

YUAN INTERNATIONALISATION

LONG COMPLEX PROCESS

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MONEY FUNCTIONS

- INTERMEDIARY IN TRANSACTIONS (INVOICES DENOMINATED IN PARTICULAR CURRENCY)
- STOCK OF SAVINGS (CURRENCY RESERVES)
- VALUE MEASUREMENT (PRICES SET IN PARTICULAR CURRENCY)
- MENS OF FINANCIAL ACCOUNTING (INTERNATIONAL CREDIT AND CAPITAL MARKETS TRANSACTIONS)

Theoretical background -trilemma

- ***Make the country's economy open to international flows of capital.***
- ***Use monetary policy as a tool to help stabilize the economy.***
- ***Maintain stability in the currency exchange rate.***

TRILLEMA – YOU CAN NOT MAKE THREE

- United States, have picked the first two..
- WHY ?

- CHINA - picked second and third
- WHY ?

REQUIREMENT FOR TRUSTED TOOL

- “The global financial system is like a sewer and all of the pipes run through New York,”
- . If every one of the more than 150 currencies was traded directly against every other, the world would need over 11,175 foreign-exchange markets. If instead each trades against the dollar, it needs only 149 or so. If you cannot buy the afghani with the zloty, you can still sell one for dollars with which to buy the other.
- This gives America’s Treasury great punitive power and jurisdictional reach.
- ONE OF THE PLAYING CARDS IN AMERICAN HANDS DURING TRADE WARS - IS TO CUT OFF CHINESE BANKS FROM AMERICAN SYSTEM

There are some narrow paths

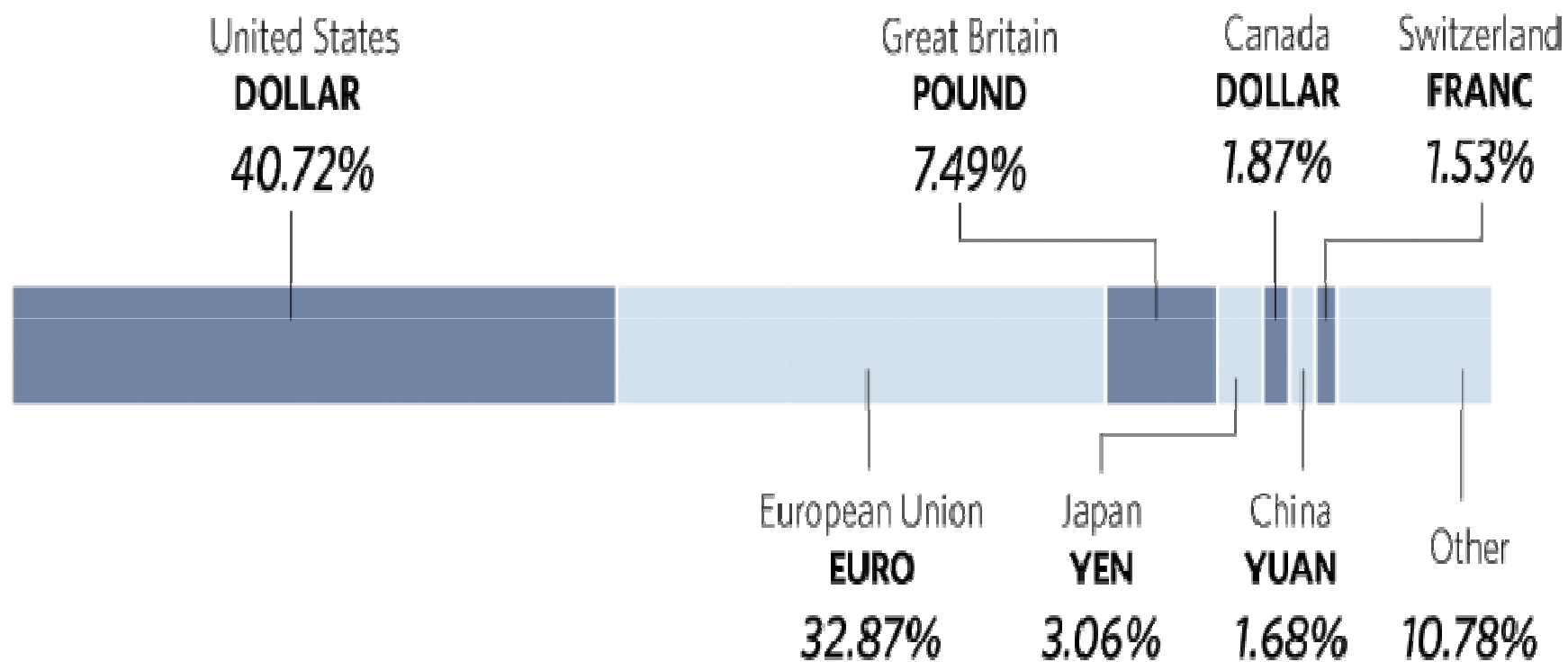
- . It is possible to clear large dollar payments in Tokyo, Hong Kong and elsewhere.
- America's two big payments systems, handled transactions worth \$4.5trn a day in 2017. Hong Kong's system (which runs through HSBC, a private bank) dealt with only 0.8% of that amount
- Even if no payments cross American territory, America could still impose extraterritorial or "secondary" sanctions, refusing to do business with a company that does business with a blacklisted party. (Iran for example)

