

Renminbi Internationalisation Report 2019

New Inroads, New Prospects



China Construction Bank

No.25 Finance Street
Xicheng District
Beijing, China
100033
Tel: +86 95533

China Construction Bank Corporation (CCB) is a leading large-scale joint stock commercial bank in Mainland China. The bank ranked second in the 'Top 1000 World Banks' in 2018 in terms of total tier-one capital according to the UK magazine The Banker. By the end of 2018, the bank has nearly 200 overseas commercial banking institutions at all levels, covering 29 countries and regions.



The Asian Banker

10 Hoe Chiang Road
#14-06 Keppel Towers
Singapore 089315
Tel: +6558693492

The Asian Banker (TAB) is a leading provider of strategic intelligence on the financial services industry headquartered in Singapore. Established in 1996, it serves globally from offices in Singapore, Kuala Lumpur, Beijing, Manila and Dubai, and also from representative offices in London and New York. Through its three business sectors, publication, research and forums, the Asian Banker is in the business of helping decision makers develop creative solutions around research and intelligence to achieve tangible business goals.

IMPORTANT NOTICE

The Asian Banker and China Construction Bank are the intellectual property owners of all content in this report, except for those that are specifically stated as sourced from a third party. This includes all data, content as well as methodology and assessments that are used or written into this report. No part of this document may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the written permission of the publisher and the copyright owner.

All forward-looking assessments are made based on a combination of interviews with institutions, aggregation of third party assessments and our own assessments. We are not party to any insider information in any of the institutions we write about, and any information arising from special access that compromises our neutrality is specifically excluded, regardless of source.

Preface

In 2018, the RMB internationalisation continued to steady forward. China Construction Bank (CCB) in partnership with The Asian Banker launched a survey on the internationalisation of the RMB, which covered 562 domestic and overseas enterprises and financial institutions. The survey found an increase in the cross-border use of RMB owing to the further opening-up of the capital market, the Belt and Road Initiative and the inclusion of RMB into Special Drawing Rights (SDR) basket; the China Interbank Bond Market (CIBM) was most-favoured by foreign institutions for accessing China's onshore bond markets; and China's increasing strength in FinTech sector would give another boost to the internationalisation of the RMB. In spite of some concerns, the respondents surveyed were largely bullish on the use of RMB into 2019.

In the past year, the capital market business played an increasingly important role in internationalising RMB. China's financial industry opened wider to the outside world, the connectivity mechanism of capital markets was further improved, there were even broader channels for international investors to buy RMB assets, and foreign institutions increased their engagement in the Chinese market. In 2018, over 60 countries and regions included RMB in their official foreign exchange reserve; 1,186 foreign institutional investors entered China's Interbank Bond Market, reporting total investments at RMB1.73 trillion; foreign institutions' share in transactions in the RMB exchange market reached USD170 billion; for the RMB Qualified Foreign Institutional Investor (RQFII) Scheme, the number of approved institutions rose to 205, and they held a quota of RMB646.6 billion.

Although the cross-border RMB business grows quickly, RMB undoubtedly still boasts big potential in payment, trading, investment and financing in terms of its international currency status. Bond holdings by foreign players accounted for merely 2.24% in the RMB bond market. According to the Society for Worldwide Inter-bank Financial Telecommunications (SWIFT), cross-border RMB payment only accounted for 2.07% of international payment as of December 2018. The figures of the Bank for International Settlements (BIS) show that RMB's global share in trading stood at 4% only.

RMB internationalisation will be a long-term, ongoing process, it is a certain trend of China's deepening economic and financial reform and opening up, and it is the result of a natural development. Governor of the People's Bank of China Yi Gang said during the two sessions in 2019 that a total of 11 financial opening-up policies were underway according to the timetable, some of them had been implemented. In the future, the Chinese government will continue to enhance the two-way opening of the financial market; foreign institutions will find it easier in bond issuing and bond investment; bond market, stock market and other financial markets of China and the rest of the world will be connected across a wider range; and various market players will participate in the RMB market in a deeper and wider way in 2019.

CCB is a leading bank in RMB internationalisation business. Since the business was launched in 2009, the Bank has conducted cross-border RMB business for 27,000 customers from nearly 200 countries and regions with the total amount reaching RMB17.8 trillion.

In the offshore market, the Bank actively promotes innovation in RMB products, constantly enhances its ability of market-making in major RMB offshore markets, and improves its comprehensive operation of RMB business. CCB, as the RMB clearing bank in the UK, Switzerland and Chile, sees sound operation and increasing market influence. As at the end of the first quarter of 2019, CCB's RMB clearing bank in the UK maintained its position as the largest RMB clearing bank outside Asia with the accumulated clearing amount exceeding RMB33 trillion.

In the future, the Bank will leverage its advantage of being the second largest RMB services provider in the world, and actively respond to the new inroads and seize the new opportunities in the process of RMB internationalisation. Moreover, it will focus on serving the real economy, and devote itself to providing global customers with quality and efficient cross-border financial products and services.



Zhang Lilin
Vice President
China Construction Bank

Table of Contents

Executive Summary	4
<hr/>	
1. Emerging opportunities for greater use of RMB in 2019	6
<hr/>	
2. Use of RMB in cross-border payments and settlement	8
2.1. Use of RMB based cross-border products	8
2.2. Use and status of RMB in cross-border trade	8
2.3. Use and status of RMB in cross-border direct investments	11
2.4. Holdings of RMB in overseas institutions	12
2.5. Developments in RMB financing in offshore market	13
2.6. Use and change of RMB offshore deposits	14
<hr/>	
3. Key trends of RMB as international reserve assets	17
3.1. Use of RMB as a reserve currency	17
3.2. Developments in RMB currency exchange transactions	17
3.3. Impact of RMB inclusion in Special Drawing Right basket	19
<hr/>	
4. Key developments in offshore RMB centres	20
4.1. Use and change of primary offshore RMB centres	20
4.2. Status of Chinese financial institutions in primary offshore RMB centres	22
4.3. Brexit and its impact	23
<hr/>	
5. Developments in RMB cross-border payment systems	25
5.1. Developments in Cross-border Interbank Payment System (CIPS)	25
5.2. Change in use of RMB in SWIFT transactions	25
<hr/>	
6. Challenges to RMB internationalisation	26
6.1. Key challenges	26
6.2. Impact of US-China trade frictions on RMB internationalisation	26
6.3. Impact of currency volatility on RMB internationalisation	28
<hr/>	
7. Future strategies on RMB internationalisation	30
7.1. RMB internationalisation with opening of financial markets	30
7.2. RMB internationalisation with freedom of trade and new channels	31
7.3. Belt and Road Initiative and potential impact	34
<hr/>	
8. Conclusion	36
<hr/>	
9. Appendix – survey respondents' profile	37
<hr/>	

Executive Summary

The Asian Banker in partnership with China Construction Bank conducted a survey across 402 Chinese companies, 117 overseas companies and 43 financial institutions to assess the developments in RMB internationalisation in 2018 and the outlook for 2019. Consistent with last year's survey, sentiment expressed across all categories was largely bullish on the use of RMB in 2018 and into 2019.

RMB based cross-border settlement increased in 2018 and expects continued growth in 2019

RMB cross-border trade settlement emerged as the most popular RMB product among Chinese companies in 2018. In a continuing trend from last year's survey, 54% of Chinese and 58% of overseas companies increased their RMB based cross-border trade settlement in 2018. 2019 is expected to see a similar trend as 53% of overseas and 54% of Chinese companies plan to increase their RMB based cross-border trade settlement. The key driver for this was the 'need to reduce forex risks' among Chinese companies and to 'get better rates from suppliers' for overseas companies.

Overseas companies are becoming more proactive in using RMB for cross-border trade, as 25% of overseas companies said that they 'use RMB only when counterparties require' in this year's survey compared to 47% in last year's survey.

43% of overseas companies increased their RMB offshore financing, with a 8% increase comparing to last year; 61% of overseas companies had over 5% of their financing conducted through RMB offshore bonds, 10% of overseas companies had over 20% of their financing conducted through RMB offshore bonds, indicating a growing trend compared to last year's survey results 42% and 3% respectively.

47% of overseas companies increased their RMB based deposits outside mainland China in 2018. In a continuing trend, 45% of overseas companies and 30% of financial institutions plan to increase them in 2019.

48% of overseas companies and 46% Chinese companies indicated that they will increase RMB based currency exchange transactions in 2019.

Belt and Road Initiative and Inclusion of SDR basket have increased international use of RMB

80% of Chinese and 69% of overseas companies, said that the Belt and Road Initiative has led to the increase in the use of RMB based cross-border products and services. 68% companies felt that this initiative improved access to new markets and customers. A significant 52% of financial institutions, 66% of Chinese and 63% of overseas companies said that the inclusion of RMB in the International Monetary Fund (IMF) special drawing basket (SDR) has led to an increase in their use of RMB. This includes 30% of overseas and 23% of Chinese companies that said it led to a 'significant increase in their use of RMB'.

Opening of financial markets increased RMB use

The China Interbank Bond Market (CIBM) was the most popular channel among financial institutions for accessing China's onshore bond markets with 47% of financial institutions using CIBM Direct while 21% reported using Bond-Connect and QFII respectively.

The Stock-Connect scheme gained rapid acceptance as a significant 51% of Chinese and 41% of overseas companies said that they are already using it. In addition, 41% of Chinese companies that are not currently using it, plan to do so in 2019.

The awareness of free trade zones remains high and 48% of Chinese Companies and 39% of overseas companies are already utilising them. In addition, another 48% of Chinese and 36% of overseas companies said that they plan to begin using it in 2019.

Increasing role and capability of Chinese banks in the RMB market

44% of overseas companies prefer local branches of global banks compared to 41% preferring local branches of domestic banks. Compared to last year's survey wherein 34% of overseas companies showed preference for Chinese banks, this indicates the increasing role of Chinese bank in offering global RMB products.

Among financial institutions, there emerged a strong willingness to work with onshore Chinese service providers for custodial, counterparty and transactional services as 35% said 'yes, absolutely' and 58% said 'possibly'.

