

News Release

10 August 2016

RMB Internationalisation: The story so far

The rapid emergence of the renminbi on the world stage has triggered a fundamental shift in the international monetary system that has facilitated global trade and investment in recent decades.

It is easy to forget that the renminbi has come a long way in a relatively short time. China kick-started its big plan to internationalize the renminbi only in 2009¹. Since then the Chinese currency has climbed the ladder at a breakneck pace: it was the 35th-most used payments currency in October 2010; today it's among the top five or six^{2,3}.

On 1 October, this year, the renminbi will join the International Monetary Fund's (IMF's) Special Drawing Right (SDR) basket of elite currencies. This is a milestone for the international monetary system: it represents the first major change to the composition of the SDR basket since the euro replaced the Deutsche mark and the French franc in 1999⁴. The inclusion also marks a huge step in the renminbi's transformation from a "domestic" to an "international" currency.

Only about a decade ago the use of the renminbi was largely confined to mainland China. It has since become increasingly "global".

In 2009 China began an ambitious plan to raise the renminbi's profile on the global stage. The first phase of the plan was to expand the currency's role in settling cross-border trade. In 2010 less than 3% of China's trade in goods was settled in renminbi⁵; today, more than one-quarter of China's trade is settled in renminbi⁶.

¹ "From greenbacks to 'redbacks': China kick-starts plan to internationalise the renminbi"
<https://research.uk.hibm.hsbc/midas/Res/RDV?p=pdf&key=75o3c5h6kx&n=245670.PDF>

² <https://www.swift.com/file/16596/download?token=KeiZP3EK>

³ https://www.swift.com/insights/press-releases/rmb-growth-steadies-in-2016_setting-solid-foundation-for-further-internationalisation

⁴ <http://www.imf.org/external/pubs/ft/survey/so/2015/new120115a.htm>

⁵ "The rise of the redback: A guide to renminbi internationalisation"
<https://research.uk.hibm.hsbc/R/10/BKannPFySZdH>

⁶ Trade: RMB24.5849trn; trade settled in RMB: RMB6.3911trn
<http://zhs.mofcom.gov.cn/article/aa/201601/20160101233311.shtml>
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3004953/index.html>
What is the source of the trade figures?

This news release is issued by

HSBC Bank Malaysia Berhad

(Company No. 127776-V)

Registered Office and Head Office:
2 Leboh Ampang, 50100 Kuala Lumpur, Malaysia.
Web: www.hsbc.com.my



The significance of renminbi trade settlement cannot be overstated. It turbocharged the growth of the offshore renminbi pool, paving the way for all the developments to come.

At the end of 2009, there was about RMB 60 billion deposited in Hong Kong; at the end of 2015, there was more than RMB 850 billion⁷. Sizable amounts of renminbi deposits can also be found in Taiwan, Singapore and South Korea.

Today the renminbi is more active than ever, although the US dollar and the euro remain the runaway leaders⁸. Usage of the renminbi for payments between Malaysia and China (including Hong Kong) has increased by 68% over the last 12 months and by 214% over the last three years⁹. For the renminbi to move up in the rankings, it must continue to develop as an investment currency – and it is rapidly doing so.

Numerous cross-border investment channels now allow international investors to participate in China's capital markets. The Renminbi Qualified Foreign Institutional Investor scheme, also known as RQFII, now covers 16 markets, allowing pre-approved participants to buy and sell securities on the mainland. To date, more than 150 institutional investors around the world have been granted RQFII licenses to invest in China's capital markets¹⁰.

“HSBC has been at the forefront of servicing RQFIIs ever since the scheme was first introduced in 2011. Additionally, HSBC was the first custodian bank to service RQFIIs in the UK, Singapore, France, Korea, Germany, Australia, Switzerland, Canada and Luxembourg. As of 30 June 2016, HSBC is the custodian bank for RMB 265.5 billion of investment quota for RQFIIs, equivalent to 52% of the total amount approved by China¹¹.” commented Mukhtar Hussain, CEO HSBC Bank Malaysia.

