News Release

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Malaysia to benefit from RMBI's regained momentum

Renminbi internationalisation seemed to have slowed in the past year, but behind the scenes China continues to enhance its financial infrastructure so as to increase the global usage of the renminbi.

The cross-border use of the Chinese currency decreased significantly in 2016. According to SWIFT, a network that banks around the world use to send and receive money, the value of international renminbi payments fell by nearly 30% last year.[1]

Offshore renminbi deposits tell a similar story. The stock of renminbi deposits outside mainland China has been shrinking since the beginning of 2015.[2] Renminbi deposits in Hong Kong, the world's largest offshore renminbi hub, totaled RMB 528 billion at the end of April,[3] nearly 50% less than the peak of over RMB 1 trillion that were parked in Hong Kong at the end of 2014.[4]

"The decline in the using and holding of renminbi was not unrelated to concerns over China's economic slowdown, the renminbi's depreciation, and the tightening of cross-border capital flow regulations. Yet against this backdrop, China ploughed ahead with renminbi internationalisation, widening the range of domestic assets that foreign investors can buy and sell," said Mukhtar Hussain, Chief Executive Officer, HSBC Bank Malaysia

First, there is China's stock market. Announced last August[5] and launched within four months,[6] the Shenzhen-Hong Kong Stock Connect allows international investors to trade the shares of smaller, more entrepreneurial companies, whose growth is a critical component of China's economic reform. Via Hong Kong, investors around the world now have direct access to most of the listed companies that are traded on the mainland – an opportunity that was unavailable only three years ago.

Then, there is China's bond market. Last month[7] China announced the establishment of Bond Connect, a trading link that will connect China's bond market with the world. The formal launch of this latest breakthrough in the development of China's bond market looks certain to be the next milestone in the opening-up of China's capital markets. In fact, HSBC Holdings recently completed their first trades using the scheme.[8]

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[1] http://www.scmp.com/news/china/economy/article/2065832/international-yuan-payment-drops-significantly-2016-depreciation
[2] HSBC Global Research, "The rise of the redback VI: Making the right connections", April 2017 https://www.research.hsbc.com/R/10/rdwNKLTySZdH
[3] http://www.hkma.gov.hk/eng/key-information/press-releases/2017/20170531-5.shtml
[4] http://www.hkma.gov.hk/media/eng/doc/market-data-and-statistics/monthly-statistical-bulletin/T030302.xls
[5] https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=16PR81
[6] https://www.hkex.com.hk/eng/newsconsul/hkexnews/2016/161205news.htm
[7] http://www.hkma.gov.hk/eng/key-information/press-releases/2017/20170516-6.shtml
[8] http://www.reuters.com/article/us-hongkong-bondconnect-hsbc-idUSKBN19O032?il=0

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China's rapidly expanding bond market is the world's third-largest,[9] but foreign participation has been limited: international investors own less than 2% of China's government bond market, compared to 10% in Japan, over 25% in the UK, and nearly 50% in the US.[10] The gradual opening-up of China's bond market will offer abundant opportunities to issuers, investors, and all the intermediaries in between.

The three Connect schemes – Bond Connect, Shenzhen Connect, and the Shanghai Connect that launched in 2014 – not only made the inclusion of mainland Chinese bonds and stocks in global indices a reality. (On 20 June 2017, MSCI announced that it would include A shares in its Emerging Markets Index.) They also serve as testimony that renminbi internationalisation is a medium-to-long-term strategy, a view that was most recently reiterated by the People's Bank of China in March.[11]

Despite the decrease in the cross-border use of the renminbi in 2016, the fact remains that China is committed to implementing foreign-exchange and financial reforms; opening up China's economy and financial markets; and promoting the renminbi as an international currency.

The offshore renminbi market may be facing short-term challenges – trade settlement has slowed down and deposits have shrunk – but it remains strategically important. Launching cross-border investment schemes such as Bond Connect will improve the breadth, depth and health of the offshore renminbi market, at the same time providing renewed momentum to renminbi internationalisation.

"Another catalyst comes in the form of the Belt and Road Initiative (BRI). An underlying force behind renminbi internationalisation has been China's growing trade – and its settlement in renminbi. Considering that China's trade with Belt-and-Road countries outperformed its overall trade in 2016,[12] BRI, by improving intra- and inter-regional connectivity, will in the long run boost trade along the Belt and Road as well as the use of the renminbi as a trade currency," explained Mukhtar

"More importantly, BRI will increase the use of the renminbi for financing. Spurred on by the government, Chinese companies are actively participating in BRI projects. By operating in countries like Malaysia that are hosting BRI projects such as the Malacca Gateway project, the Kunming-Singapore high speed rail and the Malaysia-China Kuantan Industrial Park, these companies with their renminbi-denominated balance sheets will increase the local pools of renminbi liquidity. Because countries hosting BRI projects consistently face liquidity shortages in all currencies – and because multilateral financial institutions may not be able to provide sufficient funding – renminbi has a competitive advantage as a financing currency."

Therefore, by increasing the pool of offshore renminbi liquidity as well as the demand for renminbi-denominated bond issuance, the Chinese currency will become more appealing as a store of value. Furthermore, BRI-related infrastructure construction projects will increase the demand for renminbi hedging. Combined with the opening-up of China's onshore bond market, the cross-border use of the renminbi will increase.

[9] HSBC Global Research, "China's bond market: Deeper, broader, more complex", March 2017 https://www.research.hsbc.com/R/10/HtgWtk7ySZdH
[10] HSBC Global Research, "Asian FX Focus: RMB – FX implications of Bond Connect", 18 May 2017 https://www.research.hsbc.com/R/10/lVFG6PpySZdH
[11] http://en.xfafinance.com/html/Dont_Miss/2017/316217.shtml
[12] HSBC Global Research, "The rise of the redback VI: Making the right connections", April 2017 https://www.research.hsbc.com/R/10/rdwNKLTySZdH

“Malaysia which is the gateway to China and ASEAN was one of the earliest countries to recognise the potential role of the greater cross-border use of renminbi. Given China's significance as Malaysia's largest trading partner, and Malaysia as a partner in the Belt and Road Initiative, the settlement of trade and investment in renminbi will significantly lower costs and promote greater cross-border trade and investment activity thus increasing the usage of renminbi. Small and medium enterprises (SMEs) can also minimise exposure to exchange rate fluctuations of USD and reduce the cost of doing business in China by capitalising on the renminbi clearing house. According to recent SWIFT data, the RMB bounced back to its position as the sixth most active currency for global payments with an overall RMB payments value increased by 14.62% compared to April 2017[13]. Renminbi internationalisation is regaining momentum,” concluded Mukhtar.

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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), Jerneh Asia Berhad (31% shareholding) and Employees Provident Fund Board of Malaysia (20% shareholding) commenced operations in August 2006.

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[13] https://www.swift.com/file/42431/download?token=WMTMqhU_