There are still some significant concerns

Increased trade tariffs and protectionism emerged as the most significant concern among the companies (72% Chinese and 67% overseas). A unified clear response (61% of Chinese and 57% of overseas companies) reported making supply chain adjustments in 2018 after tariff introductions.

There was a significant divergence between overseas and Chinese corporations over the impact of tariffs on their use of RMB in 2018. 44% of Chinese companies said that these tariffs have led to a reduction in the use of RMB while 62% of overseas companies stated that the tariffs had led to an increase (including 31% reporting a 'significant increase in use').

59% of Chinese companies feel that future RMB currency volatility will have no impact but 47% of overseas companies will have less interest in using RMB. Consistent with last year's responses, both Chinese and foreign companies preferred method of hedging RMB exposure continue to be natural hedge of assets and liabilities, including leading and lagging of payments.

The role of London as a RMB offshore centre post-Brexit resulted in mixed responses amidst the uncertainty. One third of Chinese companies expect the role of London to reduce, while 42% of overseas companies expect it to play a greater role post-Brexit.

1. Emerging opportunities for greater use of RMB in 2019

Several opportunities and developments in 2018 and 2019 are expected to add steam to the growing use of RMB internationally.

Use of RMB in trade and infrastructure financing: Belt and Road Initiative is facing a 'dollar trap' in financing as outlined by former PBOC Chairman Zhou Xiaochuan in 2018. Increasing the use of RMB reduces the exposure of China's trade sector to sudden falls in the global supply of US dollars. Besides the inherent risks of the projects, market participants also face financial risks such as an over reliance on the US dollar, insufficient payment means and large fluctuations in exchange rates. With potentially trillions of dollars' worth of projects needed, there will be significant opportunity to further mobilise China's domestic savings to provide effective and reliable long-term financial support for the belt and road infrastructure.

Greater interest in RMB bond market: Foreigners currently own only about 2% of the total amount outstanding in Chinese bond markets, the third largest in the world. Increased exposure and expertise from foreign asset managers as well as adding of onshore RMB bonds to Bloomberg's benchmark Global Aggregate Index from April 2019, should pave the way for better pricing onshore credit risk.

London Shanghai Stock Connect is about to launch in 2019. It will allow international investors to access China A-Shares via Global Depository Receipts (GDRs) traded on the London Stock Exchange, and London-traded firms to list Chinese Depository Receipts (CDRs) in Shanghai. This will facilitate an increase in the RMB's offshore trading and investment activities, and grow London's share of offshore RMB trading.

Growing payment and trade volumes in Asia: Chinese online payment platforms across East Asia may prefer more regional hubs as well as the emergence and deepening of Asian financial markets that may shift trade volumes eastwards.

CIPS and new faster payment systems:

CIPS Phase II entered operation in June 2018, with upgrades including the clearing window to cover business hours in all continents, the availability of net settlement, in addition to real-time gross settlement.

Further, the adoption of the ISO 20022 messaging standard by CIPS will also support RMB internationalisation thus allowing CIPS to have increased compatibility with SWIFT GPI ensuring the end-to-end processing of RMB cross-border payments to Chinese beneficiaries.

China Interbank Bond Market (CIBM Direct): This scheme now allows foreign institutions to trade bonds directly through banks holding a Type A licence with no quota requirement or need for investors to identify the intended investment amount.

Increasing Weight of RMB in Asian Currency Baskets: According to a report by the Reserve Bank of Australia^① closer links to China, especially in production networks, creates an incentive for those in the region with managed exchange rates to stabilise their local currency against the RMB in order to remain competitive.

PetroYuan - crude contracts: Began trading on the Shanghai International Energy Exchange in March 2018. The world's largest net importer of oil debuted yuan-denominated crude oil futures. With Japan and South Korea also net importers of oil, it could potentially result in a significant eastward shift in the energy market and an increased incentive to settle the contracts in RMB to minimise exchange rate risks. The launch of the yuan-denominated oil future marks the first commodity derivative allowing foreign investors to trade.

Growing opportunity in Africa: With large Chinese interests in Africa as well as the push from the Belt and Road Initiative, the number of inter-bank accounts relationships between China and Africa has increased from 20 in 2008 to 186 by 2017 according to data from SWIFT. An increasing number of African countries are using the RMB in their reserve baskets as well as for payments. China is a key market for African oil exporters, particularly Angola.

^① Reserve Bank of Australia 2018 Report, September 2018

Belt and Road Initiative: China has taken the lead in developing a multi-level financing system incorporating the Silk Road Fund, the Asian Infrastructure Investment Bank, the New Development Bank, the China Development Bank, the China Import and Export Bank and other policy financial institutions as well as off-shore RMB 'Silk Bonds' showing that the payment market is developing. In synergy with the BRI, China has built up strong co-operative relationships with emerging and developing economies which have growing trade and investment demands that China can help meet.

Also, China has strong connections with nations that have incentives to reduce their dependency on the dollar and seek alternative access to finance.

Growing Fintech: China's increasing global strength in big data, digital banking and mobile payment platforms driven by technology giants such as Alipay and WeChat Pay as well as others have the potential to make cashless RMB internationalisation possible. China's Union Pay payment system is also increasingly accepted worldwide.

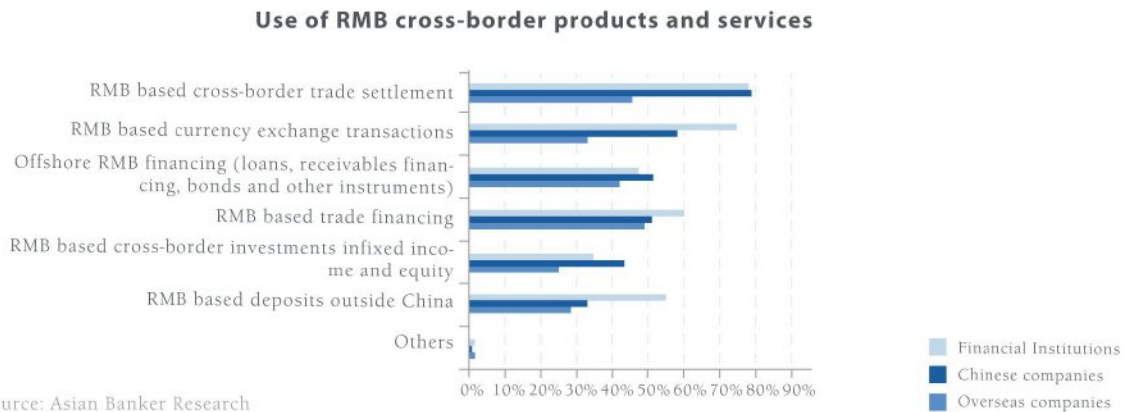
2. Use of RMB in cross-border payments and settlement

2.1. Use of RMB based cross-border products

The use of RMB based cross-border products continued to witness an increase in 2018, consistent with the trends seen in the last year's survey. Among Chinese companies, cross-border trade settlement dominated, used by 80%, followed by RMB based currency exchange transactions (58%) and offshore RMB financing (51%). In a similar trend, maximum number of financial institutions (79%) used RMB for cross-border trade settlement followed by 74% engaging in RMB currency exchange transactions.

Please note that across the report, unless explicitly mentioned 'Mainland China' is shortened to China in this report (excluding Hong Kong and Macao) while Greater China reference includes Hong Kong and Macao. 'Off-shore' and 'overseas' refers to Hong Kong, Macao and rest of the world while 'onshore' refers to mainland China.

Figure 1: RMB cross-border trade settlement emerged as the most actively used product



2.2. Use and status of RMB in cross-border trade

PBOC's data shows that trade settlement in RMB as a share of China's total trade picked up slightly at 16.8% in 2018. In value terms, RMB trade settlement totalled RMB 5.11 trillion (\$761 billion) in 2018, up from a total of RMB 4.36 trillion (\$649 billion) in 2017.^②

The survey conducted by the Asian Banker shows that among all RMB products and services, cross-border trade settlement witnessed the highest increase in use by the companies in 2018. Consistent with the trend seen in 2018 survey, more than half the companies surveyed

(54% Chinese and 58% overseas) and 49% financial institutions increased trade settlement using RMB in 2018, while only 18% of Chinese and 13% of overseas companies and 16% of financial institutions reduced their use. The growth is expected to continue in 2019 as 65% of financial institutions, 53% overseas and 54% Chinese companies said that they plan to increase their cross-border trade settlement using RMB.

^② WIND, China Customs and People's Bank of China

Figure 2: More than half of companies increased their use of RMB cross-border trade settlement in 2018

