

press release

Standard Chartered Renminbi Globalisation Index recorded first annual decline

Concerns over the weakening of the RMB and controls limiting capital outflows remain

15 February, 2016, Hong Kong – Standard Chartered today announced that the Standard Chartered Renminbi Globalisation Index (Bloomberg: SCGRRGI <index>), or the RGI, fell 2.1% month-on-month to 2,120 in December. This brought the 2015 full-year change to -0.2%, the first annual contraction since the index came into existence in 2012. Bouts of Renminbi depreciation have spurred questions on how far the currency might weaken and, more importantly, whether Beijing remained willing and able to stabilise the currency, overshadowing its initially positive reform intentions. We believe that further capital account opening and Renminbi internationalisation are firmly on the back burner, for now.

Cross-border flows subtracted the most from the index in December, contributing 0.9ppt of the 2.1% drop in the month, slightly lower than in November. The contribution from CNH FX turnover normalised in December, after paying back gains made during increased FX turnover following the volatility in August 2015. Higher CNY volatility in the first week of January is unlikely to have moved the RGI needle, as extreme stability quickly ensued in both the CNY spot and fixing; this stability may well extend at least until the G20 meeting in late February.

In line with China's near-term priority to limit capital outflows, we expect the offshore market to continue to worry about CNH liquidity tightness even beyond the Lunar New Year. The good news is that CNH rates have eased back to much more manageable levels after the first two weeks of January. In particular, overnight CNH HIBOR fixing has dropped back to the benign 1% handle after going as high as 66.8% on 12 January. Liquidity facilities provided by the authorities have helped tide over short-term tightness, while banks in Hong Kong have also become better prepared ahead of the holidays.

Worries that more window guidance and other tightening measures to curb capital outflows from China could be on the way, however, could make CNH HIBOR prone to jumps again in the coming months.

Given China's capital outflow situation and the decline of China's FX reserves, concerns have arisen over the adequacy of China's FX reserves. At above USD 3tn, China still maintains sufficient FX reserve cover across a range of metrics, such as import cover and short-term debt. However, a metric where FX reserves may appear inadequate is China's FX reserves as a percentage of M2 onshore. This has now fallen to a multi-year low. A low ratio here indicates the importance of the role of confidence in the currency. The combination of financial market volatility, concerns over China's growth and confusion over policy has hurt confidence.

We believe the authorities will focus on holding the currency steady near-term as they to push back negative sentiment surrounding China and the currency. Following that, however, we expect the authorities to improve their communication policy as they seek to further improve China's FX policy framework. This should reduce market confusion and help avoid further market volatility.

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 Seoul Paris
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 respective variances

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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Standard Chartered PLC is listed on the London and Hong Kong Stock Exchanges as well as the Bombay and National Stock Exchanges in India.

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