Renminbi internationalisation: The road ahead

The internationalisation of the renminbi has made significant strides, thanks in large part to the policies, programmes and infrastructure introduced by China over the years to promote the widespread usage of the currency.

Further inroads could be made as the world's second largest economy continues to press ahead with renminbi internationalisation, supported by external factors such as rising interest rates and the diversification of currency reserves. As demand for renminbi use picks up pace, forward-thinking companies should position themselves to capitalise on the opportunities as they arise.

Attractive financing costs in renminbi

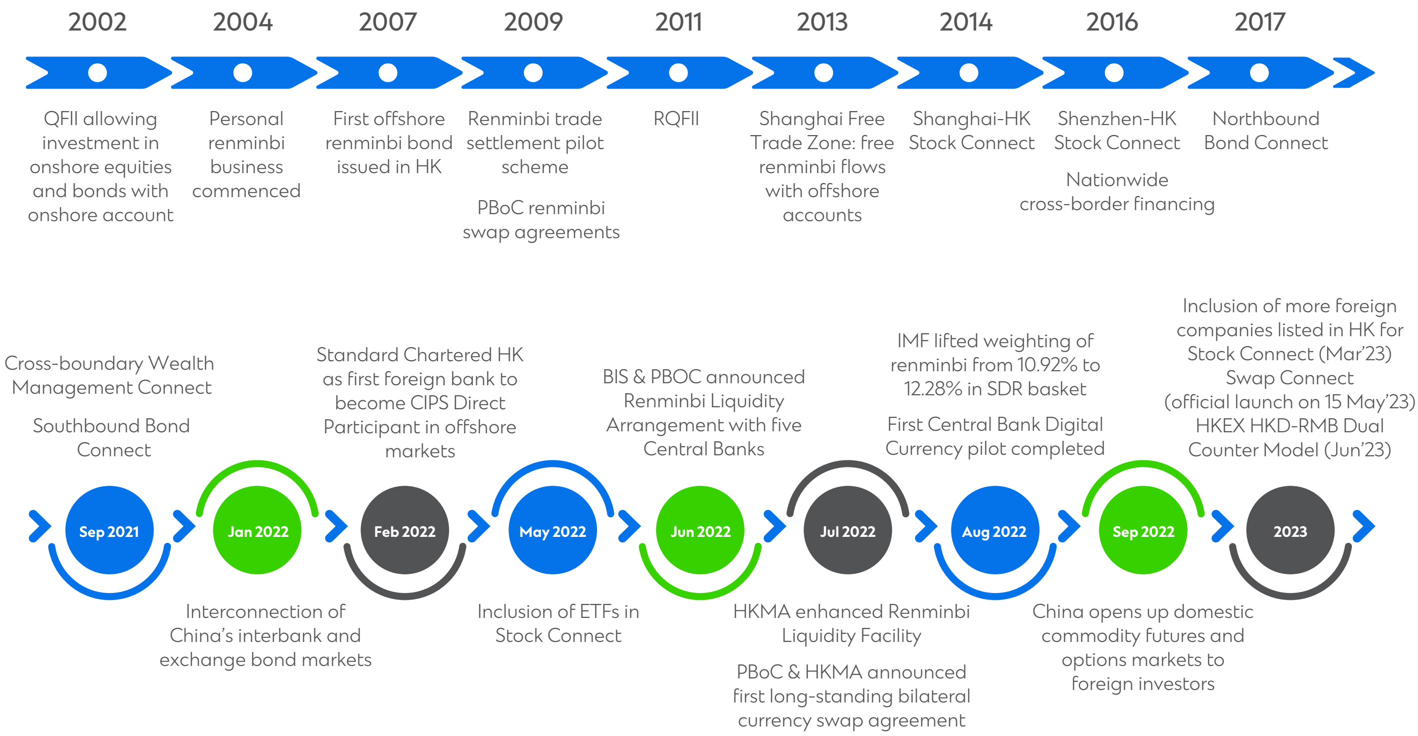
Amid elevated interest rates, the renminbi is proving to be a significantly cheaper option for financing compared to the USD. We've seen financial institutions (FIs) pivot towards the renminbi for financing and bond issuances, while corporate clients are also turning to the renminbi for their financing needs.

Recently, we've successfully closed a number of renminbi trade financing deals in Malaysia, Singapore and Indonesia for multinational corporations (MNCs), local companies and China-headquartered corporates.

Meanwhile, the issuance of offshore CNY bonds – dubbed *dim sum* bonds – tripled in 2022 on the back of lower financing costs as well as demand from Chinese investors via the Southbound Bond Connect.

FIs and corporates seeking to raise funds may also want to consider Panda bonds – onshore CNY debt securities - as a financing option following the recent easing of regulations around Panda bond issuances, especially since issuers are allowed to deploy the proceeds outside of China. The funding costs are even lower than *dim sum* bonds.