Change in use of RMB based cross-border trade settlement in 2018

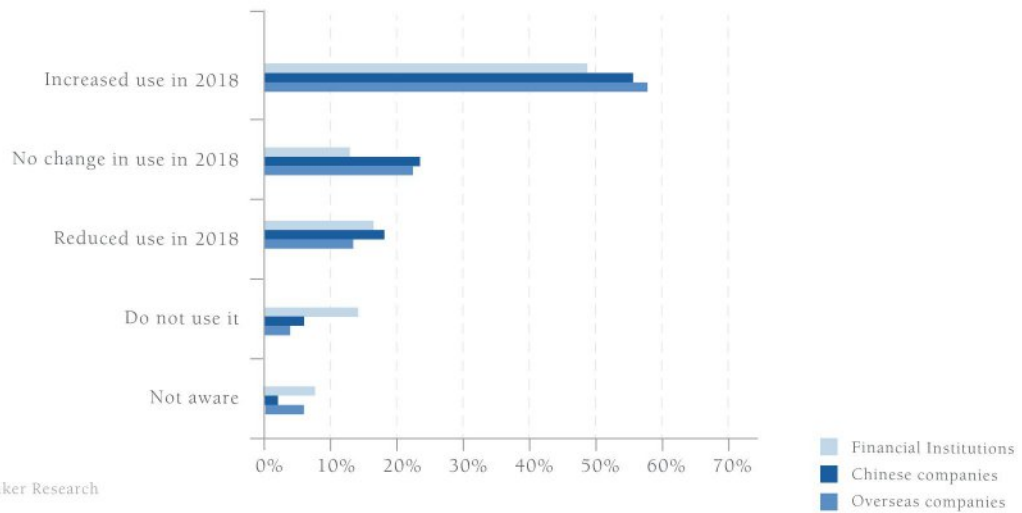
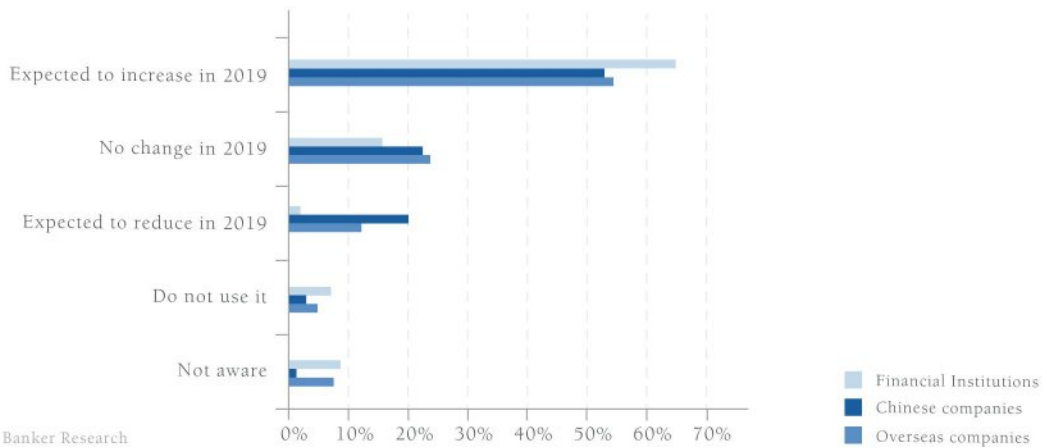


Figure 3: 2019 is expected to continue to see growing use of RMB cross-border trade settlement

Expected change in use of RMB based cross-border trade settlement in 2019

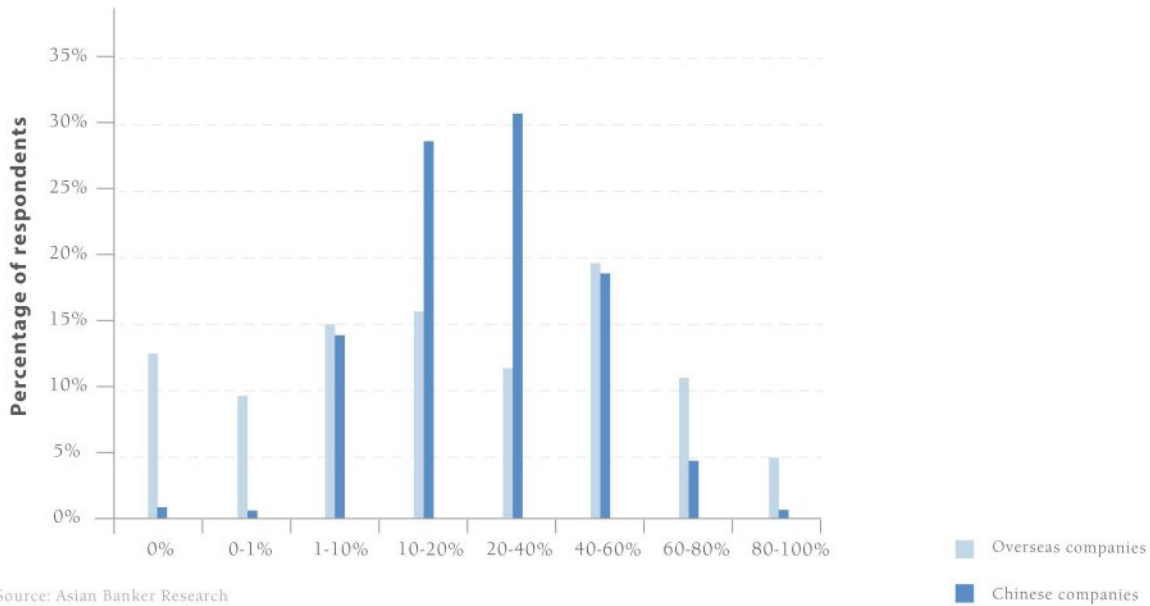


The companies were asked about what percentage of their total trade settlement was conducted in RMB. The responses show that the biggest segment of Chinese companies (31%) conducted about 20-40% of their total trade in

RMB. For 2019, 70% of Chinese, 54% of overseas companies and 65% of financial institutions plan to settle more than 20% of their cross-border trade using RMB.

Figure 4: 84% of Chinese companies have more than 10% of their cross-border trade conducted in RMB

Percentage of total cross-border trade settlement done by companies in RMB in 2018



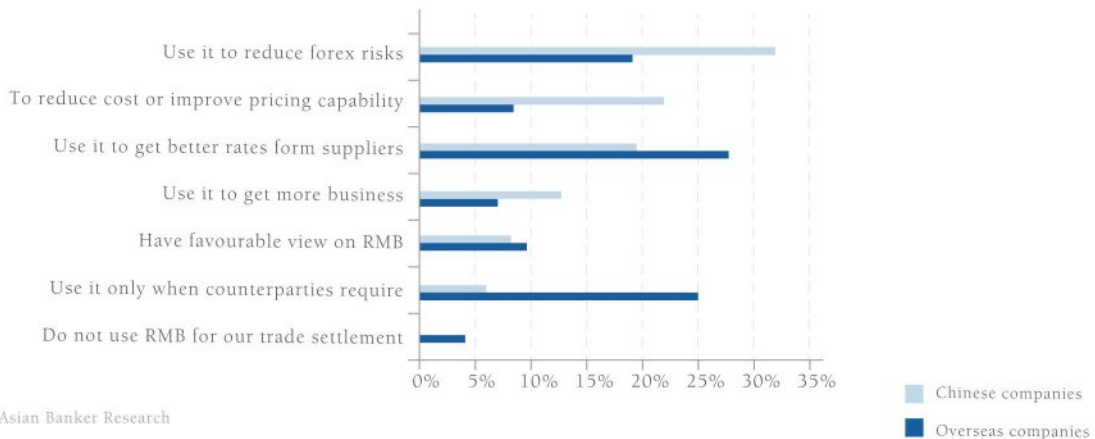
The factors for using RMB in trade settlement varied amongst companies. The most common reason for the use of RMB among Chinese respondents (31%) was to reduce their forex risks, while the highest number of overseas companies (28%) used RMB to get better rates from suppliers. RMB is also being used by many Chinese companies to reduce costs, improve their pricing capability and improve

the rates from their suppliers.

A significant 25% of overseas companies said that they 'use RMB only when counterparties require' in this year's survey compared to 47% in last year's survey, indicating that overseas companies are becoming more proactive in using RMB for cross-border trade.

Figure 5: 28% of overseas companies use RMB to get better rates from suppliers while 31% Chinese companies use it to reduce their forex risk

Key reason for using RMB in cross-border trade



2.3. Use and status of RMB in cross-border direct investments

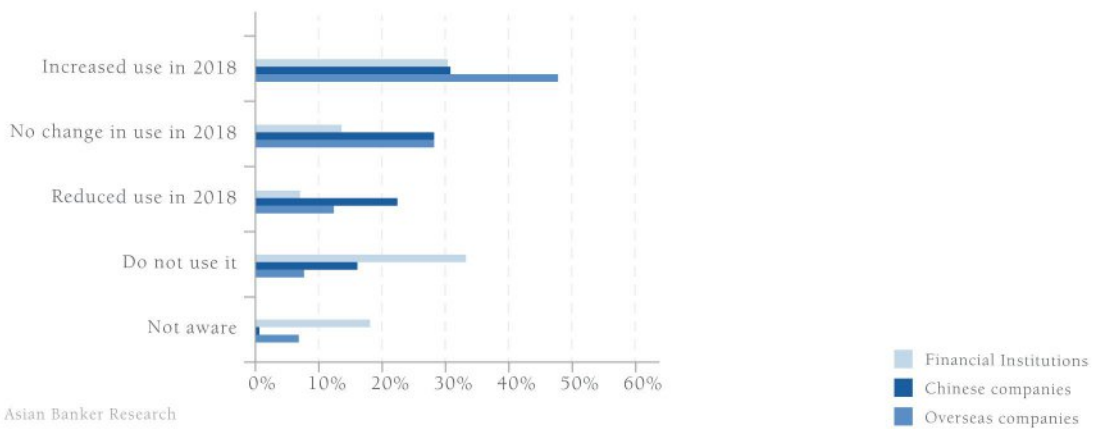
Macro-economic trends show that the total RMB direct investment settlement business rebounded sharply from its 33% slump in 2017 increasing by 62% to RMB 2.66 trillion (\$386.7 billion) in 2018, 8% higher than the total for 2016.

Consistent with macro trend, the survey also showed a notable growth in RMB cross-border

investments among the respondents as 48% of overseas and 31% of Chinese companies increased, while 29% of companies maintained the status quo in 2018. Among financial institutions, 33% said that they did not engage in cross-border direct RMB investments, while another 30% increased their use in 2018.

