

The pivotal role of Hong Kong in the offshore RMB market

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HONG KONG MONETARY AUTHORITY

Outline

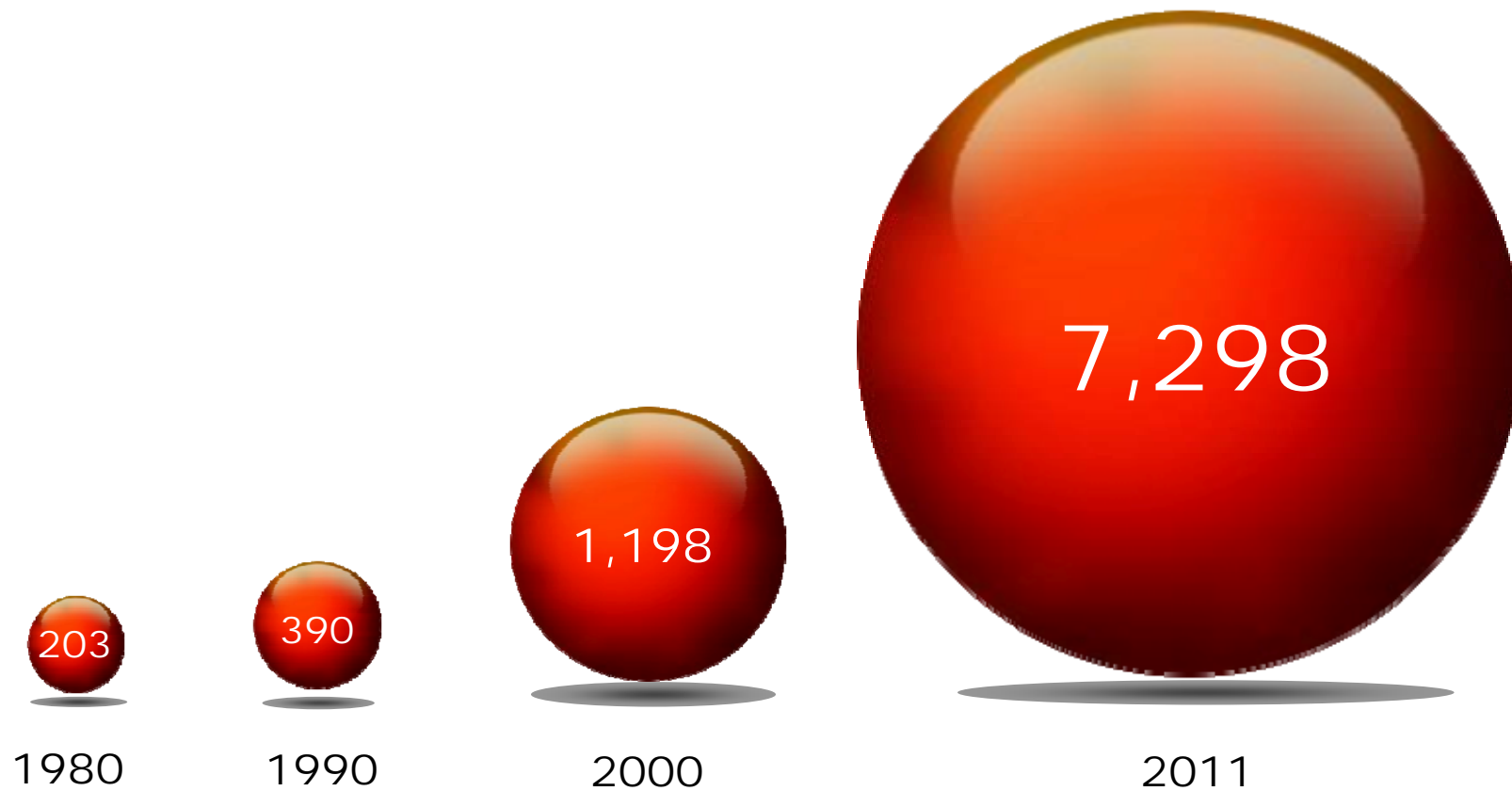
I. China's Growth Story and RMB Internationalisation