WHAT MAKES US \$ GLOBAL CURRENCY

- particular currency has to be relatively free to use by all actors in international transaction
- TRUST IS THE BASE

Currencies Used in Global Payments

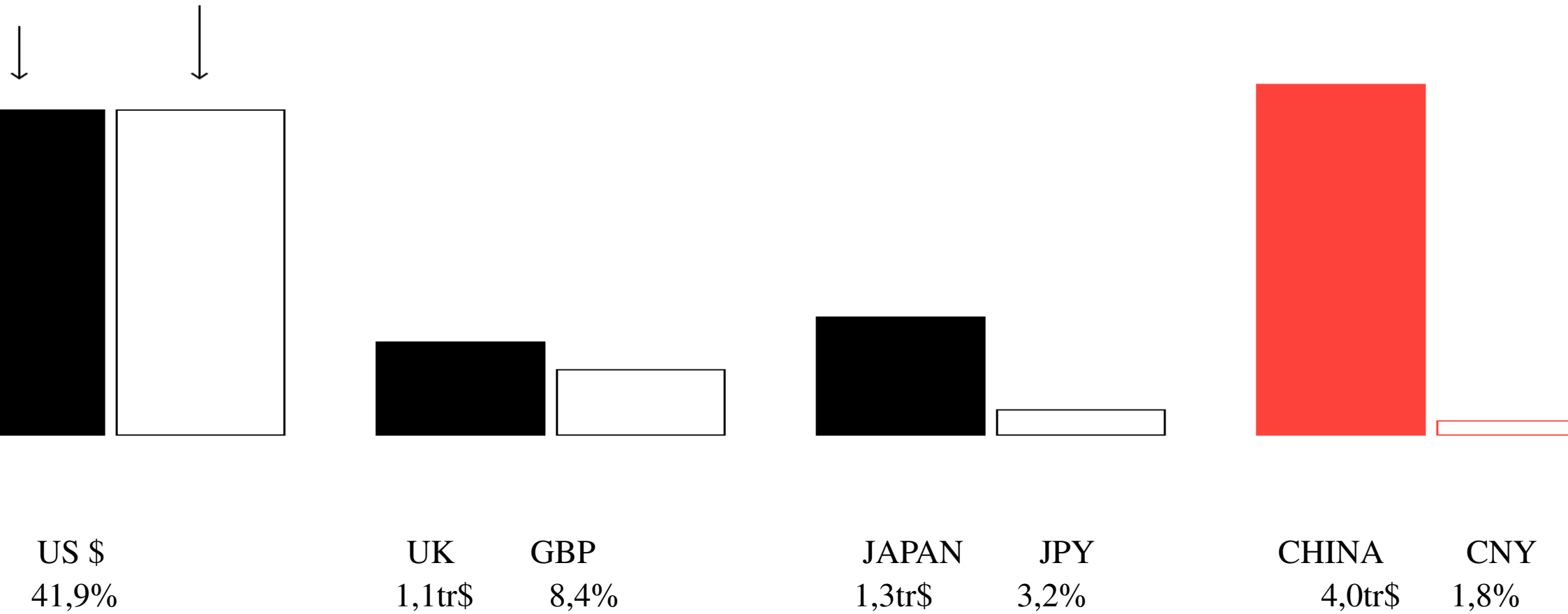
Percentages of global payments conducted in the leading currencies in January 2017.