Figure 6: Greater increase in RMB cross-border investments seen in overseas than Chinese companies in 2018

Change in use of RMB based cross-border direct investments in 2018

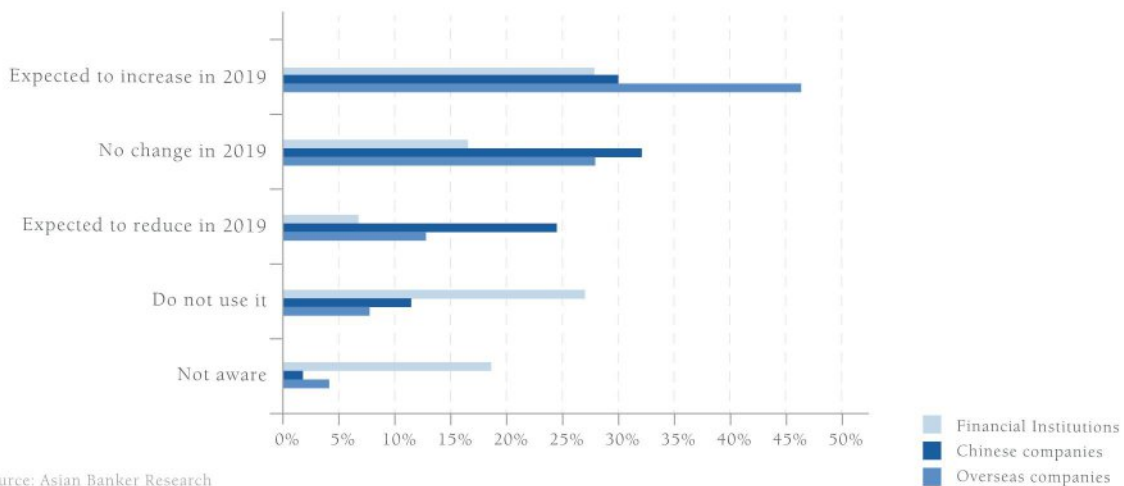


The trend is expected to continue in 2019 as 46% of overseas and 30% of Chinese companies as well as 28% financial institutions

expect to increase their cross-border investments in RMB in 2019.

Figure 7: The growth trend is expected to continue in 2019

Expected change in use of RMB based cross-border direct investments in 2019



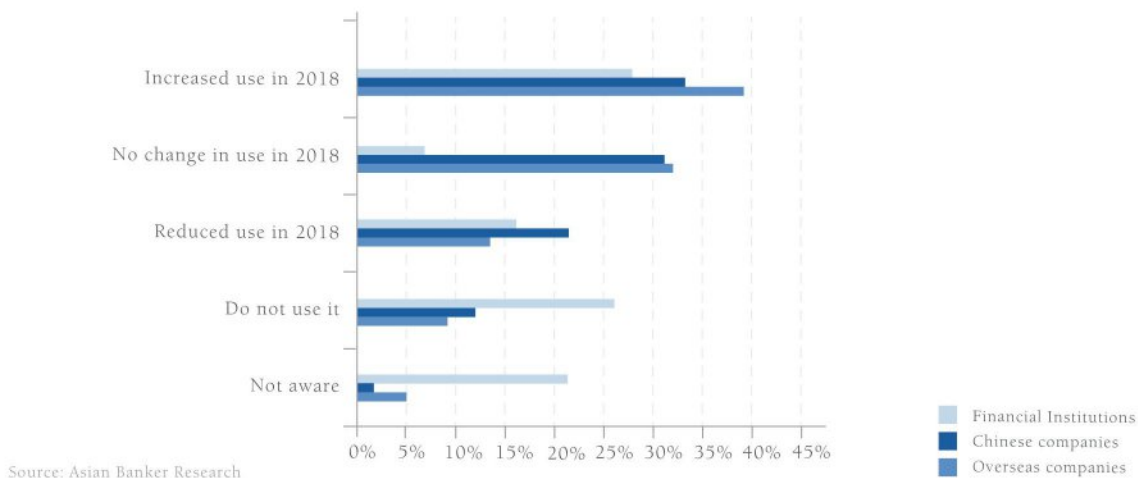
2.4. Holdings of RMB in overseas institutions

Onshore, the scale of total domestic RMB financial assets held by overseas entities continued their growth recovery, increasing to RMB 5 trillion as of September 2018 from RMB 4.3 trillion at the end of 2017, with bond ownership growing the fastest by 58% year on year. The survey responses show that 39% of overseas and 33% of Chinese companies increased their RMB holdings outside China, while only

13% of overseas and 21% of Chinese companies reduced their holdings. Overall, one third of companies had no change in overseas RMB holdings. This trend is also indicative of growing RMB holdings in line with other products. Among financial institutions, 28% increased their RMB holdings while 26% commented that they did not engage in it.

Figure 8: One third of companies increased their RMB holdings outside China in 2018

Change in RMB based holdings outside China in 2018

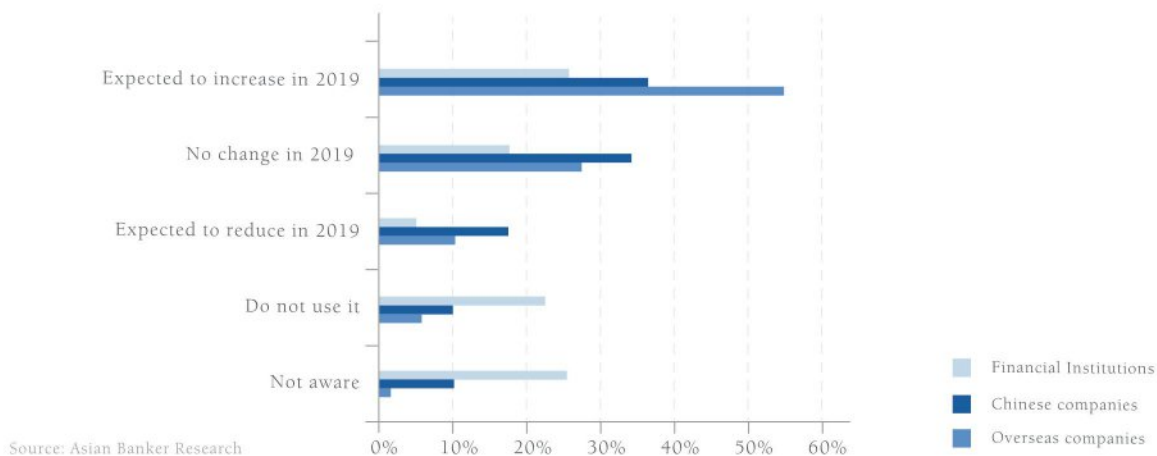


Going forward the trend is likely to accelerate as a greater number of overseas companies (55%) and Chinese companies (36%) indicated that they will increase their RMB holdings

outside China in 2019. Among financial institutions, a trend similar to 2018 is expected to continue as 28% expect to increase their holdings while 23% do not plan to use it.

Figure 9: 55% overseas companies expect to have greater RMB based holdings outside China in 2019

Expected change in RMB based holdings outside China in 2019



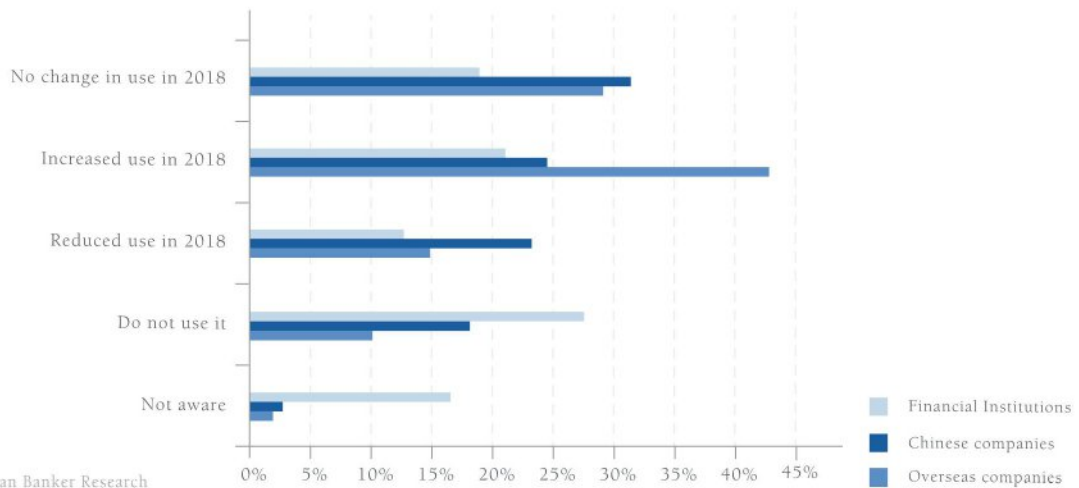
2.5. Developments in RMB financing in offshore market

In 2018, a larger proportion of overseas companies (43%) increased their offshore RMB financing (including loans, receivable financing and bonds) in 2018, compared to last year's survey wherein 35% of overseas companies had increased their offshore financing. It indicates a trend towards greater use offshore

financing by overseas companies in 2018. 25% of Chinese companies and 21% of financial institutions increased their offshore RMB financing, while 32% of Chinese and 28% of overseas companies continued at the same level as the previous year.

Figure 10: 43% of overseas companies increased their RMB offshore financing compared to 25% of Chinese companies

Change in use of RMB based offshore financing in 2018



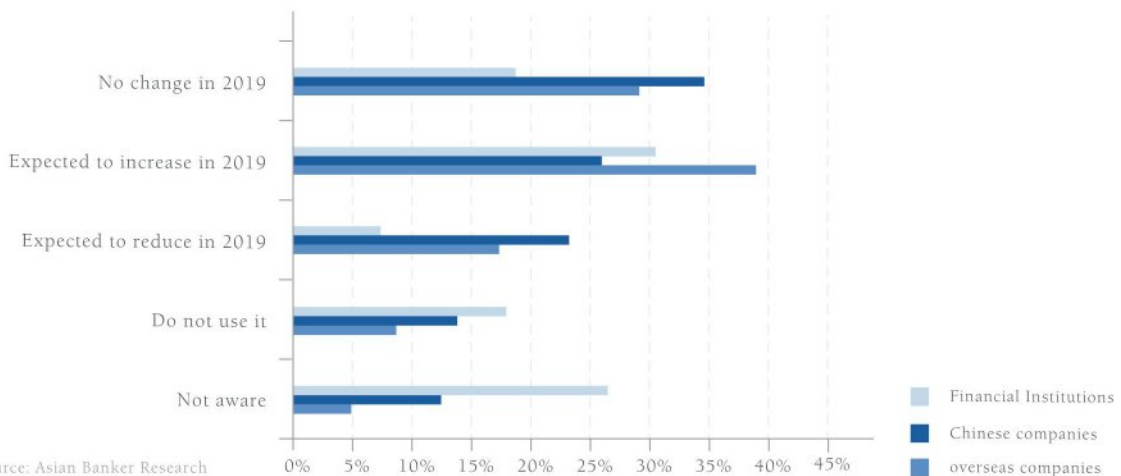
Source: Asian Banker Research

A similar trend is likely in 2019 with 39% of overseas companies and 30% of financial institutions expecting to increase their offshore RMB financing but a significant number of Chi-

nese companies (35%) anticipate sticking to the status quo.