II. Hong Kong's Role

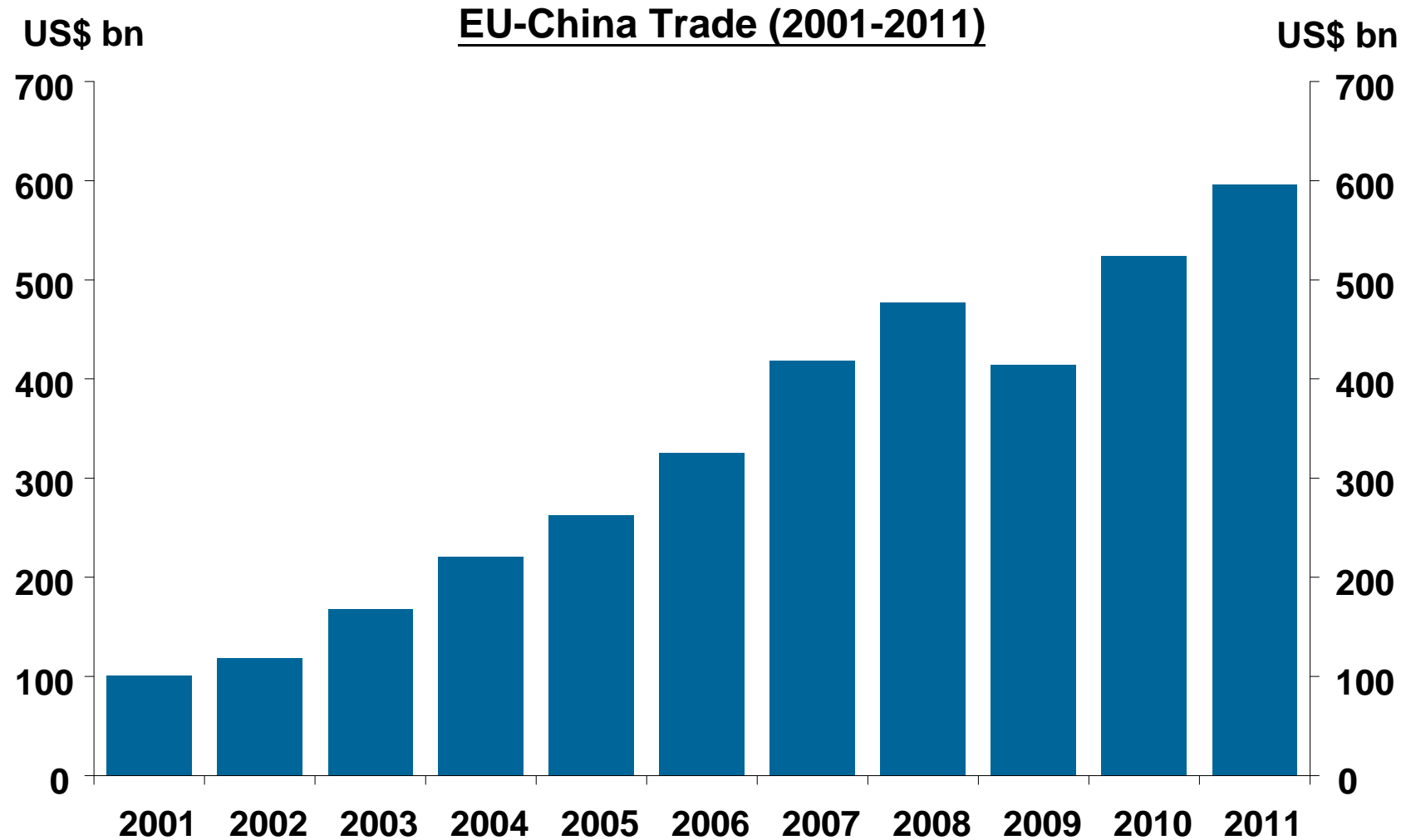
- Gateway for China's Trade and Investment
- The RMB Dimension
- Development as Global Hub for Offshore RMB Business

