News Release

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Greater China trade and investments to support long-term RMB use in Malaysia

For the renminbi, 2016 was eventful: the RMB garnered reserve-currency status and investment channels into China opened but the reform process has not been totally linear.

Despite headwinds, renminbi internationalisation continues to plough ahead. The RMB is now the eighth-most traded currency as well as the most active emerging-markets currency, according to the Bank for International Settlements. Meanwhile, SWIFT, a network that banks around the world use to move money, recently identified the RMB as the fifth-most used payments currency (it was as high as fourth) and the third-most used trade finance currency (as high as second). The usage of renminbi in 2016 for payments between Malaysia and China (including Hong Kong) increased by 68% over the last 12 months and by 214% over the last three years.[1]

“The renminbi is maturing as an international currency: roughly one-quarter of China’s trade is now settled in renminbi; meanwhile, the range of renminbi-denominated assets that international investors can invest in has expanded significantly, particularly in 2016,” commented Mukhtar Hussain, Chief Executive Officer, HSBC Malaysia.

First, the bond market. Last February, China opened up its bond market – foreign access had traditionally been limited – to real money investors such as insurance companies, asset management companies, and pension funds. This development significantly widened the investor base of China’s bond market, and will make inclusion of Chinese bonds in international bond indices more likely.

Next, the stock market. At the start of 2016, Mainland China was home to two of the world’s largest bourses, but the Shenzhen exchange was largely inaccessible to global portfolio investors. When the Shenzhen-Hong Kong Stock Connect went live last December, it gave international investors access to previously unavailable opportunities to invest in China’s future growth, and will make inclusion of Chinese stocks in global stock indices more likely.

The opening-up of China’s bond market and the launch of the Shenzhen-Hong Kong Stock Connect alter the fundamental structure of not just China’s capital markets, but also the global investment landscape. They are game-changers that will affect the flow of billions of dollars of capital.

Equally – if not more significant to global investment flows is the inclusion of the renminbi in the IMF’s Special Drawing Right (SDR) basket. On 1 October 2016, the IMF officially admitted the Chinese currency into its SDR basket, in effect conferring reserve-currency status upon the renminbi. This seal of approval IMF is recognition that the renminbi is both widely used and widely traded, and that its role on the global stage will continue to expand across the board.

[1] SWIFT

The IMF publishes its next quarterly survey of its members' foreign exchange reserves at the end of March 2017. While we may have to wait until then to learn how much of the world's reserves the renminbi accounts for, we know for certain that its share will rise in the years to come. For central banks and reserves managers will add renminbi-denominated assets to their portfolios to better reflect the role the Chinese currency plays in global trade and investment.

Also in store for 2017 are periodic reviews to include Mainland Chinese bonds and stocks in major benchmark indices. Take stocks, for example. Last June, MSCI once again decided to delay the long overdue A-share inclusion. But we believe that the launch of the Shenzhen-Hong Kong Stock Connect should allay MSCI's concerns over market accessibility and capital mobility in the A-share markets.

The same is true for the inclusion of Mainland Chinese bonds in key bond indices. Sooner rather than later, the world's second-largest stock market and third-largest bond market will receive a more accurate representation in benchmark indices, which will have implications for global issuers and investors alike.

"We believe that FX reform will continue and will make the yuan more flexible. The RMB's stability should continue although gradually depreciating in 2017 to roughly 7.20 by year end, depending on the trend in the US Dollar," added Mukhtar.

"As China and Malaysia strengthen their trade and investment links especially as the Belt and Road Initiative fuels increased infrastructure, trade and other investment projects, we expect that there will be greater interest and subsequently, demand for a range of RMB solutions, including trade settlement, financing, hedging, liquidity solutions, FX and risk management and investments, among others."

As China continues to push ahead with its progressive financial reforms, its capital account opening and internationalising the RMB, HSBC Malaysia will look to provide perspectives that help its customers who do business with China. HSBC Malaysia will host the Asian & RMB Forum in Kuala Lumpur on 27 February 2017 to discuss how China's long-term growth strategy will continue to change the global economic and financial landscape and present prospects for markets that continue to be strongly connected to China, like Malaysia.

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Media enquiries:

Marlene Kaur	+603 2075 3351	marlenekaur@hsbc.com.my
Joanne Wong	+603 2075 6169	joanne.p.m.wong@hsbc.com.my
Gerald P A Sim	+603 2075 3597	gerald.p.a.sim@hsbc.com.my

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