Figure 11: In a continuing trend 39% of overseas companies plan to increase offshore RMB financing in 2019

Expected change in RMB based offshore financing in 2019



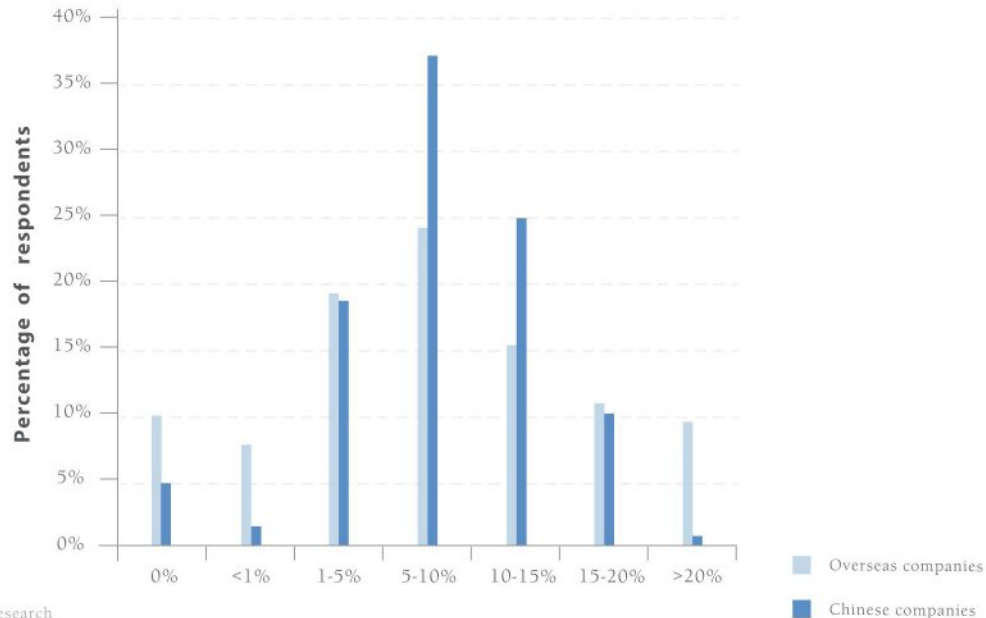
Source: Asian Banker Research

The overall portion of RMB offshore bonds in total financing varied significantly among companies in 2018, a notable 38% of Chinese and 24% of overseas companies used offshore CNH bonds to fund 5%–10% of their total financing.

For overseas companies, 61% had over 5% of their financing conducted through RMB offshore bonds, 10% had over 20% of their financing conducted through RMB offshore bonds, indicating a growing trend compared to the previous year survey (42% and 3% respectively).

Figure 12: More than 5% of total financing was done through RMB bonds in 76% of Chinese companies and 61% of overseas companies

Percentage of total financing done through RMB offshore bonds in companies



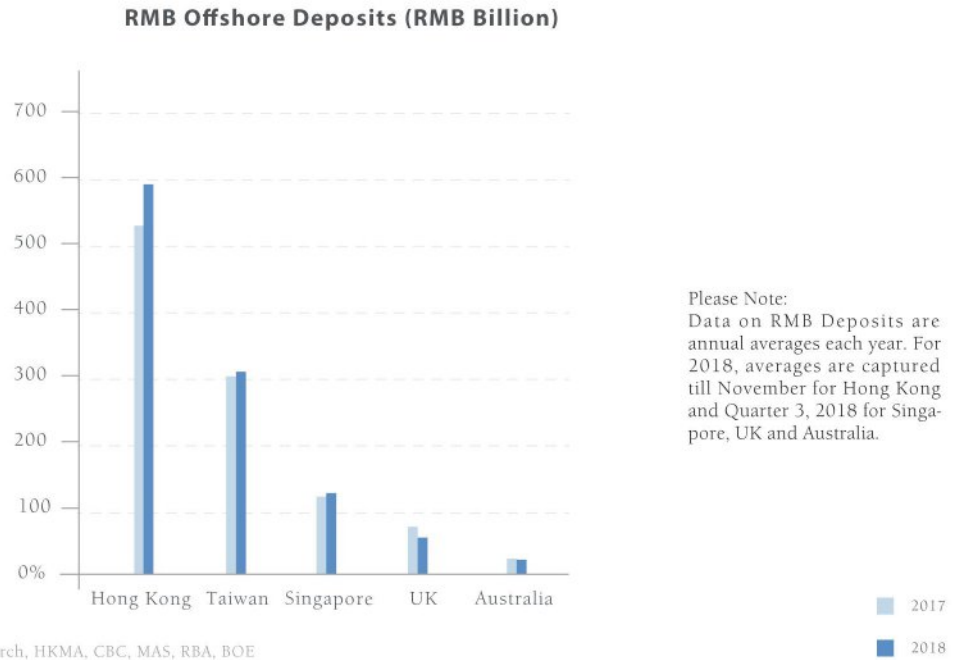
Source: Asian Banker Research

2.6. Use and change of RMB offshore deposits

Offshore RMB deposits diverged in 2018, with Hong Kong and Taiwan both increasing their lead after decreases in 2017. Average yearly deposits for the year up to November 2018 grew by 11% to RMB590.5 billion (\$85.8 billion) in Hong Kong while RMB deposits in Taiwan grew by 3.1% as a yearly average from

2017 to reach RMB312.47 billion (\$46.6 billion) in 2018. However, the yearly average of RMB deposits up to the third quarter of 2018 in Australia, the UK, and Singapore all fell by 15.2%, 10.4% and 2.4% respectively from the previous years' average.

Figure 13: Hong Kong and Taiwan increased their leading positions for Offshore RMB Deposits



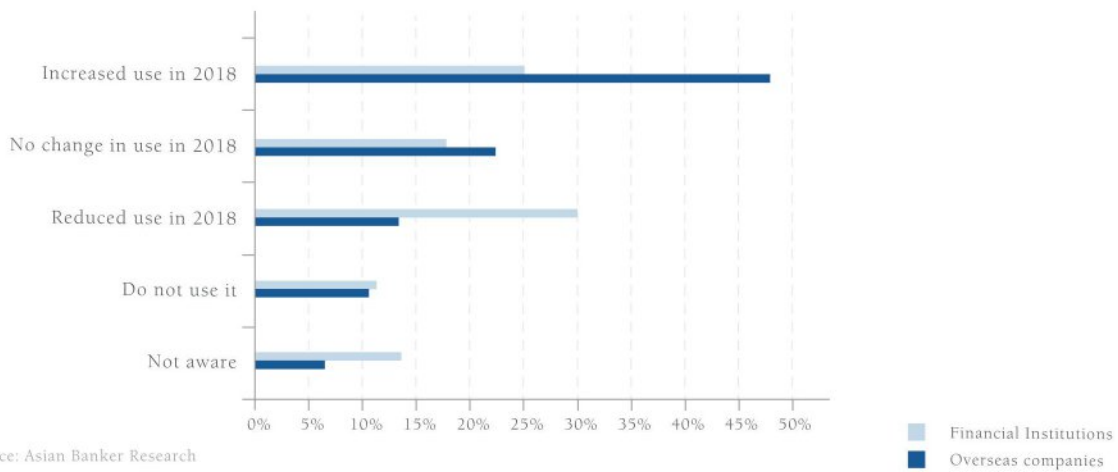
Source: Asian Banker Research, HKMA, CBC, MAS, RBA, BOE

The survey results consistent with the trends seen last year show a significant 47% overseas companies increased investments in RMB deposits outside mainland China in 2018.

However, among financial institutions, 30% reduced and 26% increased their RMB deposits outside mainland China.

Figure 14: 47% of overseas companies increased their RMB based deposits outside mainland China

Change in use of RMB based desopits outside China in 2018



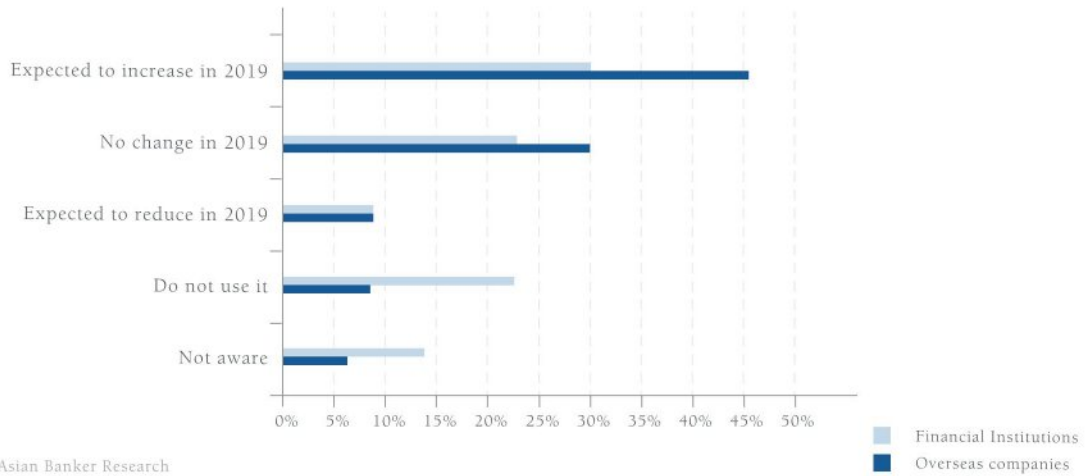
Source: Asian Banker Research

Respondents indicated their confidence for growing their RMB offshore deposits in 2019 as 45% of overseas companies and 30% of financial institutions plan to increase RMB

deposits outside China while 23% financial institutions expect to maintain the status quo in their current offshore deposits.