Meanwhile, the Shanghai-Hong Kong Stock Connect, launched in late 2014, allows foreign institutional and retail investors to trade equities on Shanghai's stock exchange – and their mainland equivalents to trade on the Hong Kong exchange. The Mainland-Hong Kong Mutual Recognition of Funds scheme, which came into effect in July last year, allows eligible mainland Chinese and Hong Kong mutual funds to be offered to both markets.

⁷ <http://www.hkma.gov.hk/eng/market-data-and-statistics/monthly-statistical-bulletin/table.shtml>

⁸ https://www.swift.com/insights/press-releases/rmb-growth-steadies-in-2016_setting-solid-foundation-for-further-internationalisation

⁹ <https://www.swift.com/insights/press-releases/rmb-stands-fast-as-the-second-most-active-currency-in-malaysia-for-payments-with-china-and-hong-kong>

¹⁰

http://www.safe.gov.cn/wps/portal/!ut/p/c4/04_SB8K8xLLM9MSSzPy8xBz9CP0os3gPZxdnX293QwMLE09nA09Pr0BXLy8PQyNPI_2CbEdFAKLWUno!/?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/safe_web_store/safe_web/glxx/hgjwjgtzzmd/node_glxx_jwjg_store/10830c8049dc6f179d02bfed8ff4845d

¹¹ According to data from State Administration of Foreign Exchange – SAFE

As a result of these and other cross-border investment schemes, foreign participation in China's onshore bond and equity markets has increased – though foreigners still own less than 2% of China's onshore bonds and stocks¹². The good news is that China's policy makers are continuing to nudge the door open to more inbound investment flows.

For example in February, it was announced¹³ that offshore commercial banks, insurance companies, securities companies, fund management companies and pension funds would be free to invest in the interbank bond market – the largest of China's three bond markets – provided that they have a “medium- or long-term investment horizon”. That announcement followed one made in July last year, which allowed foreign central banks and sovereign wealth funds to buy onshore Chinese bonds.

By widening access to its bond market, China is paving the way for sizable foreign portfolio inflows. These deregulation measures also serve as an unequivocal statement: the country will continue on the path of reform, raising the international profile of the renminbi along the way.

A decade ago the renminbi was used only in mainland China. Just weeks from now, the renminbi will officially join the IMF's basket of elite currencies, reshaping the international monetary system for decades to come. Much has already been achieved; more will surely follow.

###

Media enquiries:

Marlene Kaur +603 2075 3351
Gerald P A Sim +603 2075 3597

marlenekaur@hsbc.com.my
gerald.p.a.sim@hsbc.com.my

About HSBC in Malaysia

HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group). In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, and HSBC Amanah Malaysia Berhad, a full-fledged Islamic bank wholly owned by HSBC Bank Malaysia, commenced operations in August 2008. HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Amanah Malaysia Berhad also has offsite ATMs established in 25 locations nationwide. In 2006, HSBC was the first foreign bank to be awarded a Takaful (Islamic insurance) license in Malaysia. HSBC Amanah Takaful (Malaysia) Sdn Bhd, a joint venture between HSBC Insurance (Asia Pacific) Holdings Limited (49% shareholding), JAB Capital Berhad (formerly known as Jerneh Asia Berhad) (31% shareholding) and Employees Provident Fund Board of Malaysia (20% shareholding) commenced operations in August 2006.

¹² HSBC Global Research, “China and the world: New Frontiers, Fresh Connections”, May 2016
<https://research.uk.hibm.hsbc/R/10/QGnjNRzySZdH>

¹³ <https://research.uk.hibm.hsbc/R/10/bW2cBPdySZdH>

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group, which serves around 46 million customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. The Group serves customers worldwide from over 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,608bn at 30 June 2016, HSBC is one of the world's largest banking and financial services organisations.