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YUAN TRADE SETTLEMENT SURGES ON ARBITRAGE, MORE PARTICIPANTS

BY MICHELLE CHEN

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Cross-border trade settled in the yuan currency has surged due to growing arbitrage activity and more participation from multinational companies. Yuan trade settlement, a scheme Beijing initiated four years ago as a forefront to promote the international use of its currency, accounted for a record 16 percent of the economy's trade in February, compared with an average of 12 percent in 2012.

More companies are making use of the difference between onshore and offshore yuan foreign exchange rates to do arbitrage, contributing to the rising yuan trade volumes, analysts and traders said.

The spread between the onshore spot yuan <CNY=CFXS> and the offshore equivalent <CNH=D3> began to widen in November after the two curves converged for most of last year, due to strong yuan appreciation expectations backed by a recovering economy.

In this case, it is advantageous for Chinese importers to bring the yuan to the offshore market and buy dollars there to make payments, said Ngan Kim Man, head of RMB business strategy and planning department at Hang Seng Bank.

"Whatever this activity is defined as, arbitrage or cost saving, you have to let companies enjoy some benefits by taking part in the yuan trade settlement program; otherwise, they just will not give it a try," Ngan said.

The width of the gap is one of the key factors corporates take into consideration when they decide where to conduct these transactions. Theoretically, the bigger the gap, the more incentive they will have to move to a more favourable market.

The spread between onshore and offshore spot yuan rates extended to over 400 basis points (bps) earlier this year with the offshore rate having a premium, a level that had not been seen since January 2012.

The swelling trade flows in yuan are also shored up by more participation from multinational companies, especially after Singapore and Taiwan were granted yuan clearing banks last month and as competition among offshore yuan centres intensifies.

Yuan payments through Singapore rose an impressive 30 percent month-on-month in January and those through London grew even faster at 40 percent, keeping the European financial hub at the top of the list for yuan payments along with Hong Kong and China.

"We are seeing lots of clients converting to RMB for their trade settlement invoicing with China," Michael Vrontamitis, head of product management, East, at Standard Chartered's <2888.HK><STAN.L> transaction banking department told Reuters.

"Many clients are moving from the understand phase to execution and increasingly global multinationals are taking the plunge."

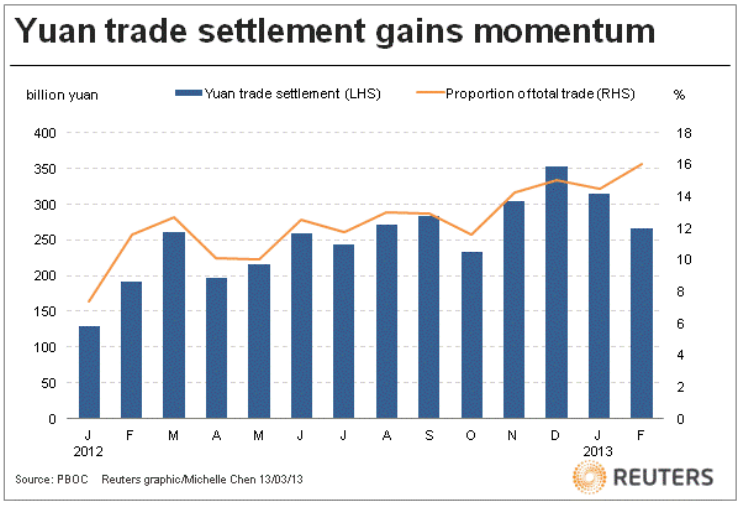
HSBC expects 30 percent of China's total trade flow, or around 50 percent of bilateral trade with emerging market countries, to be settled in yuan within the next three years, which would make it one of the top-three currencies used in global trade.

The yuan is now ranked the 13th most widely used world payment currency after surpassing the Russian rouble in January with an all-time high market share of 0.63 percent, according to global transaction services organization SWIFT.

More and more analysts believe that China will let the yuan become fully convertible within the next five years, a step forward to lifting the redback to a similar global status to the greenback.

CHART OF THE WEEK

Yuan trade settlement gains momentum: http://link.reuters.com/rep66t



LEAGUE TABLES

YTD Dim sum bond issuance

Bookrunner	Amount Rmb (m)	Number of issue
HSBC Holdings PLC	11,545.2	34
BNP Paribas SA	6,091.0	20
Standard Chartered PLC	5,178.1	15
National Australia Bank	2,000.0	3
Bank of China Ltd	1,876.7	2

Based on Thomson Reuters data as of March 14, 2013

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WEEK IN REVIEW

- Taiwan's central bank is considering loosening regulations on yuan trade settlement, two sources close to the matter said, in order to encourage companies to use the Chinese currency for business with counterparts on the mainland.
- China and Taiwan could discuss the establishment of a currency swap line if necessary, said Yi Gang, vice governor of the People's Bank of China. Whether some global financial centers could become offshore yuan centers was a result of competition and determined by market demand, Yi added.
- Russian Standard Finance [SA RUSTF.UL] re-tapped the offshore yuan bond market and raised 750 million yuan through a two-year bond. The bond, pursued by 73 investor accounts with 2 billion yuan in order books, was finally priced at a yield of 7.274 percent, according to a term sheet seen by Reuters on Thursday.
- The Standard Chartered Renminbi Globalisation Index (RGI) reached a high of 809 in January, up from 748 in December. This translates into month-on-month growth of 8.2 percent, the fastest growth rate since Singapore and London were included in the index in the second half of 2011.
- China said it will allow Hong Kong, Macau and Taiwan residents living or working in the mainland to open A-share accounts and invest in its domestic stock market from April 1. There are about 450,000 residents from Hong Kong, Macau and Taiwan living in the mainland according to a national census conducted in 2010.
- China's central bank has agreed with the Singapore central bank to double a bilateral currency swap arrangement to 300 billion yuan in the latest move to boost trade and investment between the two countries. The maturity of the extended currency swap will be three years and the two sides can extend it further if needed.

(Editing by Kim Coghill)

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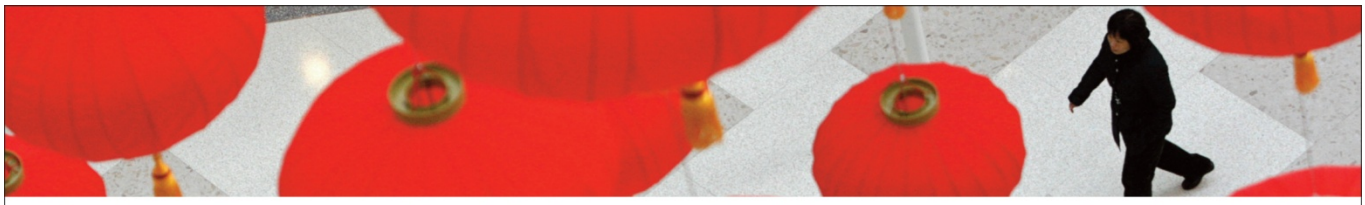

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