Figure 15: 45% of overseas companies and 30% of financial institutions plan to increase deposits outside China in 2019

Expected change in use of RMB based deposits outside China in 2019



3. Key trends of RMB as international reserve assets

3.1. Use of RMB as a reserve currency

In the third quarter of 2018, RMB reserves held by countries that report to the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) system stood at \$192.54 billion in value, 1.80% of the allocated reserves, up from 1.12% in the third quarter of 2017. Over 60 foreign central banks and monetary authorities have included RMB in their official FX reserves. Central banks across countries have shared views on the recent developments and current transition in RMB internationalisation.

Yi Gang, Governor of the People's Bank of China, 20 December 2018

“According to the IMF's classification of capital account, 37 out of all 40 items have already achieved full or partial convertibility, accounting for 92.5%, leaving only 3 items to be opened.”

Mark Carney, Governor of the Bank of England, 9 January 2019

“As the world re-orders, this disconnect between the real and financial is likely to reduce, and in the process other reserve currencies may emerge. In the first instance, I

would expect these will be existing national currencies, such as the RMB.”

Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore, 27 November 2018

“Expanding the suite of offshore RMB financial products and facilitating more investments into China's capital markets through collaboration between Shanghai and Singapore financial institutions... would be aligned with China's goals to open up its capital markets and promote RMB internationalisation.”

Joachim Wuermeling, Member of the Executive Board of the Deutsche Bundesbank, 15 January 2018

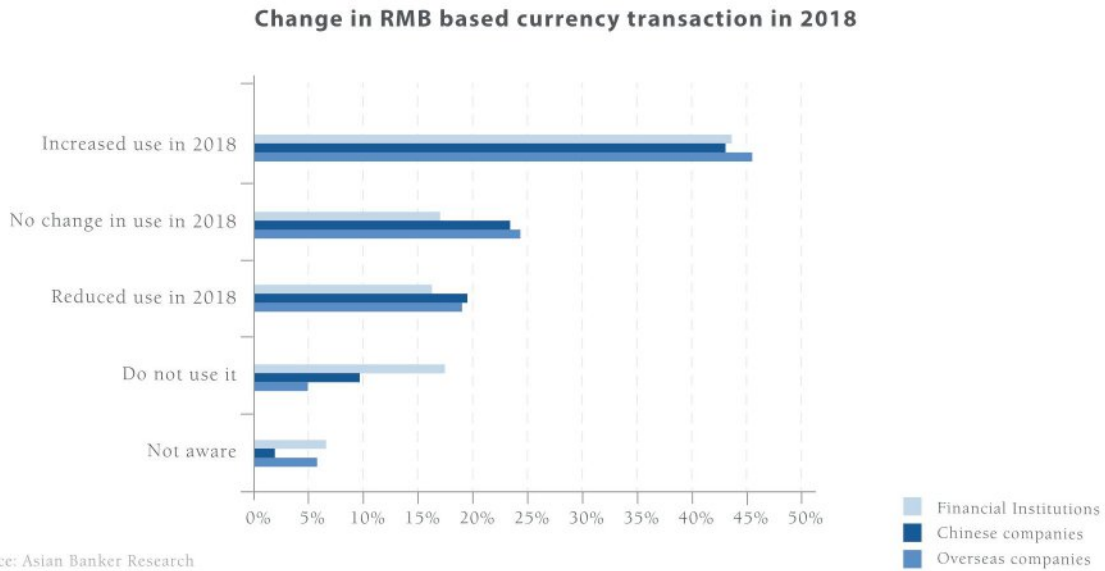
“The decision to accept the yuan [in our currency reserves] is part of a long-term diversification strategy and reflects the increased role of the Chinese currency in the global financial system.”

3.2. Developments in RMB currency exchange transactions

The survey shows that RMB based currency exchange transactions continued to grow among companies in 2018 as 44% of Chinese companies, 45% of overseas companies and 44% of financial institutions increased their

use, consistent with last year's survey, indicating an overall growing usage over the last two years.

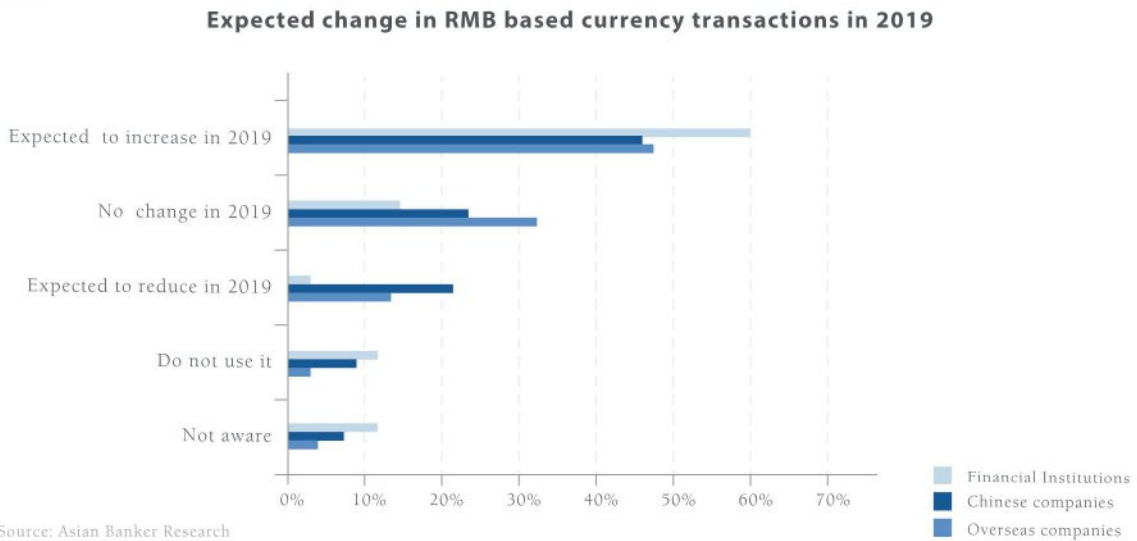
Figure 16: RMB currency exchange transactions continued to witness a strong growth among respondents in 2018



This trend is expected to continue in 2019 as 60% financial institutions, 48% overseas companies and 46% Chinese companies indicated that they will increase RMB based currency

exchange transactions this year, while only 13% overseas and 21% Chinese companies expect to reduce their use.

Figure 17: Over 46% companies expect to grow their RMB currency exchange transactions in 2019

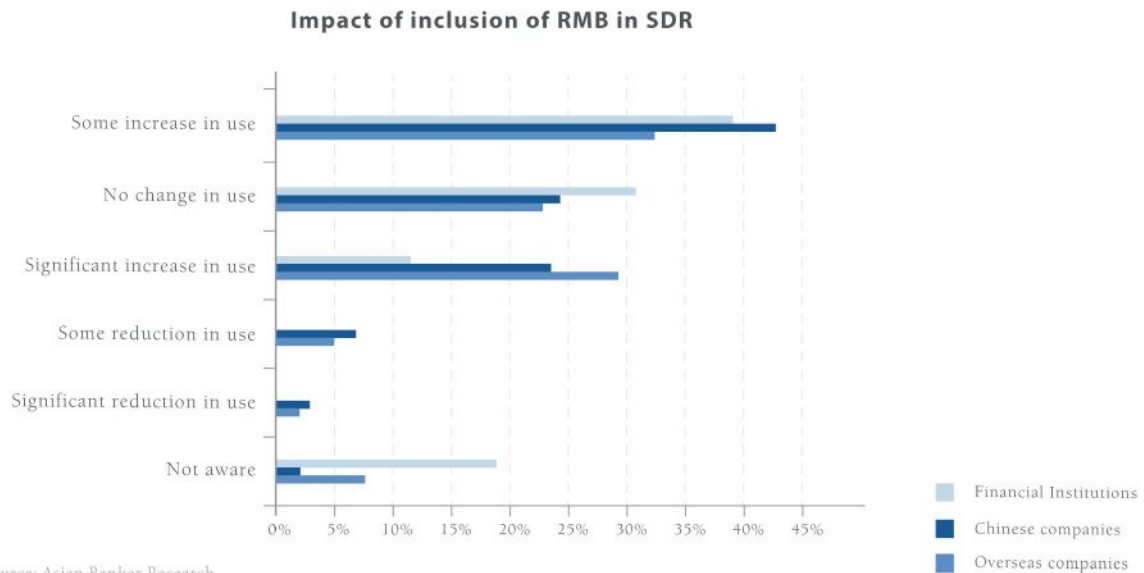


3.3. Impact of RMB inclusion in Special Drawing Right basket

A significant 52% of financial institutions, 66% of Chinese and 63% of overseas companies said that the inclusion of RMB in special drawing basket (SDR) by International Monetary Fund (IMF) has led to an increase in their

use of RMB. This includes 30% of overseas and 23% of Chinese companies that commented that the inclusion led to 'significant increase in their use of RMB'.

