

# Leveraging RMB Opportunities

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Increasingly, we are seeing corporates becoming more interested to explore new arrangements to take advantage of China's desire and initial steps to internationalise the (Renminbi) RMB. While there is certainty in the direction to internationalise the RMB, there is a lack of clarity in the regulatory position on the use of off-shore buying centres settling in RMB for pure on-shore trade. Additionally, other than moving the settlement of RMB-denominated trade away from China, the use of RMB is still limited due to insufficient investment and treasury products in the market

Within this context, the internationalisation of RMB provides a unique opportunity for banks to take a leading role to deliver value added services to corporate clients and help them address the challenges of using the RMB as a key currency. Corporates also want to know what the next steps are in using RMB as a primary currency and as further deregulation continues.

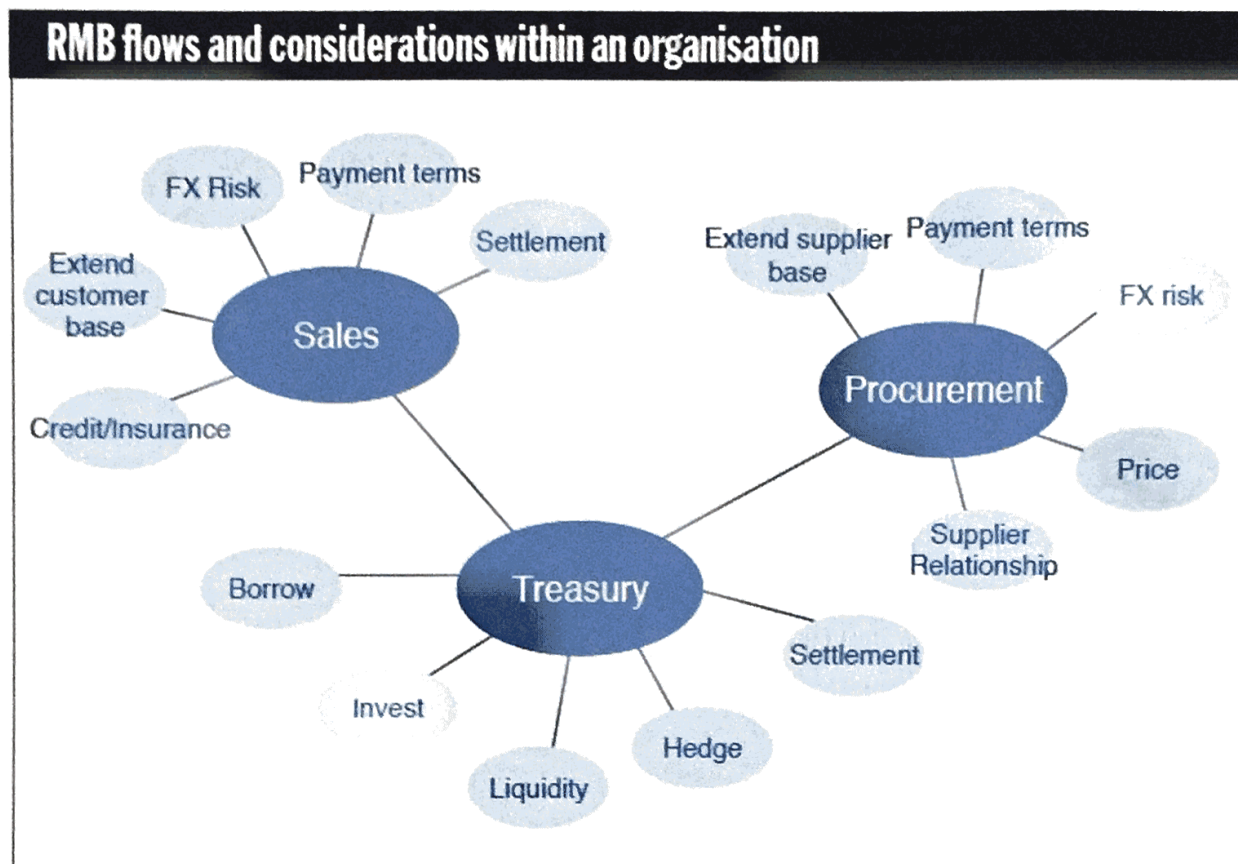
## Regulatory and market restrictions

For corporates trading with China, there are a number of considerations needed, including hedging and liquidity management (fund raising and investments).

Specifically:

- To hedge the RMB exposure, there is now an FX market in Hong Kong with FX spot, forward and non deliverable forwards;
- For excess liquidity in RMB, bonds issued in Hong Kong can be used for investments; however, at the moment, these are only held to maturity and do not have a secondary market as liquid investments. Structured deposits have also recently been launched in Hong Kong. Furthermore, the recent relaxation to allow setting up of non resident accounts in China allows the holder to access local interest rates in Mainland China;
- A corporate is unable to set up a free flowing liquidity structure across borders and make use of the RMB within the organisation. However, outside of Mainland China, e.g. in Hong Kong it is now possible to transfer RMB to any other account either within the bank or to an account with another bank. This provides an opportunity to develop pooling solutions;
- While a corporate is unable to borrow through commercial paper, since August 2010, RMB bonds issuance activity has picked up in Hong Kong and Mainland China, although volume remains low and the flow of funds to the Mainland restricted.

A corporate will do well partnering a bank with the capability to advise on these issues. Settling in RMB offers value to a corporate from the sales, treasury and procurement perspectives. The sales team can drive higher sales and extend the existing client base since having goods priced in RMB removes currency exposure and speeds up payment, allowing the seller to offer discounts. It is worthwhile to note that although RMB settlement process has been streamlined, it remains burdensome due to documentation and declarations.



From a treasury perspective, a corporate can buy RMB outside of Mainland China, borrow off-shore to settle trade or hold for any other purpose, including pooling on-shore for entrust investments. Their RMB exposure can be hedged and they can discount receivables on-shore. The challenge remains that investment opportunities outside of Mainland China remain limited.

With the vast majority of sourcing done in China, it pays to start invoicing in RMB to remove the FX exposure for the Chinese supplier and potentially allow the buyer to negotiate a lower cost of goods through more transparent pricing. On the other hand, if Chinese companies, the world's largest commodities importer, start requesting for RMB-based trades, then commodity pricing may need to be changed to RMB.

This will bring significant changes not only to currency hedging but also commodity hedging.

## Conclusion

Banks are in an ideal position to work with corporates to make the most of the opportunities that RMB brings. Any bank that can help corporates over the current hurdles and put new ideas in front of its clients will gain market share and take the lead in delivering value to its clients by looking at what the next phases of development would be and anticipating changes early enough to develop and deliver solutions. Corporates have the opportunity to manage risk, reduce the cost of sourcing, enhance the use of liquidity within their own structure and gain a competitive edge with RMB.

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