China's Growth Story

China's GDP in US\$ bn

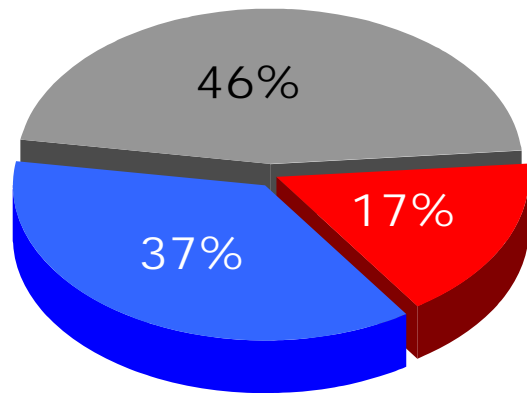


China as EU's Second Largest Trading Partner

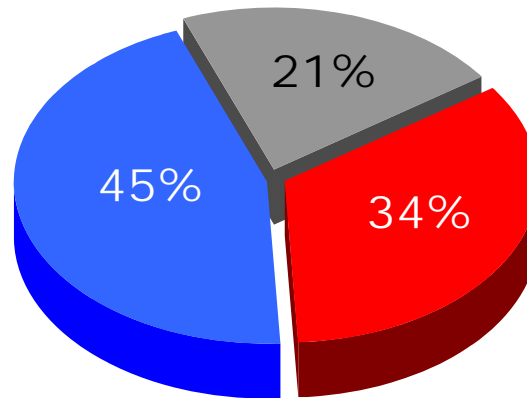


Sources: Eurostat and staff calculation

China: Key Source of Global Growth



1991



2011



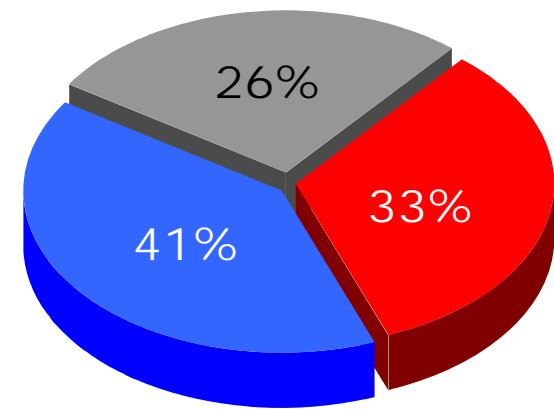
China



Other emerging and developing economies



Advanced economies



2017*

* IMF projections based on WEO database April 2012

RMB Internationalisation: A New Era for China's Growth Story

Trade Settlement

- Pilot scheme introduced in 2009
- By now, all of Mainland China's external trade and current account transactions can be settled in RMB
- % of China's trade settled in RMB: **2010: 2% → 2011: 8%**

Direct Investment

- Rules for using RMB for inward and outward direct investments to and from China promulgated in 2011
- % of China's direct investments settled in RMB in 2011:
FDI: 12% ODI: 5%

Portfolio Investment

- Offshore commercial banks and monetary authorities allowed to invest in China's interbank bond market since August 2010
- RMB Qualified Foreign Institutional Investors (RQFII) scheme launched in December 2011

Hong Kong's Role

- **Vice Premier Li Keqiang** (17 August 2011 in Hong Kong):

“ It is in both Hong Kong’s and China’s needs that Hong Kong continues to bring out its long-established unique advantages and play its irreplaceable role in the Mainland’s reform, opening-up and modernisation. ”

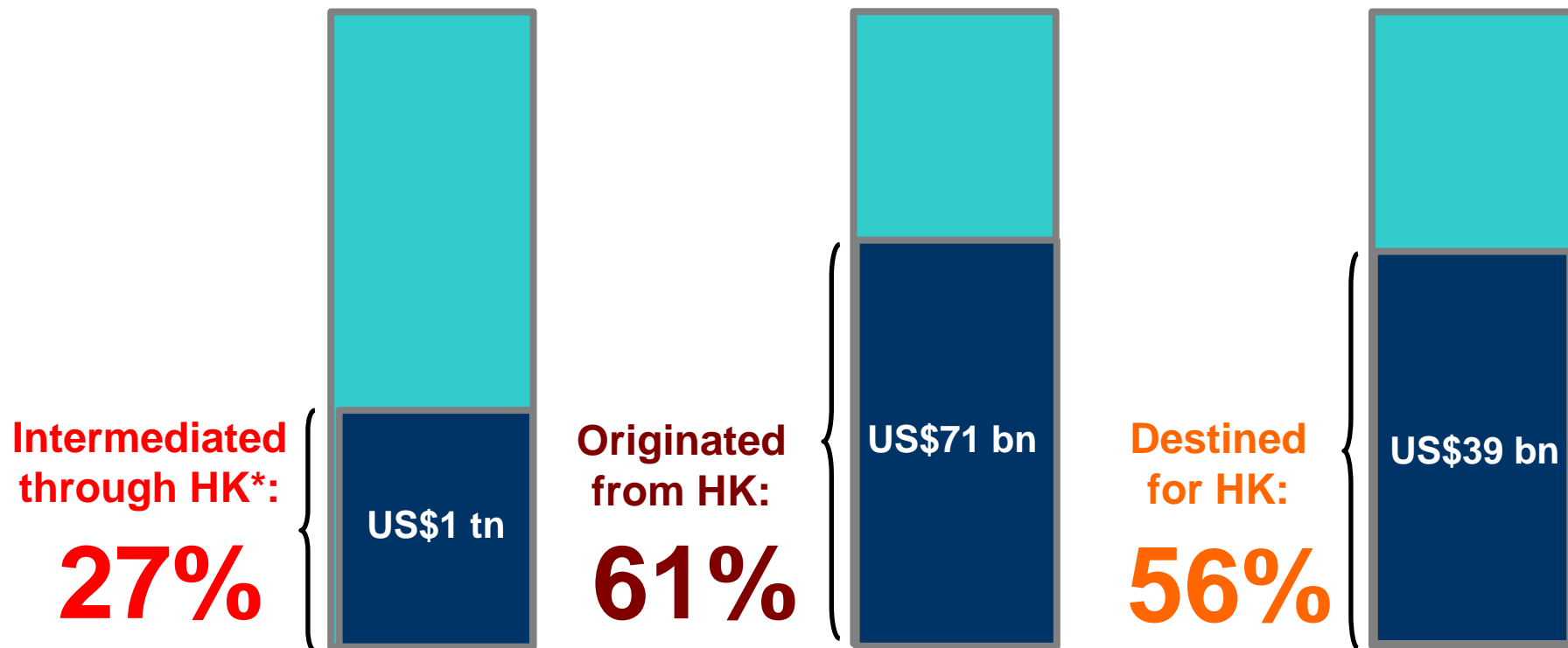
- **China’s 12th Five-Year Plan: Supports development of Hong Kong as offshore RMB business centre**