Figure 18: Two thirds of companies said that the inclusion of RMB in the SDR led to their increase in use of RMB



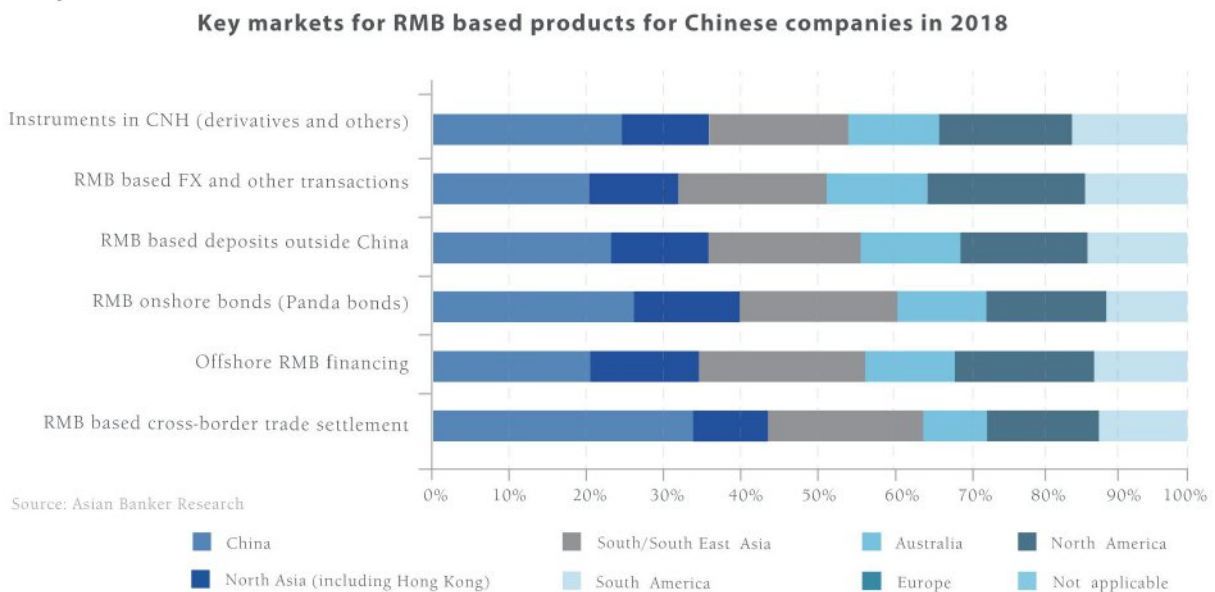
4. Key developments in offshore RMB centres

4.1. Use and change of primary offshore RMB centres

Respondents were asked in which market they conducted most of their RMB denominated cross-border activity and among Chinese companies, after China, South and South East Asia emerged as the biggest market, followed by Europe across most of the products. With proximity to China, various initiatives by the Chi-

nese government and growing trade relations, South East Asia remains a key region for Chinese companies. In 2019, Chinese companies expect South/South East Asia and Europe to play a greater role in cross-border trade settlement.

Figure 19: South and South East Asia emerged as the biggest RMB offshore market for Chinese companies

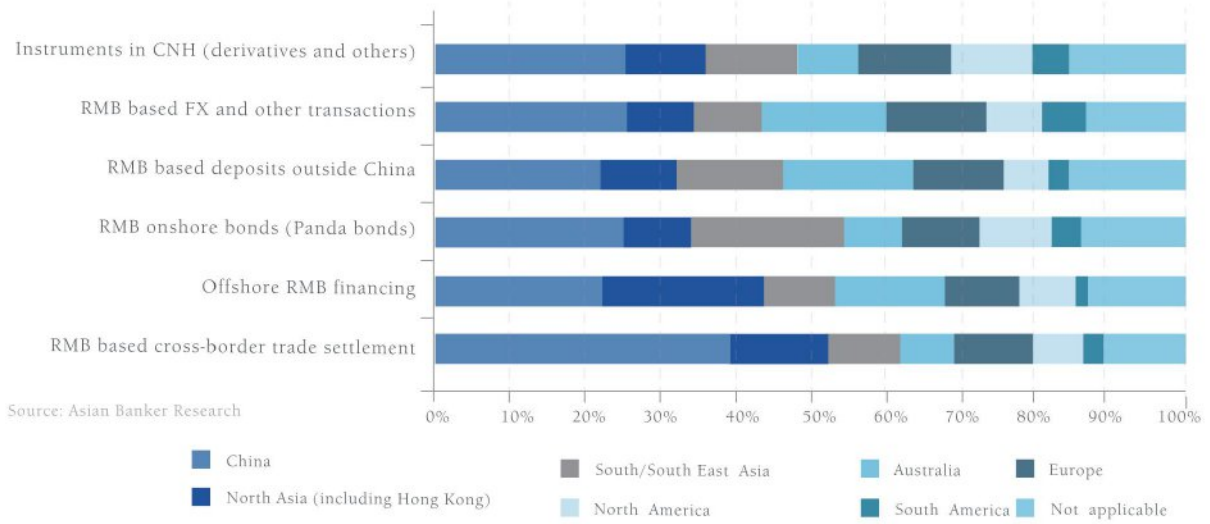


For overseas respondents, China remains the top market, but they have a more geographically diversified engagement among other countries for their use of RMB products. Among financial institutions, after China, North Asia

emerged as the key market followed by South/South East Asia for most of the RMB cross-border products.

Figure 20: Overseas companies report a more diversified engagement across other countries after China

Key markets for RMB based products for overseas companies in 2018



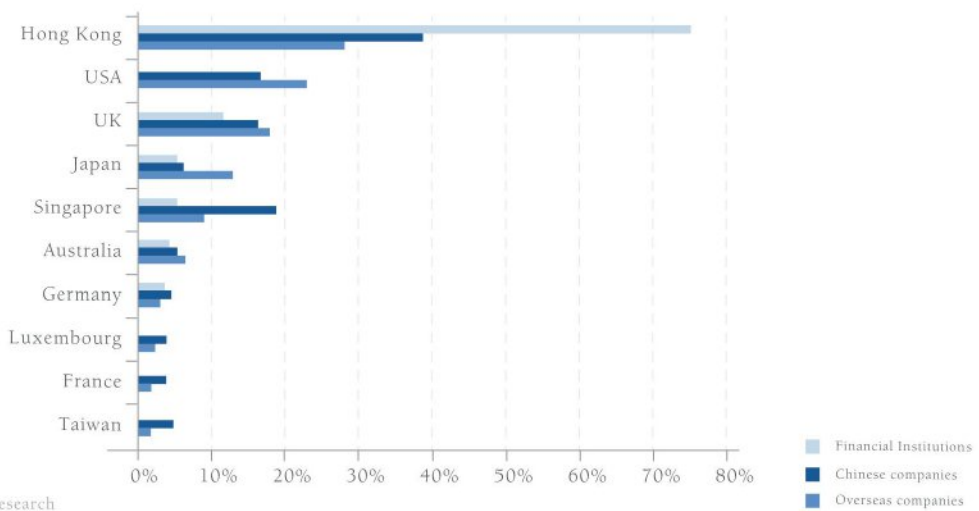
By November 2018, Hong Kong remained the largest offshore RMB clearing centre with a 78.66% share followed by the UK at 5.44%. The UK is the most important trading centre for RMB globally, outside of mainland China, by volume and by value. Some 37.79% of RMB FX transactions (excluding China) by value were conducted in the UK, with Hong Kong at second place with a 28.92% share according to

SWIFT's RMB Tracker.

The respondents were asked to mark the main offshore RMB centre that they used for their transactions and Hong Kong emerged as the most popular amongst 75% of FIs, 39% of Chinese and 28% of overseas companies, followed by USA and UK.

Figure 21: Hong Kong emerged as the main offshore RMB centre among respondents

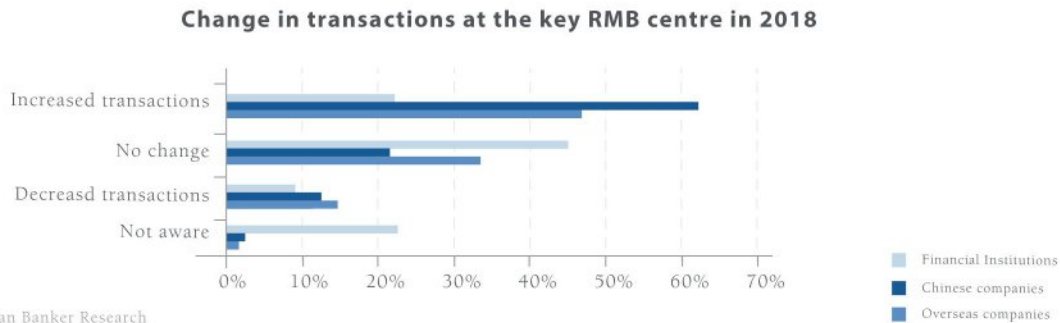
Key RMB offshore centre used by respondents



A majority of Chinese (63%) and overseas (47%) companies increased their transactions at their main RMB offshore centre in 2018 and only 16% of overseas and 12% of Chinese com-

panies decreased their transactions. However, a significant 44% financial institutions did not witness a change in their transactions at their main offshore RMB centre.

Figure 22: 63% of Chinese and 47% of overseas companies increased transactions at their main RMB hub in 2018



4.2. Status of Chinese financial institutions in primary offshore RMB centres

Among overseas companies there emerged a preference for local branches of global banks (44%) followed closely by local branches of domestic banks (41%), compared to last year's survey where only 34% of overseas companies had said that they prefer Chinese banks, this

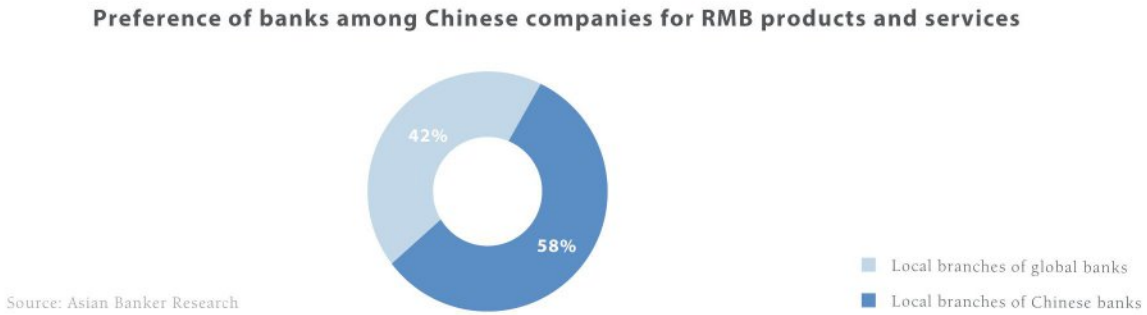
indicates the increasing role and capability of Chinese bank in offering global RMB products. Among Chinese companies, the trend remains very similar to last year with a majority preference for Chinese banks.