Renminbi internationalisation has come a long way



Source: Standard Chartered Bank, China Opening & Renminbi Internationalisation team

Currency diversification

The renminbi is now a top five currency for trade settlements. Last year, RMB42.1 trillion worth of the country's cross-border payments and receipts were settled in the redback, up 15% year-on-year in the fifth consecutive year of increase[1].

At the same time, geopolitical tensions and market volatility are prompting a growing list of countries to consider alternatives to reduce their exposure to the USD. In particular, the redback is proving to be popular option among nations that have strong bilateral trade flows with China.

That list of countries includes Latin America's largest economy, Brazil, which counts China as its biggest trading partner. The two countries reached an agreement to trade in their own currencies, eschewing the US dollar[2]. Argentina has also announced that it would begin paying for Chinese imports in renminbi[3], while Iraq will accept renminbi to settle trade – aside from commodities – with China[4].

We expect more corporates that do business with China to explore settling cross-border trades in renminbi, to better manage their foreign exchange risks, target cost savings, improve trade efficiencies and tap a wider network of suppliers.

A number of government-led initiatives are already paving the path for the corporate sector to ramp up renminbi usage, which in turn is giving renminbi internationalisation a boost.

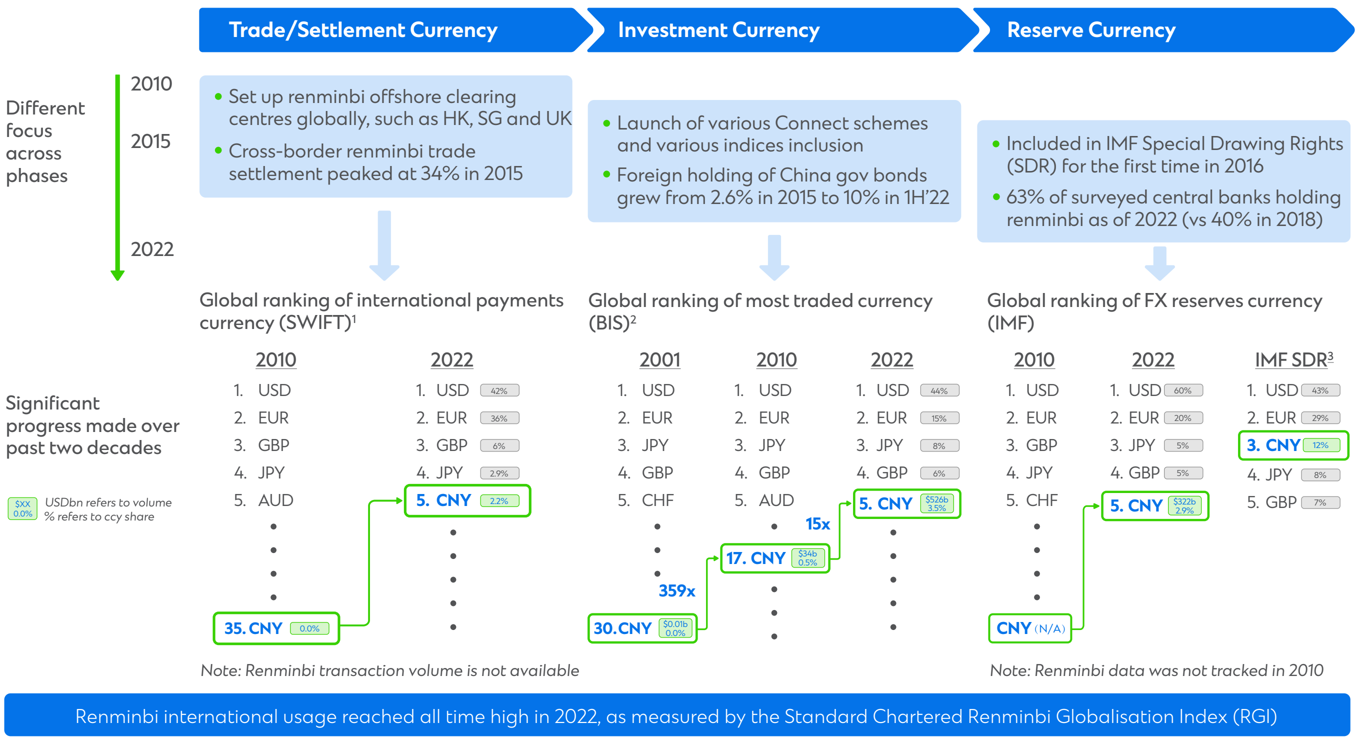
In March this year, the Export-Import Bank of China sealed its first renminbi-denominated loan with the Saudi National Bank to fund China-Saudi Arabia trade projects[5]. That same month, Chinese national oil and gas company, CNOOC, closed its first renminbi-settled, liquified natural gas (LNG) purchase for 65,000 tonnes of LNG imported from the United Arab Emirates (UAE)[6].

Meanwhile, the world's largest producer of hardwood pulp, Brazil-based Suzano, is considering selling its products to China in renminbi[7]. China is Suzano's largest market and accounts for nearly half of its global sales.