Hong Kong: Long-Established Gateway for Trade and Investment with China

China's Trade
US\$3.6 tn

FDI into China
US\$116 bn

ODI from China
US\$69 bn



*including re-exports and offshore trade

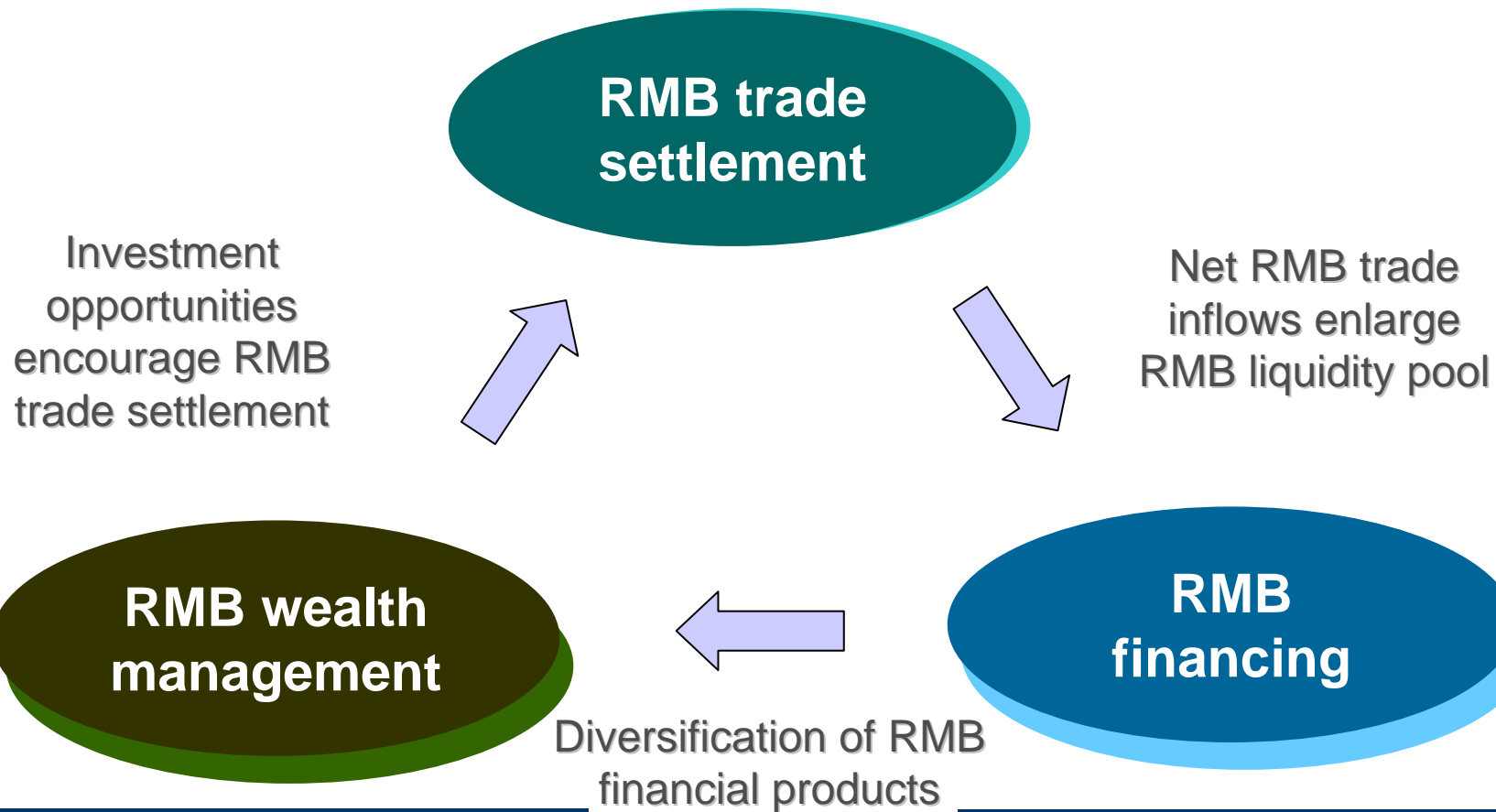
Trade and FDI: figures in 2011; ODI: figures in 2010