Source: SWIFT payments network

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TRADE AND CURRENCY USED



Functions of international money

The dollar benefits from a model

- the exchange of currencies,
- the invoicing of trade
- the settlement of international payments

INTERNATIONAL FINANCIAL FLOWS

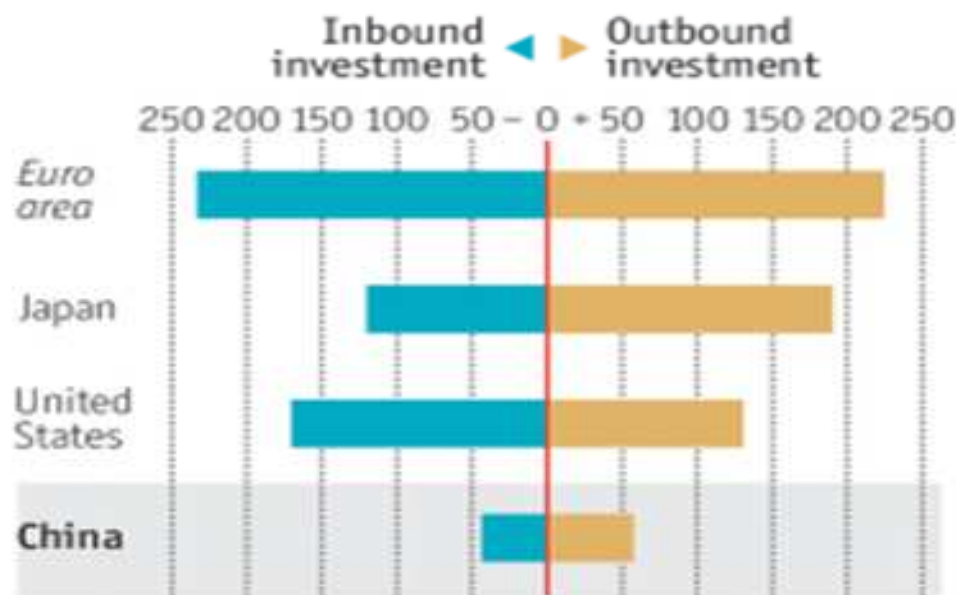
- FDI
- PORTFOLIO INVESTMENTS
- REMMITANCES

