

press release

Standard Chartered Renminbi Globalisation Index fell 5.3% month-on-month to a 19-month low in April

Entrenched cautiousness takes time to reverse

8 June 2016, Hong Kong – Standard Chartered today announced that the Standard Chartered Renminbi Globalisation Index (Bloomberg: SCGRRGI <index>), or the RGI, fell by 5.3% month-on-month in April, to 2,026 from 2,141 in March. The offshore Renminbi market shrank for the sixth time in seven months in April. The sizeable drag from lower CNH FX turnover is partly a normalisation of the jump in January; more worrying are the similarly large falls in the other RGI components, confirming broad-based weakness in CNH activity. All this translates into a 5.0% year-on-year drop in the RGI which is the largest on record, bringing it back to September 2014 levels.

Recent policy moves that grant foreign financial institutions easier access to onshore markets have the potential to attract fresh waves of China-bound investment over time, and bolster China's chances of inclusion in global indices. China granting the US a CNY 250bn investment quota is another breakthrough in welcoming inflows. The lift to Renminbi usage, however, will likely start slow and play out over multiple years. In the meantime, people are cautious on using Renminbi. Volatility could return if, say, the USD strengthens dramatically, but we do not expect another bout of sizeable capital outflows and Renminbi fallout like in January. In our view, the key is for Beijing to keep its policy intentions transparent and the currency basket value reasonably stable, as promised under the new FX regime.

CNH deposits fell across our key RGI centres that report that number regularly; those in Hong Kong, Taiwan and South Korea are now down 15%, 3% and 48%

between January-April, respectively. Singapore's Renminbi deposit base fell 13% in Q1-2016. A persistent CNH discount since the August 2015 Chinese yuan (CNY) fixing reform has been the main driver of shrinking CNH deposits. The resulting tightening impact on offshore liquidity has only been offset by subdued CNH asset demand.

The outstanding Dim Sum bond market has shrunk 15% YTD to CNY 702bn as of early June, from CNY 825bn at end-2015. Weak issuance should continue to support demand for Dim Sum bonds; we believe the recent adjustments to the reserve requirement ratio calculation could release more unutilised liquidity into the offshore interbank and bond markets.

Renminbi denominated cross-border payments have historically been a consistent and significant contributor to the RGI; however they have not contributed positively to the index for seven consecutive months now. We expect that Renminbi cross-border payments will continue to be subdued in the near term. However, we continue to believe that the Renminbi usage will resume expanding in the medium term, as markets and investors show a better understanding of the new CNY FX regime.

Markets are reacting in a much calmer manner to swings in USD-CNY spot and fixing. We see risks of USD-CNY continuing to climb higher near-term, especially if the USD rallies further on a Fed rate hike. This is consistent with the operation of the new FX policy regime, in our view. We expect the authorities to keep the CNY's effective exchange rate stable. We forecast USD-CNY at 6.56 by end of 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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