rapid growth, this is especially so given the close ties with China and the high level of renminbi acceptance in Taiwan. Meanwhile, the development of the China International Payment System (CIPS) offers a solution to more efficient and effective international clearing of renminbi payments. This will mean that how offshore renminbi centres align and leverage their strengths to CIPS will be a key focus this year.

With the new Communist Party Chief Xi Jinping’s recent inspection trip to Shenzhen and the Qianhai experimental zone, we expect Qianhai to continue to be a test bed for financial reform and renminbi development in 2013. Our prediction is that for the government, as the majority of the restrictions on cross-border settlement have been relaxed, the focus from now on will be on making improvements on capital account items, consumer payments and expanding quota on some of the initiatives seen in 2012. We look forward to what should prove to be an exciting 2013 in the offshore renminbi market.
2012 highlights:

- The People’s Bank of China (PBOC) announced in March that international China-based trading companies would be able to settle their goods exports in renminbi, which was implemented in June after the establishment of a surveillance list. This significantly increased the number of companies eligible to settle in renminbi from 67,000. Subsequently, the percentage of trade settled in renminbi showed a steady increase; the renminbi trade redenomination rate grew to 12.7% in the third quarter of 2012.

- In April, the Chinese regulator also announced that CIPS will be developed. This will greatly improve access for foreign companies and will address language issues and longer operating hours enabling more efficient cross-border renminbi clearing among both onshore and offshore participants. Alongside this, China is significantly upgrading their domestic payments infrastructure - CNAPS (China National Advanced Payment System).

- May saw the first Hong Kong/London renminbi forum led by Her Majesty’s Treasury (HMT) and the Hong Kong Monetary Authority (HKMA). The forum was aimed at deepening the collaboration between London and Hong Kong in supporting the wider use of the renminbi among businesses. An agreement was made to improve the supply of liquidity, better facilitate payments and settlements, and improve the range of products and market services available.

- The PBOC issued detailed implementation guidelines on renminbi foreign direct investment and foreign debt, via a July circular detailing the processing requirements for the six types of renminbi capital account items.

- In August an MOU was signed between Taiwan and China, signifying a step towards Taiwan becoming the next offshore renminbi centre after London. It will open up business opportunities in Taiwan and is a significant milestone in the process of the renminbi internationalisation.

- Documentation checking for renminbi cross-border trade settlement was simplified in Shanghai and Guangdong provinces for qualified companies, enabling substantial administrative cost savings and improved processing efficiency for cross-border trade payments.

- The establishment and substantial expansion of the RQFII scheme, which allows access to renminbi-denominated instruments offshore through exchange-traded funds. The scheme was piloted in late 2011 with a total quota of 70 billion renminbi (USD11 billion). In November, the China Securities Regulatory Commission (CSRC) indicated that this will be increased to 270 billion renminbi.

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