BIGGEST BANKS USING

WORLD INTERNATIONAL ASSETS

You ain't seen nothing yet

International financial assets
Q3 2015, as % of GDP



Sources: IMF; Thomson Reuters

Economist.com

WORLD FINANCIAL SYSTEM

Big, getting bigger

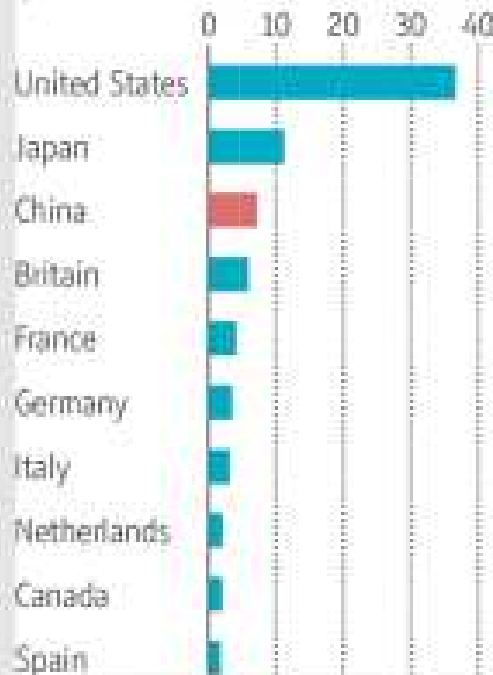
Banks

Assets, end-2015 or latest
\$trn



Bond markets

Debt securities outstanding, 2015 Q3
\$trn



Stock exchanges

Market capitalisation, February 2016
\$trn



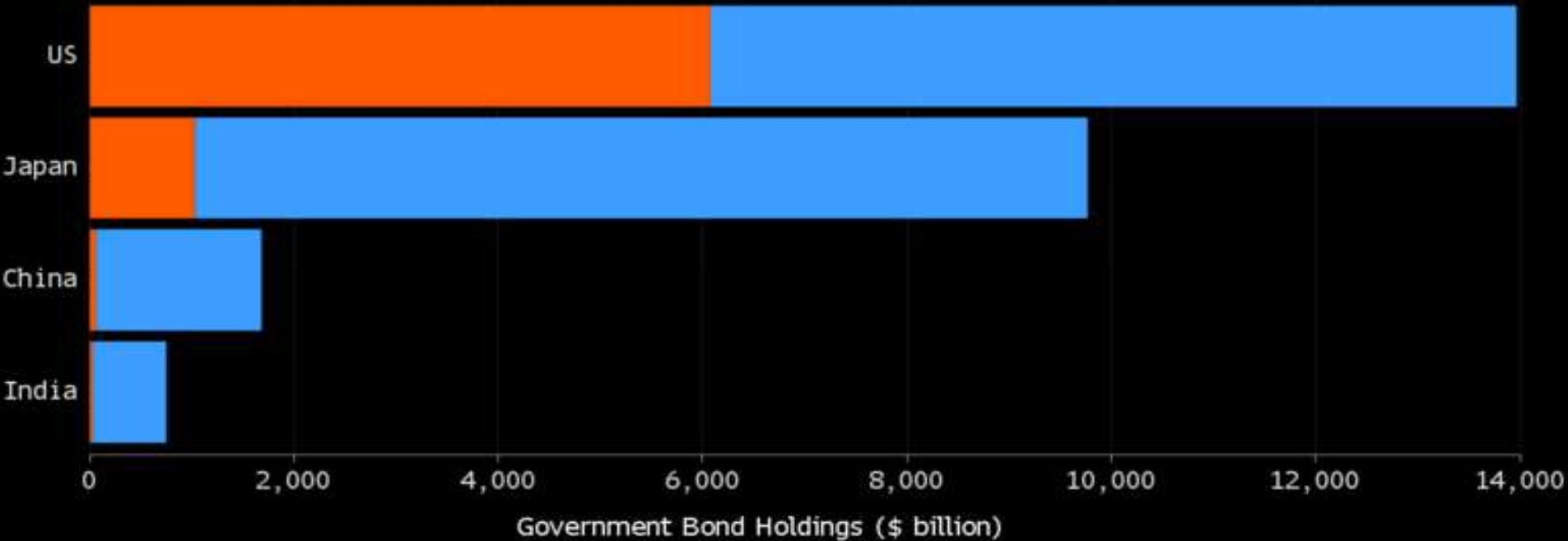
Sources: Bloomberg, BIS, World Federation of Exchanges

