#### The Rise of the Renminbi

[Brian Caplen, Editor, The Banker]

There's huge interest in the development of the renminbi as a market for both trade payments and for issuance by big companies. And this was a chance for corporate treasurers particularly to come and talk to see the people in the renminbi business and capital markets business and the payments business about the whole development of the market. Because, you see the thing is that China has a huge economy. It's like the second largest economy in the world. It's the biggest exporter. When you look at it's share ... the share that the Chinese currency – the renminbi – has of the total foreign exchange turnover, it's only about 0.45 per cent of the total turnover. And over the last couple of years, we've seen China liberalising the use of its currency so now we're seeing the renminbi used for trade settlement, accounting for that 10 per cent of China's trade.

So I think the advantage of an event like this was, it was a chance for companies that are doing business with China – whether it's trading with China or investing in China – to come and hear views from experts, lawyers, consultants and bankers about, you know, the policies that are affecting the market and also the legal standing of some of the financial instruments that are being used. And we had two great panel discussions this morning and I think we examined some of those issues fairly closely, and sort of improved everybody's knowledge of the business.

[Qu Hongbin, Chief Economist, Great China, at HSBC]

The pace of the renminbi internationalisation has been much faster now and broader than expected in the last few years. We expect this trend will continue. Within the next two to three years, we expect the renminbi to become one of the top three global currencies being used in the global trade. We believe this will have significant implications for all the major financial markets, including London. Now, London is already the offshore market for many currencies. We think that London has a very good chance to become one of the major offshore centres for the renminbi as well.

[Candy Ho, Head of RMB Business Development for Asia-Pacific]

Judging from the experience that we have in Hong Kong, we started the renminbi business in '03, and it reached critical mass in 2010. From that experience, I think London can become a mature offshore centre in, you know, anywhere between three to five years' time.

[Chris Jones, Global Head of Local Currency Syndicate, HSBC Bank plc]

I think that the development of London as the next international offshore centre for the renminbi is very important. I think, in my view, it's likely to take about three to five years or so, but it's really going to be in tandem and hand in hand with the international investor participation in these products. I'm a bond product guy and interestingly I see a large number of investment managers setting up dedicated dim sum bond funds. And surely about connecting the products with the international investor community, once the international investor participation develops, we will see the product base gravitate towards London as its established base of international investment products.

### The Rise of the Renminbi (continued)

[Paul Gooding, Head of European RMB Business Development, HSBC Bank plc]

While its widely forecast to be three to five years before London becomes the next offshore RMB centre, personally I think the next year is key. I think while it's currently a hot topic, that's why we need to educate individuals and customers about the products, services and capabilities that London can offer.

### [Hongbin Qu]

In the market over the last few years when it comes to the renminbi there's really two stories. One is about the renminbi's appreciation. We heard a lot of stories, some people even getting fed up with all these kind of stories, about how much the reminbi is going to appreciate. Another story, of course, is about the process of renminbi internationalisation. In my view, the first story is going to be a boring story. The renminbi appreciation story is over. But the second story, which is the rise of the renminbi, renminbi internationalisation, is going to be far more exciting than most of the people even expected.

As we all know, China is already the world's number one exporter; number two importer. In two to three years' time, China will become the world's largest importer/exporter, but at the same time, China is likely to be one of the major global investors as well. So, now, if London can manage to develop an offshore renminbi business, that clearly is going to create huge new opportunities for the London financial communities as well as providing a greater help to the UK's economy as well.

### [Candy Ho]

The implications for London to become the next offshore centre will clearly bring in more business opportunities for the banks and the private sector's corporates in London and the UK. And also I think, you also attract a lot more investors coming into London to invest in the renminbi internationalisation and the renminbi investment products. So, all in all, I think there's a huge opportunity from a business perspective as well as, you know, in the other accelerated business opportunities that were associated with these opportunities.

#### [Hongbin Qu]

The trade surplus as per cent of GDP back in year 2007 is over 8 per cent. It has, over the last few years, it has been declining continuously; end of last year, China's trade surplus just account for 2 per cent of the GDP. The current account which includes service is slightly bigger but it has also come down from over 10 per cent back in the year 2007 towards to 3 per cent. So at 2-3 per cent of trade surplus, GDP, which is basically significantly less than a few years ago. For many people, you use the trade surplus as a proxy for the undervaluation of the renminbi, I never basically buy this argument. But nevertheless, even if you use this benchmark, at least most of the people, most economists can agree that the degree of the renminbi's undervaluation is much less now compared with pre-crisis.

#### The Rise of the Renminbi (continued)

[David Bloom, Global Head of Foreign Exchange Strategy, HSBC Bank plc]

There's a lot of talk about London being an offshore renminbi centre, but one forgets that London is already trading all the renminbi crosses. So this has got a dimension outside of the financial markets at the moment but as far as financial markets are concerned, there is no clearing bank for renminbi but we are trading in HSBC trades all the crosses in London. So perhaps there's a political dimension to it but from an investment dimension, London is already open for business as far as the renminbi is concerned.

