

MORE TRADE PAYMENTS SETTLED IN YUAN

BY SAIKAT CHATTERJEE

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As the offshore yuan project marks a three year anniversary this month, there are signs that use of the Chinese currency to settle trade payments has regathered momentum, helped by further easing of restrictions on cross-border flows.

Growth in the use of the yuan moderated last year and early this year, after an explosive start following a landmark agreement between China and Hong Kong in July 2010 that laid the foundations of the offshore yuan market.

The amount of China's total trade settled in yuan, or renimbi as it called offshore, surged from 3 percent in 2010 to 9 percent in 2011, but after that six percentage point gain it only increased three percentage points to 12 percent in 2012, and barely rose in the first quarter of this year. ([Full Story](#))

While the slowdown in yuan trade settlement was a lack of reach outside Asia, with Hong Kong accounting for nearly 80 percent of transactions, along with restrictions on cross-border flows, bankers say recent reforms should boost yuan trade.

Changes such as a pilot quota scheme announced in March that allowed a handful of foreign companies operating in China to move funds freely across borders is boosting trade volumes and encouraging other foreign firms to settle trade in yuan.

Latest data from the Hong Kong Monetary Authority shows that monthly flows for cross-border trade jumped 16 percent in May from a month earlier and transaction bankers also report a gradual rise in yuan trade volumes in recent months.

"We are starting to see dialogue with companies move from a 'what is in it for me' stage to 'how can we do this' stage and some large companies are starting to come through finally," said the head of Asia transaction banking at a European bank in Hong Kong.

A cash squeeze in the mainland in recent weeks may have made some firms reluctant to use yuan to settle payments, but that appears to have been a temporary impediment as money market rates have come back down.

Redenominating Chinese trade in the yuan versus U.S. dollars has always been the primary goal for Beijing and analysts expect the recent wave of reforms to boost yuan trade settlement.

HSBC expects trade in yuan to cross the 30 percent mark by 2015, ultimately paving the way for full yuan convertibility.

"We have seen the yuan internationalization trend register impressive growth in recent years and we expect it to continue at a strong pace," said Lisa O'Connor, RMB Director at Society for Worldwide Interbank Financial Telecommunication (SWIFT).

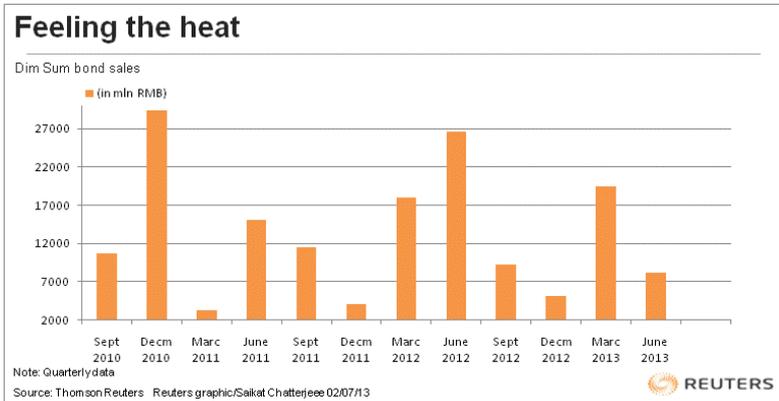
The Brussels-based consortium, that handles most international bank payments, ranked the yuan 13th among currencies used for international trade payments in its June report. But SWIFT expects the yuan to overtake some more established Asian currencies like the Hong Kong and the Singapore dollars, respectively ranked 11th and 8th.

A more globalised yuan will present opportunities for global banks and international payment consortiums, while China has its own plans. A yuan clearing system operated by the People's Bank of China, named the China International Payments System (CIPS), is expected to be introduced later this year or in early 2014.

CHART OF THE WEEK

Quarterly dim sum bond sales: <http://link.reuters.com/rev39t>

After topping 55 billion yuan in issuance in the first quarter of 2013, yuan-denominated bond sales plunged in the second quarter as expectations of yuan gains faded and worries of rising U.S. interest rates made global investors less interested.



LEAGUE TABLES

YTD Dim sum bond issuance

Bookrunner	Amount Rmb (m)	Number of issue
HSBC Holdings PLC	35,782.8	97
Standard Chartered PLC	18,373.0	54
BNP Paribas SA	14,871.3	49
Industrial & Comm Bank China	3,526.7	10
Bank of China Ltd	2,826.7	5

Based on Thomson Reuters data as of June 27, 2013

WEEK IN REVIEW

- **Tough love.** In his first public remarks since a cash crunch seized onshore and offshore markets last month, Zhou Xiaochuan, governor of the People's Bank of China said it would adjust liquidity to keep the financial markets stable. ([Full Story](#)) The cash crunch onshore had raised overnight borrowing costs for banks and hurt investor demand for a jumbo bond sale by China's Ministry of Finance in Hong Kong last week.
- **New fix.** Taiwan's central bank is planning to introduce its own reference rates for its yuan market, two sources familiar with the matter said this week, following a similar move by Hong Kong last month. Taiwan's central bank will work with banks to create fixings on the yuan exchange rate and interest rate which may be introduced in two to three months, they said.
- **Squeeze eases.** A kink in the very short-end of the funding curve which had made one-week borrowing costs over 2 percentage points more expensive than one-year costs has begun to disappear gradually.
- **Equity offerings.** Yuan listed shares in Hong Kong could resume after a long gap, the South China Morning Post reported earlier this week citing PWC executives. Despite regulators' efforts to encourage foreign investors to put money in yuan bonds, they remain reluctant due to the lack of liquidity.

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(\$1 = 6.1308 Chinese yuan)



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