INTERNATIONAL BONDS MARKET

Diversity Problem

Foreigners own just 3.7% of China's bonds

Foreign Total

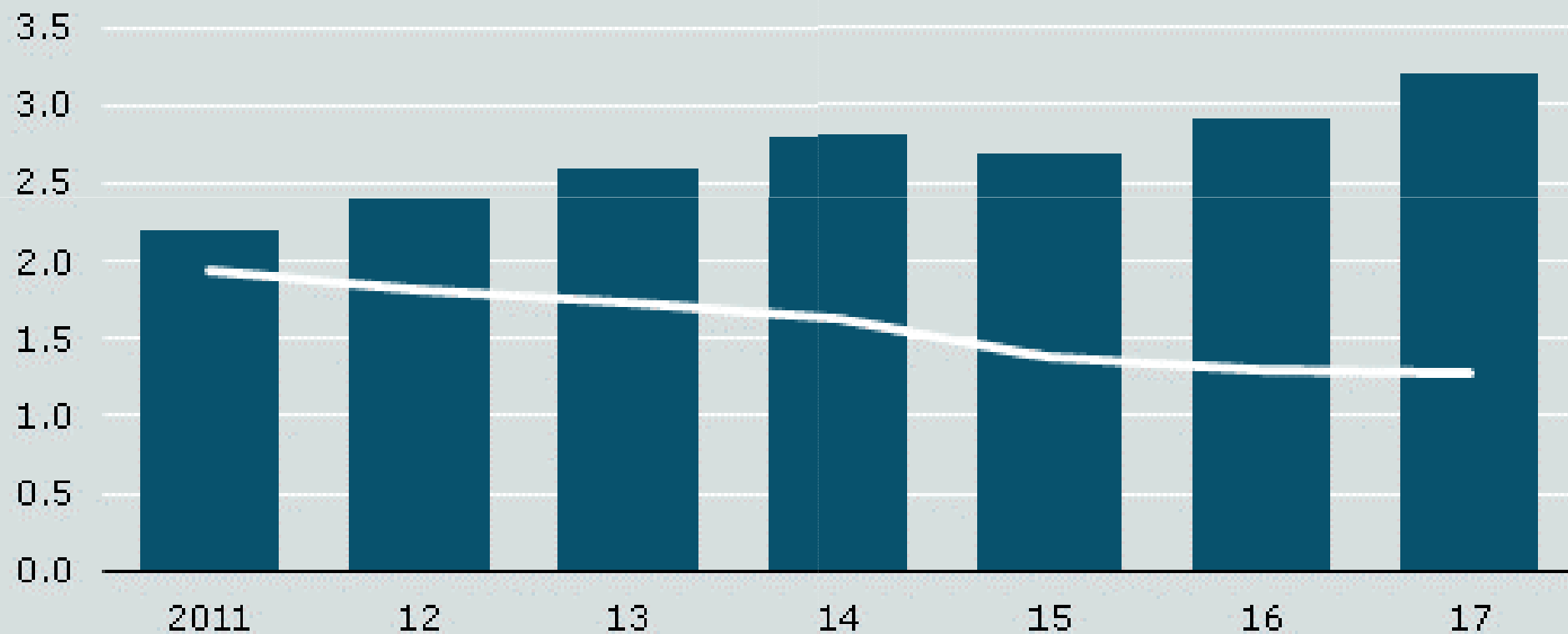


Sources: U.S. Treasury, Bank of Japan, ChinaBond, Reserve Bank of India
Note: India regulates the share of foreign investment in its domestic bond market
Latest data, as of:
March 31 (U.S.), Dec. 31, 2016 (Japan), May 31 (China), Jun. 12 (India)

Foreign bank assets in China

■ Assets (Rmb tm)

— Share of total bank assets (%)



Source: Economist Intelligence Unit.

UBS-FIRST QFII

- **UBS - was the first to sign up for the qualified foreign institutional investor (QFII) scheme when China launched it in 2002, allowing overseas firms limited access to the mainland stock exchanges.**

HISTORY OF FINNICIAL REFORMS IN CHINA 1

Permanent experiments

- Until 2003 yuan was purely internally used currency.
- **NOVEMBER 2003 Hong Kong banks start to provide yuan services**

The State Council gives the green light for banks in Hong Kong to provide yuan deposit, remittance, exchange and credit card services. The amount Hong Kong residents can exchange and remit is capped at **20,000 yuan and 80,000** yuan per day, respectively.

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HISTORY OF FINNICIAL REFORMS IN CHINA 2

- JUNE 2009
- **Hong Kong, China trade yuan settlements begin**
- The Hong Kong Monetary Authority (HKMA) and People's Bank of China (PBOC) sign an agreement to allow trade between Hong Kong and the mainland to be settled in yuan in five cities. This is expanded to 20 provinces and cities a year later in June 2010

HISTORY OF FINNICIAL REFORMS IN CHINA

cont.