Hong Kong's Role: The RMB Dimension

- Pioneer in developing offshore RMB business since 2004
- Full fledged RMB financial infrastructure in place
- Pivotal role in facilitating trade and investment activities between China and rest of the world as they expand and are increasingly conducted in RMB

Key Elements of Hong Kong Offshore RMB Market

Expanded RMB Trade Settlement Scheme



RQFII and Interbank bond market

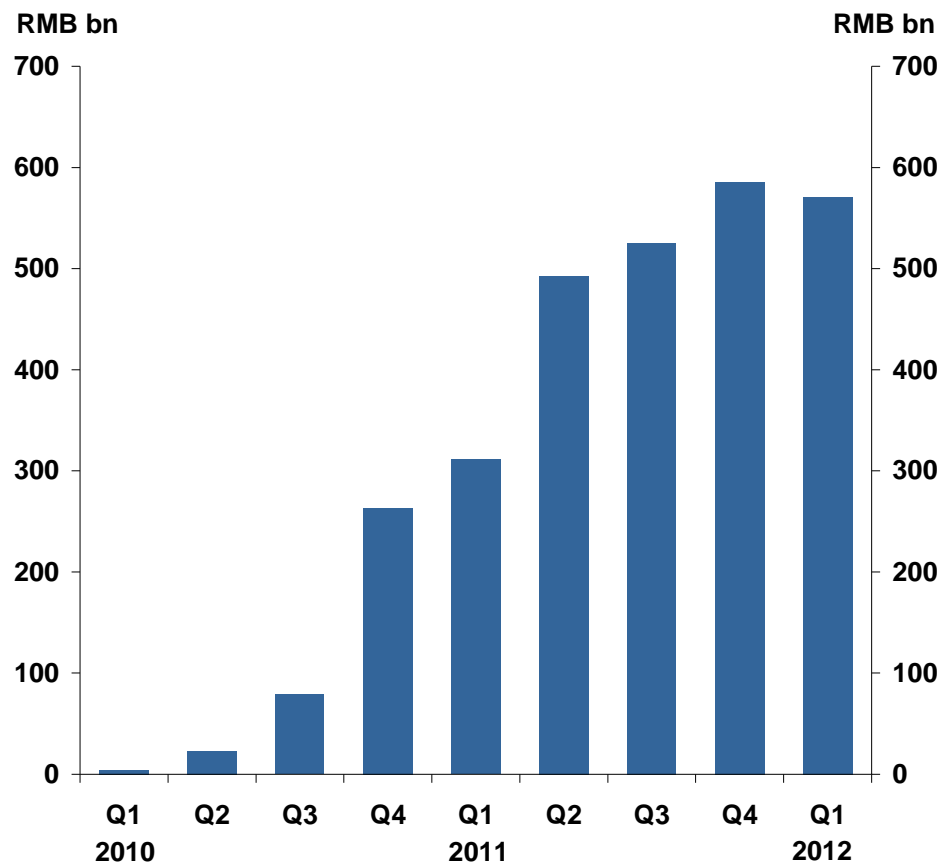
RMB FDI & ODI

A Four-Dimensional Global Hub for Offshore RMB Business

- RMB trade settlement
- RMB liquidity and financing
- RMB wealth management
- RMB payment and correspondent banking