Presently, the renminbi's share of total cross-border transactions remains relatively low, at around 2% of China's share of total trade, according to the International Monetary Fund (IMF)[8]. This, coupled with improvements to the ecosystem for overseas use of the currency, suggest that the renminbi is poised to play a bigger role on the global stage.

1 Caixin Global (March 2023), Yuan popularity grows as go-to currency for international settlements with China
2 South China Morning Post (April 2023), China's yuan makes Brazilian inroads as 'de-dollarisation reflects cracks' in US currency settlements
3 South China Morning Post (April 2023), Argentina to settle Chinese imports in yuan as China marches into South America to dethrone US dollar
4 Reuters (Feb 2023), Iraq to allow trade with China in yuan – state media
5 Dezan Shira & Associates (March 2023), Saudi National Bank partners with China Exim Bank in renminbi yuan loans
6 Reuters (March 2023), China completes first yuan-settled LNG trade
7 Bloomberg (May 2023), World's biggest pulp producer considers trading with China in yuan
8 International Monetary Fund (March 2023), Renminbi usage in cross-border payments: Regional patterns and the role of swaps lines and offshore clearing banks

Rise of the renminbi



Source:
1. SWIFT Renminbi Tracker.
2. BIS Triennial Central Bank Survey (Years 2010 and 2022). Each FX transaction involves two currencies hence percentage shares of individual currencies added up to 200%. Adjustment performed by dividing by 2. Multiplier calculated based on actual turnover volume.
3. IMF SDR currency basket weights updated in May 2022.

Demand for FX conversion, risk management

As the corporate sector increasingly looks to the renminbi for financing and trade settlements, there's a need to manage exposure, resulting in growing demand for foreign exchange (FX) conversion and risk management.

In March this year, the renminbi surpassed the USD for the first time to become the most widely used currency in China's cross-border transactions across both payments and receipts[9]. According to data from China's State Administration of Foreign Exchange, the renminbi was used in a record 53.7% of all cross-border transactions in August, while the dollar's share of transactions stood at 41.4%.

To help clients better manage their FX risks, Standard Chartered launched an FX centralisation model which uses Hong Kong as a hub to provide onshore CNY FX access to other Standard Chartered entities. As a result, our Bond Connect investors and offshore corporate clients get easier access to the onshore CNY FX market, while potentially saving hedging costs.

The Bank presently offers this FX solution in 20 markets across Asia, Africa, the Middle East and Europe. More markets will be added in H2 2023.

9 Reuters (April 2023), Yuan overtakes dollar to become most-used currency in China's cross-border transactions

Hunt for renminbi investment opportunities

With trade flows increasingly re-denominated to renminbi, we expect to see higher volumes of the currency accumulate in offshore markets, prompting local banks to put any excess liquidity to work.

China's equity and bond markets – which are the second biggest globally – are a suitable avenue to deploy that liquidity, given the limited suite of offshore renminbi financial products at present.

At the same time, China continues to roll out policies aimed at liberalising its financial markets.This, alongside connectivity projects such as the newly launched Swap Connect – which opened up the onshore interest rate swap (IRS) market to eligible foreign investors – can improve the liquidity of renminbi financial assets, while expanding the pool of foreign investors who can tap the Chinese market.

Going digital

The digital renminbi - a central bank digital currency (CBDC) issued by the People's Bank of China (PBOC) - could be another way for China to curb its dependence on the USD as well as to expand the renminbi's reach.

Aside from making cross-border transactions cheaper, quicker and more secure, CBDC transactions offer added benefits such as greater transparency and round-the-clock access. This could change the way businesses manage liquidity and FX risks for the better.

In August and September last year, the Hong Kong Monetary Authority teamed up with the Digital Currency Institute of the PBOC, the Bank for International Settlements Innovation Hub Hong Kong Centre, the Bank of Thailand and the Central Bank of the UAE to successfully conduct a CBDC pilot across four jurisdictions using real-value transactions[10].

20 commercial banks, including Standard Chartered, used the mBridge Ledger - a customised distributed ledger technology (DLT) platform – to settle payments for corporate clients, focusing on cross-border trade in particular. Over USD12 million in value was issued on the platform, which facilitated over 160 cross-border payments and FX transactions worth over USD22 million.

While China's CBDC initiatives are still in the early stages, it is ahead of most other central banks and is perceived as a frontrunner when it comes to digital payment infrastructure[11].

10 Hong Kong Monetary Authority, (Oct 2022), Project mBridge: Connecting economies through CBDC
11 Chan E. (March 2023), Renminbi Internationalisation: China's Central Bank Digital Currency

The road ahead

In recent years, China's introduction of enhanced infrastructure as well as policies to address the pain points of usage have strengthened the foundation for renminbi internationalisation.

At the same time, external events – from geopolitical conditions to the interest rate environment – serve as an impetus for countries to reduce their reliance on the greenback, while creating conditions that favour the renminbi.

Taken together, the stage is set for the currency to play an increasingly important role in the years to come.

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