press release

Standard Chartered Renminbi Globalisation Index fell almost 20% since the CNY fixing reform

FX reform efforts are starting to payoff with more CNY stability

9 Aug, 2016, Hong Kong – Standard Chartered announced that the Standard Chartered Renminbi Globalisation Index (Bloomberg: SCGRRGI <index>), or the RGI, fell 1.8% month-on-month to 1,933 in June from 1,968 in May. This is the eighth drop in nine months, albeit at an easing pace of late. The tracker fell almost 20% since the Chinese Yuan (CNY) fixing reform in August 2015, while the CNY has fallen around 6.5% against the USD during the same period.

Biggest disappointment behind June's RGI drop is the month-on-month decline in cross-border Renminbi payments after staging a mini rebound in May. This in part reflects still weak genuine demand for Renminbi trade settlement and other remittance channels. Falling CNH deposits remain a persistent drag.

However, both USD-CNY and USD-CNH weathered the Brexit fallout fine, with the former stabilising below 6.70 and the CNY-CNH basis staying narrow. The People's Bank of China (PBoC) has improved on its communication with the market, making its policy intentions transparent; the market has also gained better understanding of the new daily CNY fixing mechanism that references to a basket. Capital outflow pressure remains, but foreign inflows to China's onshore bond market rose to the second-highest on record in June, at CNY 47.68bn. Increasing foreign access to onshore markets also drives Renminbi internationalisation.

With the G20 meeting looming in early September, authorities appear to be leaning towards more stability for the CNY near-term. After bottoming at a low of 94.21 on July 11th, the CFETS CNY basket climbed back above 95 on the higher USD. The climb higher in the basket coincides with onshore USDCNY approaching the psychological

6.70 level. The authorities appear to have resisted allowing the USDCNY fix to move above 6.70 closer to end July as the USD gained strength.

The price action in spot and around the CNY fixes suggest to us intolerance for further CNY weakness above 6.70 near-term. We believe this reflects two reasons. Firstly authorities likely want to avoid a pickup in capital outflows from breaching this psychological level. Our estimate of China's non-FDI capital outflows showed an increased in June to USD 43bn from USD35bn in May. Secondly, the authorities may favour greater stability and less upside volatility in the USDCNY cross towards 6.70 ahead of the G20 meetings September and the official entry of the CNY into the SDR on October 1st.

Greater stability in price action is also being demonstrated by the much narrow basis between the CNY and the CNH. The basis which reached close to 200 pips in July has now closed back to below 100 pips. If anything, markets appear to be heeding the PBoC's actions. The hard won credibility which the PBoC has built following the early CNY volatility in 2016 appears to be paying off.

Near-term, we still believe the CNY basket may have room to fall should USDCNY remain comfortably below 6.70 and the USD weakens. Markets remain unconcerned as long as USDCNY holds below 6.70. We expect 6.70 to be a cap for USDCNY for now barring a much larger spike in the USD. We maintain our forecast of 6.67 for USDCNY at end 2016.

Standard Chartered launched the RGI in November 2012. The Index covers seven markets in offshore RMB business: Hong Kong, London, Singapore, Taiwan, New York, Seoul and Paris. It measures business growth in four key areas: deposits (denoting store of wealth), Dim Sum bonds and Certificate of Deposits (as vehicles for capital raising), trade settlement and other international payments (unit of international commerce) and foreign exchange (unit of exchange). As the Renminbi further internationalises, there is capacity to include additional parameters and markets.

Standard Chartered Renminbi Globalisation Index

Objective	The first industry benchmark that effectively tracks the progress of RMB business activity. Offers corporates and investors a quantifiable view of the latest trends, size and levels of offshore activity that are driving RMB adoption
Index Parameters	Deposits Dim Sum Bonds and Certificate of Deposits Trade Settlement & Other International Payments Foreign Exchange Turnover
Markets	Hong Kong London Singapore Taiwan New York Paris Seoul
Investability	Non-tradable
Frequency	Monthly
Base value and date	100 at 31 December 2010
Inception Date	14 November 2012
Methodology	Weight of each of the four parameters are inversely proportional to their 24-month normalized standard deviations

Get the latest RGI interactive infographic in one place by visiting Global Research's RGI tracker is on BeyondBorders,

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Standard Chartered

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