Hong Kong: Global Hub for RMB Trade Settlement

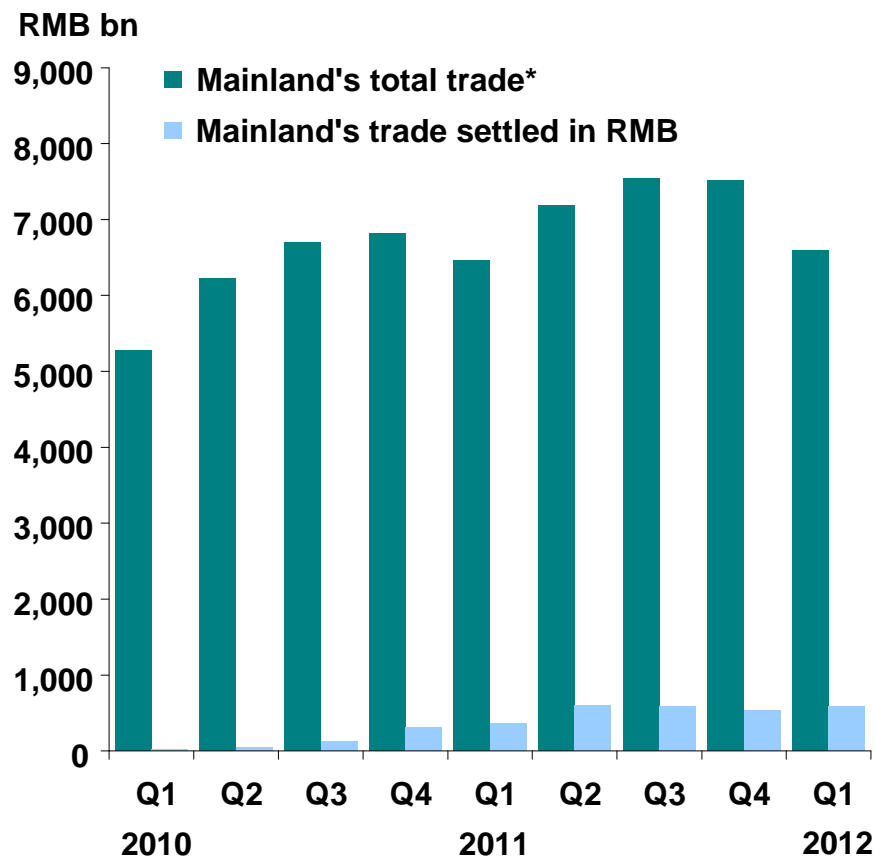
RMB trade settlement handled by banks in Hong Kong



(RMB bn)	2010	2011
Mainland's total trade settled in RMB	506	2,081
RMB trade settlement handled by banks in Hong Kong	369	1,915

