Eddie Yue: Internationalisation of the renminbi – trends and developments

Keynote address by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the 5th Hong Kong - London RMB Forum, Seminar on RMB Business, Hong Kong, 11 December 2015.

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Katharine [Braddick], Peter [Alexander], distinguished guests, ladies and gentlemen,

It gives me great pleasure to be hosting the 5th Hong Kong – London Renminbi (RMB) Forum. May I extend a very warm welcome to all of you attending this Seminar which forms part of the Forum, especially our guests travelling from London. This annual congregation is a reflection of the importance we place in the long-established RMB business co-operation between Hong Kong and London.

And, the Seminar could not have come at a better time. Just 10 days ago, the International Monetary Fund announced its decision to include the RMB in its Special Drawing Rights basket. Naturally, the Hong Kong Monetary Authority welcomes the announcement as it represents a milestone in the development of the RMB. The IMF's decision reaffirms the Chinese currency's status as a freely usable currency, and enhances the representativeness of the SDR basket. Indeed, based on market projections, the RMB's inclusion in the basket could bring up to US$1 trillion worth of investments in RMB assets by central banks, sovereign wealth funds, supranational organisations, large pension funds and institutional investors over the next five years. More importantly, I believe, the IMF's decision will promote further confidence in using the RMB for international trade and financial transactions, giving more impetus to RMB's internationalisation process.

The IMF's decision therefore represents a key milestone in the RMB's internationalisation. Significant progress has also made in other areas in the cross-border use of the RMB over the past year. And, I see three important trends emerging:

Key trends on RMB internationalisation

First is the continuing liberalisation of the capital accounts with major breakthroughs in new policy headroom granted by the Mainland authorities. The Shanghai-Hong Kong Stock Connect has been in place and operating smoothly since November 2014, allowing international investors access to the A-shares listed in Shanghai through the stock exchange in Hong Kong, and vice versa. The Mainland-Hong Kong Mutual Recognition of Funds scheme was implemented in July this year, allowing Mainland and Hong Kong funds to be distributed in each other's markets through a streamlined approval process. Eligible funds currently going through that approval process are expected to be launched in the market shortly. Since June, offshore banks have also been allowed to conduct repos in the onshore interbank bond market, while since July, foreign central banks, sovereign wealth funds and supranational organisations have been allowed access to the onshore interbank bond market without investment quotas and to conduct a much wider range of transactions. They were also granted access to the Chinese foreign exchange market in September. These have been key steps in liberating the capital accounts.

And there will be more to come. We look forward to the launch of the Shenzhen-Hong Kong Stock Connect, and looking further ahead, the Mainland authorities have announced plans to consider implementing the Qualified Domestic Individual Investors scheme (QDII2) on a trial basis. It's certainly true that individuals on the Mainland have shown a great deal of interest in diversifying their investment holdings. This is an area where we see Hong Kong having a strong competitive advantage, with our strategic location, our expertise in private banking and wealth management business, coupled with our strong client networks on the Mainland. To capitalise on these emerging opportunities, we have been liaising closely with the Mainland authorities on QDII2.The second trend is that not only is Chinese capital “going out”, Chinese companies are also increasingly "going out". Outward direct investments (ODI) by China to the rest of the world amounted to RMB758.5 billion in 2014, a 63% rise over the past five years. And, it’s interesting to note that 16% of these flows are settled in RMB, up from a mere 3.7% in 2011.

This “going out” trend has been continuing for some time, but has been given fresh impetus by the greater desire of Chinese enterprises to diversify into other non-RMB asset classes. New policy measures by the Mainland authorities, notably the ‘Belt and Road’ initiative, has also played a key role. According to the Ministry of Commerce, Chinese enterprises have already invested a total of US$13.2 billion in 49 countries along the “Belt and Road” in the first ten months of this year. The commencement of operations of the Asian Infrastructure Investment Bank is expected to bring about more Chinese capital and companies “going out” over time. Hong Kong’s deep and mature financial markets will be an ideal place for corporates to raise funds for infrastructure projects and manage investments for their ‘Belt and Road’ developments. The capital investment projects are also expected to create new opportunities for the use of RMB in trade and investment activities, giving rise to new opportunities for RMB settlement, financing and asset management in the region.

To ride on these opportunities, Hong Kong has been actively pursuing measures to develop into a hub for corporate treasury centres (CTCs) as Chinese corporates and multinational companies expand their footprints and increasingly demand centralised treasury management. The HKMA has been working closely with the Government to develop a concessionary tax regime to provide a more market-friendly environment for these companies to set up their CTCs in Hong Kong, and the relevant amendment bill was introduced into the Legislative Council last week.

The third trend is that market developments, both in terms of turnover and product range, have picked up momentum in the past year. There is a rapidly growing list of products provided by our banks in Hong Kong to meet their clients’ liquidity, hedging and other business needs in RMB. At the end of April, the daily turnover of RMB foreign exchange transactions in Hong Kong had reached US$93 billion equivalent, more than eight times greater than five years ago. The average daily turnover of Hong Kong’s RMB Real Time Gross Settlement system also exceeded RMB1 trillion recently. Going forward, we should see more products denominated in RMB. This is an area where market participants can play their part and why we also think seminars like this are important in bringing together ideas and looking at solutions.

Building market infrastructure

The HKMA has played a major role in promoting market development, with our strategy focusing on strengthening market infrastructure to support offshore RMB business.

Indeed, liquidity is the linchpin in growing this offshore business and the HKMA has in place a RMB400 billion currency swap agreement with the People’s Bank of China which can be activated when market conditions warrant. In addition, we have made available an RMB liquidity facility to banks which is currently offering intraday repos of up to RMB10 billion, as well as overnight funds on T+0 basis and one-day and one-week funds settled on T+1 basis. We have also appointed seven banks as Primary Liquidity Providers (PLPs) and provided each with a bilateral repo facility of up to RMB2 billion. These facilities have helped banks to better manage their RMB liquidity and played a significant role in offshore market development. These facilities will be reviewed from time to time with the aim of providing better liquidity support to the offshore RMB market.

Hong Kong has also developed a highly efficient RMB clearing and settlement system. As I mentioned, its average daily turnover exceeded RMB1 trillion recently. We will continue to enhance the service capabilities of our RMB clearing and settlement system to keep pace with business growth. Our system will complement the recently launched Cross-border Interbank

Payment System (CIPS) by the Mainland authorities, making RMB business transactions even more convenient.

Conclusion

In conclusion, China's 13th Five-Year Plan for 2016–2020 has reaffirmed its commitment to opening wider to the world, accelerating the opening up of the capital market and developing RMB as a convertible and freely usable currency. Financial centres like Hong Kong and London, with their robust and mature markets, can play a major role in facilitating further usage of the RMB internationally. In this context, the Hong Kong – London RMB Forum is an essential element in sharing our experiences and learning from each other, particularly in the areas of market and product developments.

I wish you all a fruitful seminar.