As a global trading currency of goods and services, the renminbi is a global currency. End of the story. It'll be top three in a few years' time, but we are going now on the internationalisation; on the functional proposition we're moving to phase two, an investment currency. That's where we are. That's why we see dim sum markets; that's why they talk about ETFs; that's why they talk about deliverable instruments; that's why we got the CNH, you know, a deliverable currency. You put your card in one of those cash machines and they'll ask you do you want in Hong Kong dollars or renminbis. And the taxi driver in Hong Kong will take renminbis because they are now have more worth than Hong Kong dollars.

The question of the renminbi as an investment currency is absolutely fascinating; and the point is because this is phase two of China's expansion. Phase one, become a world trade currency; that's done. Phase two, become an investment currency, move towards opening up your capital accounts. So that is what we are witnessing. That is what's under way at the moment. So you can't see the path because you're walking on it. But once we walked it, we'll look behind us and we'll see that we're witnessing at the moment China moving towards the renminbi and China being an investment currency.

What makes the dollar the reserve currency of the world? Is this because of its value? No, this is the proposition of value versus function. That the dollar has this special function. You will phone HSBC up, you say I want to sell Singapore dollars and buy South African rand. What happens? At the end of the day, someone says to you, didn't you trade the dollar, the US dollar today? And your answer is, no, I sold Singapore and bought rand. Wrong. You sold Singapore; you bought dollars. You sold dollars; you bought rand. That is the gateway through which you have to trade because no relationship exists between Singapore and South Africa.

#### [Candy Ho]

I think the renminbi will become the third largest trading currency in the world in the near future and an important international currency. Investors will look to diversify their existing holdings in US dollars or euro, and look for opportunities in this new currency, renminbi. So it will be increasingly important for investors to look for investment opportunities and clearly now we've seen products being developed in the offshore renminbi markets have given the investors a choice to diversify their risk.

### [Chris Jones]

I think if the offshore dim sum bond market is gonna grow, we need to continue to develop international participation. This has both challenges and opportunities. What we see is a relatively small market when compared to the domestic onshore market, about two-and-a-half per cent of the domestic bond market of the total, but we're forecasting that it's gonna grow beyond 5 per cent in 2012. I think for increased international participation, we need to see larger, much more liquid deals; continued issuance by the sovereigns into the offshore market. We've seen them active once or twice a year but this needs to continue to develop to a much more developed and liquid risk-free curve. I think once that happens and we continue to see the deregulation, if you like, of the renminbi market and the collapse of capital controls between on and offshore. This is when we'll truly see an international renminbi bond market.

What I'd like to specifically talk about is the renminbi bond market. I appreciate that there may be specialists here, there may also be generalists or individuals who are new to this market. So what I'd like to do before I start with anything is talk about a framework. Whenever we look at anything new or a new bond market, we need to consider this kind of criteria here above maybe; is it a large market or is it small? I think the answer to that question is probably both, as is everything with China, it's all expressed in superlatives. Is it rapidly growing or stable, etcetera. We've talked about supply and demand and then the liquidity of the market as well. Perhaps, more interestingly to the audience here today, does it present a compelling investment opportunity? Or for the corporate treasurers here today, is it also a market which they can tap for further demand to actually raise the renminbi or alternatively on a more tactical nature, swap back to a G3 currency.

### [Paul Gooding]

I think the key to London further developing its RMB financial infrastructure is the clearing systems. While Hong Kong currently, as of June, agreed to stay open until half eleven. Going forward, as London's capacity grows, that may not be enough for us to bring in US business. So it's something I think we need to look at.

### [Chris Jones]

But for it to be relevant and valid, you're really going to think about knocking down these capital controls as is likely to be happening in the future, in the coming years rather than months, of course. And then you're gonna have a much more international participation in this market. You're gonna have the world investor base being able to access the pool of domestic as well as the offshore instruments as well. So I think that for any participant, whether or not you're an issuer or an investor, you need to keep your eye on this market. It's gonna continue to grow and continue to be more relevant on the world stage.

### The Rise of the Renminbi (continued)

[Stephen Timewell, Editor Emeritus, The Banker]

I think the highlights today were again the emphasising of the role – the increased role – of renminbi, which is becoming more and more prominent through more issues and such. But it's advertising that fact globally and mentioning issues of London; mentioning issues of China; using it more for trade; I mean these discussions today, of China doing 10 per cent of its trade in renminbi. In a few years' time, it will be doing 30 per cent, that was mentioned today. It's interesting to hear, and interesting how that will affect global balances all around really. So it's important again for people around the world to realise the growing importance of China and the renminbi, it's as simple as that. The more one gets that message across, the better.