Potential for Growth: RMB Trade Settlement

Progress to date



* Including goods and services trade and other current account items

Potential

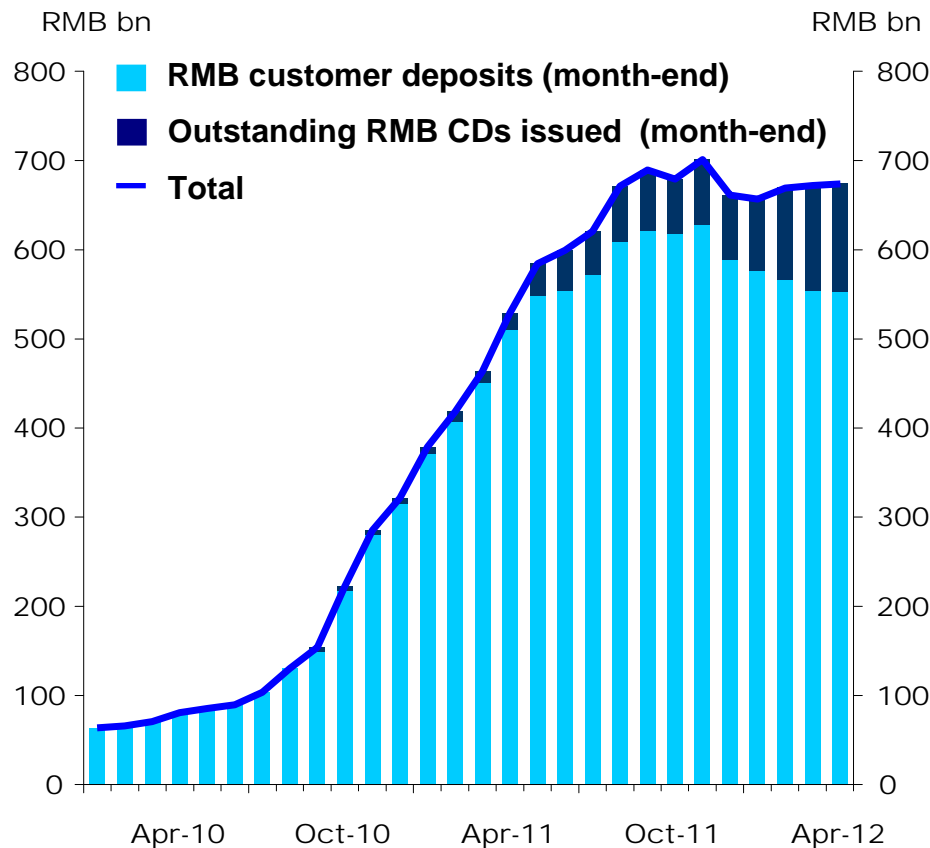
- **% of Mainland's trade settled in RMB (2011): 8%**
- **% of trade settled in local currency:**
 - Japan: 32%
 - EU: 50-60%
 - US: 80-90%

Footnote:

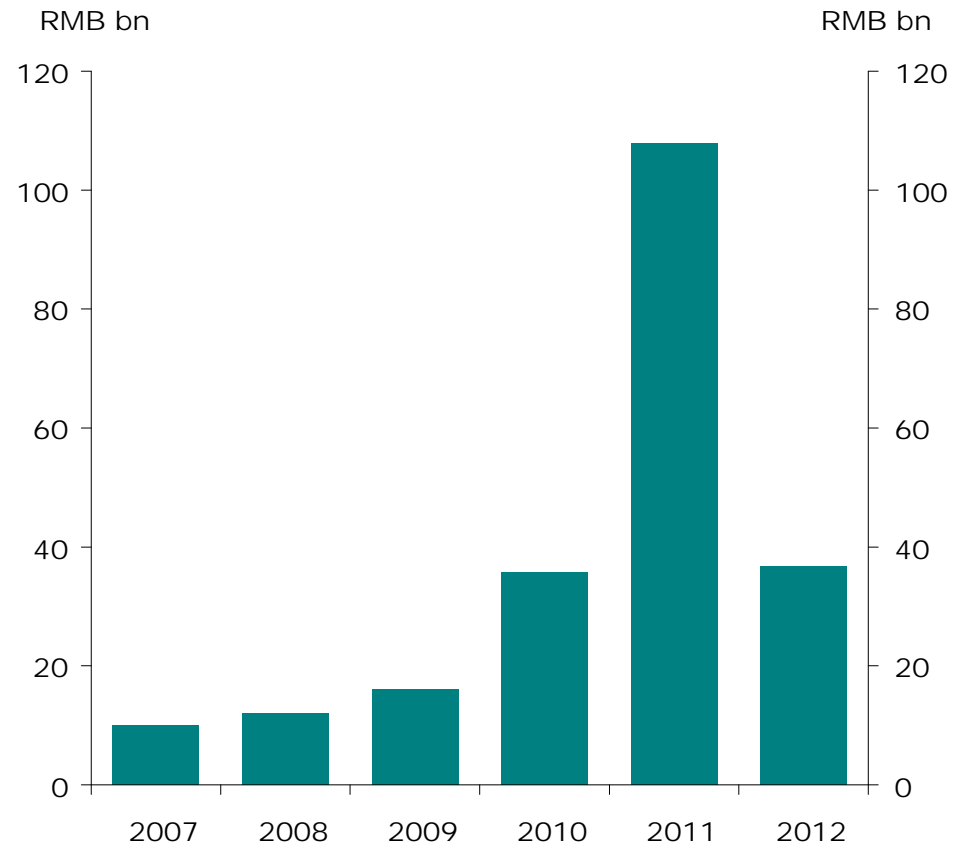
- 2009 figures for Japan and US
 - 2007 figures for EU
 - Sources are from IMF, ECB, MOF Japan and HKTDC

Hong Kong: Global Hub for RMB Liquidity and Financing

RMB customer deposits and certificates of deposit (CDs)

