

Norman T L Chan: Brief remarks on the development of the RMB market

Opening remarks by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the Second Hong Kong – Australia RMB Trade and Investment Dialogue, Hong Kong, 22 May 2014.

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Treasury Secretary (Martin) Parkinson, (Deputy Governor) Philip (Lowe), distinguished guests, ladies and gentlemen:

1. Good morning. It is my great pleasure to welcome you to the second Hong Kong – Australia RMB Trade and Investment Dialogue. I would like to especially extend a warm welcome to our friends from Australia. This Dialogue attests to the spirit of collaboration that we share, and indeed it is collaboration that will take us forward in the development of the RMB market. The seminar today will be a good opportunity for us to take stock of recent developments, exchange views and share experiences, and identify our priorities ahead.
2. I recall that three years ago, in March 2011, I visited Sydney on a roadshow to talk about Hong Kong's newly created offshore RMB business platform. This was in fact the very first in a series of roadshows that I and my HKMA colleagues organised, covering key markets in South America, Russia, Middle East, Japan, Spain, the UK and the US. In our Sydney roadshow, I was particularly impressed by the keen interest and high level of curiosity of the Australian audience, who wanted to understand more what RMB internationalisation was all about and what it meant for them as corporates with trading and investment links with China. We were then at an early stage of this long and exciting journey of RMB internationalisation. At that time, the cross-border RMB trade settlement scheme was still a "pilot" and only covered selected provinces in the Mainland. RMB trade settlement handled by banks in Hong Kong was only some RMB100 billion a month, which is less than one-fifth of the RMB600 billion registered in March this year.
3. The offshore RMB market in Hong Kong has indeed achieved phenomenal progress in the past three years. Hong Kong's RMB real time gross settlement system registered an average daily turnover of close to RMB700 billion in April this year, which is about twelve times the level when I visited Sydney in 2011. In the foreign exchange market – another area where activities have picked up sharply – we are seeing an average turnover of RMB spot and forward transactions of some US\$20 billion to US\$30 billion equivalent every day. I also note that remarkable developments have been achieved in Australia, with recent data suggesting that Australia's RMB payments value increased by close to 2.5 times year on year. More broadly speaking, the RMB is now the seventh most used payment currency according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), and the ninth most actively traded currency according to the Bank for International Settlements (BIS).
4. To me, the extent and pace of the development of offshore RMB business depends on three key factors. The first factor is the relaxation of controls and restrictions by the Mainland authorities. The second factor is the availability of the necessary financial market infrastructure, such as clearing and settlement systems. The third factor is the awareness and willingness of corporates and financial institutions, especially banks, to develop RMB business opportunities.
5. Since the RMB trade settlement pilot scheme was launched back in July 2009, the Mainland authorities have incrementally removed many controls and restrictions on the flow of RMB out of and into the Mainland. Presently all trade and current account

transactions between Mainland China and other parts of the world, as well as inward and outward direct investment into and out of China, can be conducted in RMB. Moreover, some cross-border portfolio investment flows, such as investments into China's bond and equity markets, can also be made in RMB via the RMB Qualified Foreign Institutional Investors (RQFII) scheme.

6. More importantly, in April this year the Mainland and Hong Kong authorities announced a milestone project, i.e. the Shanghai-Hong Kong Stock Connect scheme. The scheme, which is to be launched later this year, will allow Hong Kong and international investors to invest in shares listed on the Shanghai Stock Exchange through Hong Kong. At the same time, Mainland investors can invest in shares listed on the Hong Kong Stock Exchange through Shanghai. This unprecedented bridge linking the Hong Kong and Shanghai stock markets will create an additional channel for cross-border portfolio investment flows using RMB. Given all these relaxations and the new schemes permitting cross-border flows of RMB, I think there is ample policy headroom for the offshore RMB markets to develop and flourish. At the same time, we have seen the emergence of the necessary financial infrastructure, not just in Hong Kong but also in many offshore centres, that would facilitate efficient and safe clearing and settlement of RMB transactions in the offshore markets.
7. As I said earlier, the pace of the development of offshore RMB business and markets also crucially depends on the third factor, that is the role that the private sector can and should play in the process. It is not likely that a market can thrive just with policy headroom and financial infrastructure. Banks and other financial institutions must develop their capability to satisfy their customers who have a need or an interest in using RMB. Trading companies need trade finance in RMB. Corporates investing in China need direct or indirect financing in RMB and asset owners need a variety of RMB financial products. Many of them need to use instruments to manage or hedge their RMB exposures. All these RMB related financial services and products can only be developed by the markets and financial institutions because they are closest to their customers and understand their needs best. That is why it is so important for the HKMA to collaborate with our official sector counterparts in Australia to create this private-sector led Dialogue. The first Dialogue was held in Sydney in April last year, which was highly successful. I am very pleased that it is Hong Kong's turn to host the second Dialogue and I am confident that it will be equally if not more successful. I note that today's Dialogue has a very rich agenda and I look forward to hearing useful and practical ideas and suggestions on what the private sector can do on its own or in collaboration with the official sector to further develop the offshore RMB markets in Australia and Hong Kong.
8. Thank you very much.