- **JANUARY 2011**
- **Direct investments settled in yuan**
- A pilot scheme for mainland companies to settle overseas direct investments in yuan is announced. A month later Beijing allows overseas firms to use yuan to settle foreign direct investments (FDI) in China, instead of the US dollar
- **2011, December: Launch of renminbi qualified foreign institutional investor scheme (RQFII).** UBS group was the first to sign up for the qualified foreign institutional investor (QFII) scheme when China launched it in **2002**, allowing overseas firms limited access to the mainland stock exchanges.

HISTORY OF FINNICAL REFORMS IN CHINA

cont.

- **JANUARY 2012 – 2013 MONEY MARKET OPERATIONS**

- Hong Kong signs agreement with City of London to help the UK capital develop as the next offshore yuan trading centre.
- China starts direct trading between the yuan and the Japanese yen in Tokyo and Shanghai.
- Bank of China's Taipei branch is appointed the yuan clearing bank for Taiwan.
- **Australia, UK open up to yuan trade.** Australia starts direct trading between the yuan and the Australian dollar.

HISTORY OF FINNICIAL REFORMS IN CHINA

cont.

- 2013 – 2014
- **CURRENCY SWAPS START;** In June, the PBOC and Bank of England agree to a three-year currency swap line of up to 200 billion yuan
- **STOCK-EXCHANGE LINKS;** stock connect scheme to link the stock markets of Hong Kong and Shanghai and allow retail investors to conduct cross-border trading in yuan.
- The daily RMB exchange cap of 20,000 yuan is REMOVED

HISTORY OF FINNICIAL REFORMS IN CHINA

cont

- **2015**

- **AUGUST 1; China devalues the yuan** Beijing allows devaluation - revaluation of the yuan by 2 per cent and changes the method for setting the mid-price range according to the previous market price at close of trading.
- **OCTOBER - Foreign banks start trading in mainland bonds**
- PBOC launches the first phase of the China International Payment System (CIPS) and allows **certain foreign banks** to trade in the mainland bond

ENTERING SDR SYSTEM

- **NOVEMBER 2015**

IMF

Yuan gains reserve currency status

- China states its goal of making the onshore yuan a freely tradeable currency by 2020. In December the IMF includes the yuan in its Special Drawing Rights, giving it the status of a reserve currency like the US dollar, euro, pound and yen.

RESTRICTIONS AND LIMITATIONS

- **OWNERSHIP**
- **SCOPE OF OPERATIONS**
- **GEOGRAPHICAL LOCALIZATION**

BOAO FORUM - HAINAN

- NEW GOVERNOR OF PBoC – Yi Gang announcements
- Ownership relaxation 51%
- Scope of business - daily quotas DUBBLED

RECENT CHANGES -PETROYUAN

- COMMERCIAL REASON - COSTS OF TRANSACTIONS AND PRICE STABILITY
- China wants oil to be traded in yuan is to increase global demand for yuan-denominated assets
- Saudi Arabia is OPEC's MAIN OIL producer and price arbiter AGREED TO CONDUCT TRANSACTIONS IN YUAN

FIRST QFII

- **UBS Group confirmed to the *South China Morning Post* that it applied to increase its stake in Beijing-based venture UBS Securities from 24 per cent to 51 per cent because “China is a key market”.**
- The company has been trying to boost its presence in the market for a long time.
- **It was the first to sign up for the qualified foreign institutional investor (QFII) scheme when China launched it in 2002, allowing overseas firms limited access to the mainland stock exchanges.**

Proposed regulations by PBoC

- SCOPE OF BUSINESS LIFTING - RAISING QUOTAS , STILL LIMITS
- INSTITUTIONS – EQUAL TREATMENT , FOREIGN SUBSIDIARIES
- OWNERSHIP 51%, NO JV REQUIREMENTS
- FOR QFII – INSURANCE AGENTS FROM ABROAD ALLOWED
- ALLOWED: FOREIGN SECURITIES JV , BROKERAGE, ASSET MANAGEMENT, INSURANCE- FOR COMPANIES AND INDIVIDUALS

Regulations for foreigners in China

- For foreign companies in China still remain
 - Open special bank account
 - Report transactions to Chinese bank
 - Allowed extra time