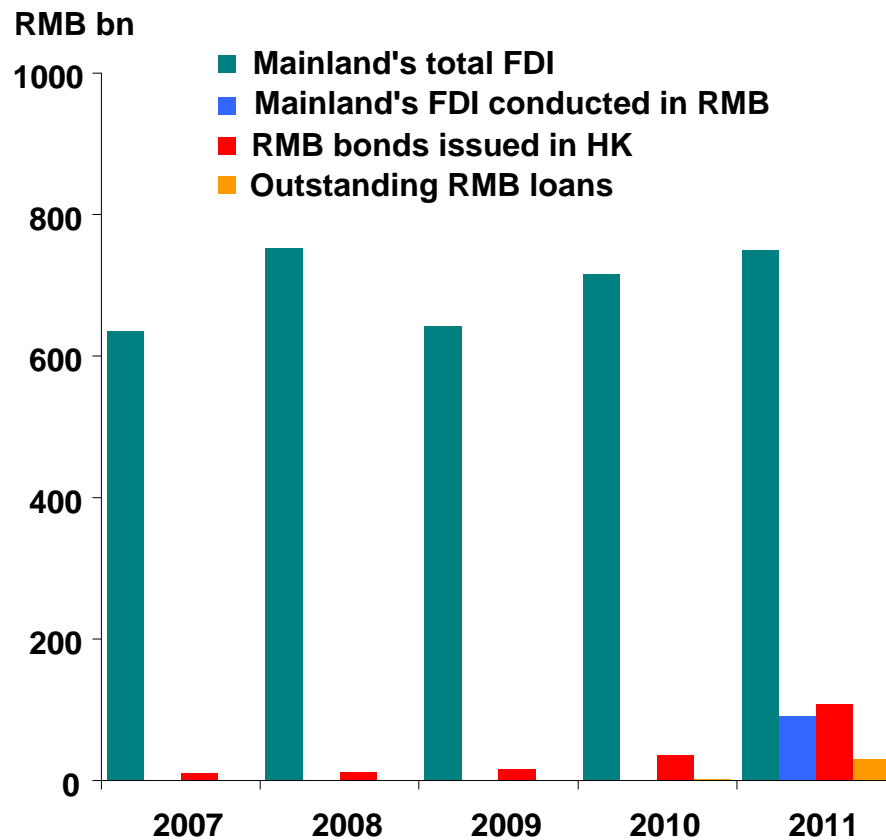


RMB bond issuance in Hong Kong



Potential for Growth: RMB Financing

Progress to date



Potential

- Increasing proportion of FDIs in RMB
- More demand for RMB financing through bond issuance or bank lending

Hong Kong: Global Hub for RMB Wealth Management

- RMB products available in major asset classes:
 - Cash (RMB deposits)
 - Fixed Income
 - Equity (REIT listed in Apr 2011)
 - Insurance
 - Derivatives (Offshore deliverable RMB options)
 - Commodities (RMB Gold ETF)

Hong Kong : Global Hub for RMB Payment and Correspondent Banking

Efficient RMB Clearing Platform and Correspondent Banking Network

- RMB RTGS System daily turnover (2011): **RMB 114 bn (US\$18 bn)**
- Payment-vs-Payment (PvP) capability: **RMB vs USD and EUR**
- Extended operating hours: **HK Time 08:30 to 23:30 (UK Time 01:30 to 16:30)**
- **194 banks** participate directly in Hong Kong's RMB clearing platform
- **Over 1,000 correspondent accounts** opened by overseas banks

Mutually Beneficial Collaboration with London

- Hong Kong will continue to be an ideal place for companies to conduct RMB activities while serving a growing network of financial institutions around the world
- Hong Kong-London Forum to promote cooperation, in the areas of RMB liquidity, payment and settlement arrangements and development of products and services

Key Action Points from 1st Meeting of the Hong Kong-London Forum

- To enhance support for corporates conducting RMB trade settlement, and to increase awareness and preparedness for RMB opportunities
- To take fuller advantage of extended operating hours of Hong Kong's RMB RTGS system
- To expand cross-market RMB funding activities, with a new cross-border collateral management arrangement developed by HKMA, JP Morgan and Euroclear
- To provide direct quotes of RMB against GBP and EUR

Concluding Remarks

- **RMB:** A new era for international trade and finance
- **Hong Kong's Role:** Global hub for offshore RMB activities facilitates access by corporates and financial institutions