Figure 23: 44% of overseas companies prefer local branches of global banks

Preference of banks among overseas companies for RMB products and services



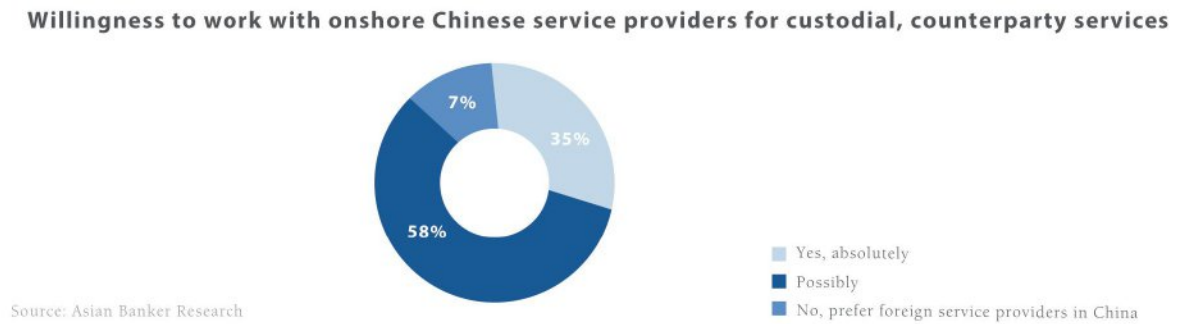
Figure 24: 58% of Chinese companies prefer local branches of Chinese banks



Among financial institutions, there emerged a strong willingness to work with onshore Chinese service providers for custodial, counter-

party and transactional services as 35% said 'yes, absolutely' and 58% said 'possibly'.

Figure 25: Most financial institutions showed a willingness to work with Chinese service providers

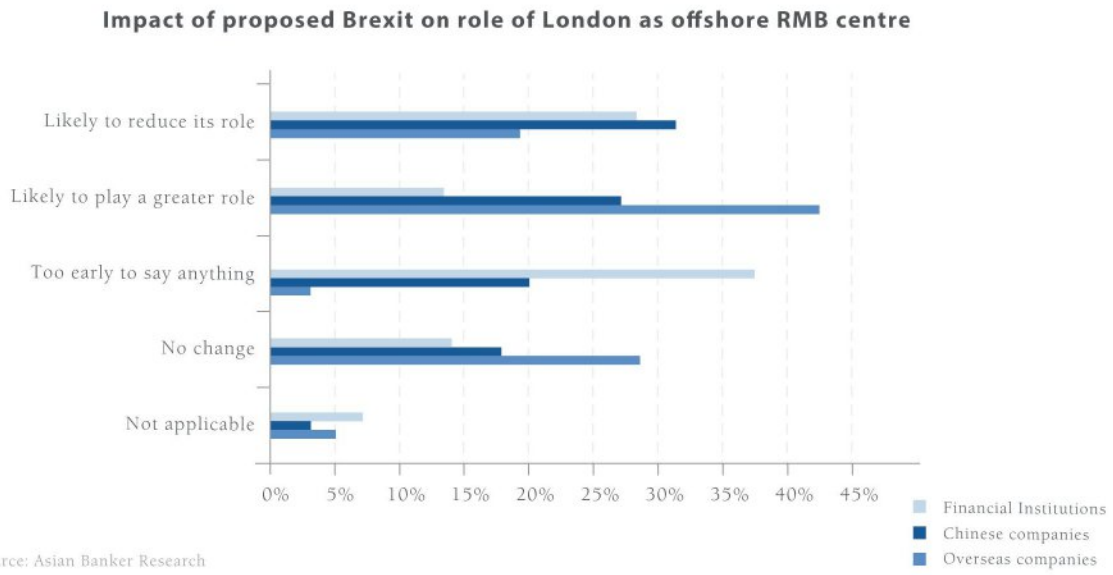


4.3. Brexit and its impact

The respondents were asked how they expected the role of London as an RMB offshore centre for their transactions to change post-Brexit and the responses were unsurprisingly mixed amid the uncertainty. One third of Chinese companies expected that the role of London is likely to reduce, while on the other

hand, 42% of overseas companies expected London to play a greater role post-Brexit. Among financial institutions, 37% felt that it was too early to say anything while 28% expect that role of London as offshore RMB centre is likely to reduce post-Brexit.

Figure 26: No unanimity emerged over the role of London as an offshore RMB centre post-Brexit



5. Developments in RMB cross-border payment systems

5.1. Developments in Cross-border Interbank Payment System (CIPS)

As of February, 2019, the total number of CIPS Indirect Participants has reached 824, among which 630 participants are from Asia (including 352 Chinese mainland indirect participants), 104 are from Europe, 31 are from Africa, 25 are from North America, 17 are from Oceania and 17 are from South America, covering 89 countries and regions around the world.

The introduction of a net settlement mechanism on the basis of a real-time full settlement model means the growing centralised super-highway, conforming to international standards, will streamline clearing and settlement while lowering transaction fees.

5.2. Change in use of RMB in SWIFT transactions

According to the SWIFT data, RMB ranked as the fifth most active currency worldwide for domestic and international payments by value at the end of December 2018, accounting for

2.07% of the global market. This is slightly up from 1.61% in December 2017.

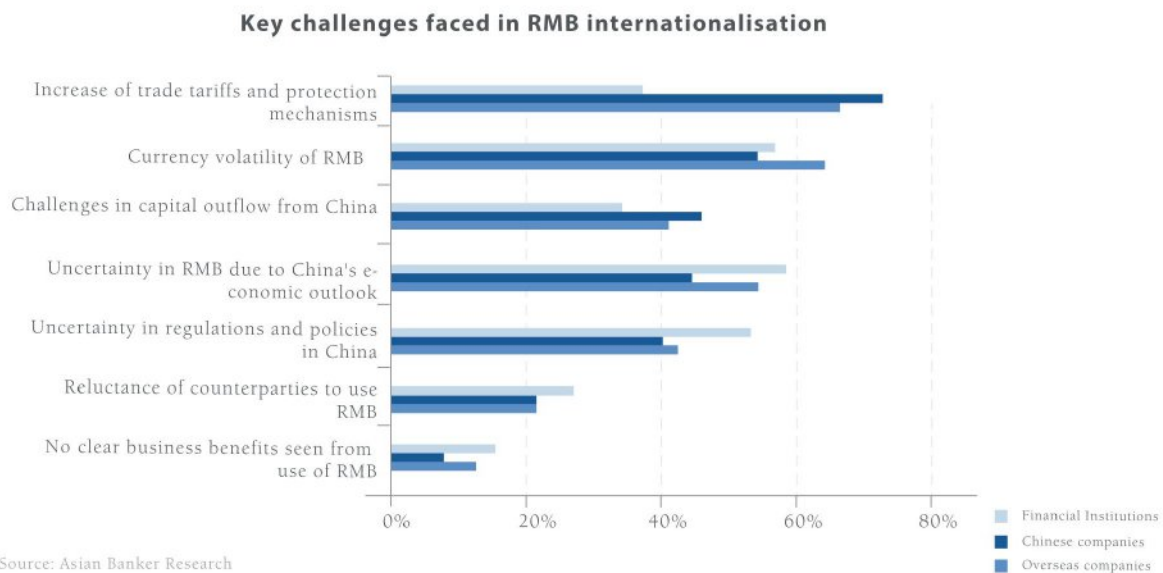
6. Challenges to RMB internationalisation

6.1. Key challenges

Macro-economic policies continue to play a significant role in RMB internationalisation. For the majority of Chinese (72%) and overseas (67%) companies, the increase in trade tariffs and protectionism were rated among the top challenges in the use of RMB for international transactions. Besides this, currency volatility

and challenges in capital outflow are the other two factors considered as significant challenges by companies. With a slightly different view, 58% of financial institutions rated currency volatility of RMB and uncertainty due to China's economic outlook as the top challenges.

Figure 27: Increase in trade tariffs and protectionism emerge as the biggest concern



6.2. Impact of US-China trade friction on RMB internationalisation

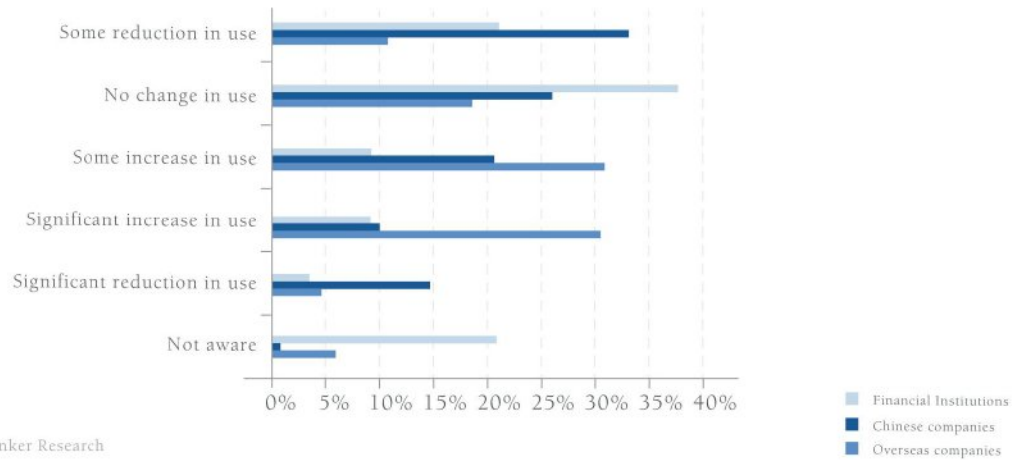
There was a significant divergence between overseas and Chinese corporations over the impact of tariffs on their use of RMB cross-border products in 2018 with overseas corporations trending towards increasing while Chinese companies' responses showed a trend towards decreasing their use.

44% of Chinese companies said that these tariffs have led to a reduction in the use of RMB products, while a lower percentage (30%)

reported an increase in use. Additional tariffs are likely to increase the costs making the Chinese products less price competitive in US which could impact their import demand. On the other hand, 62% of overseas companies stated that the tariffs had led to an increase in use. Among financial institutions, the largest share (37%) said that they did not witness a change in their usage of RMB due to change in tariffs.

Figure 28: Significant divergence between overseas and Chinese corporations over the impact of tariffs

Impact of rise in trade tariff between China and US on use of RMB based cross-border products



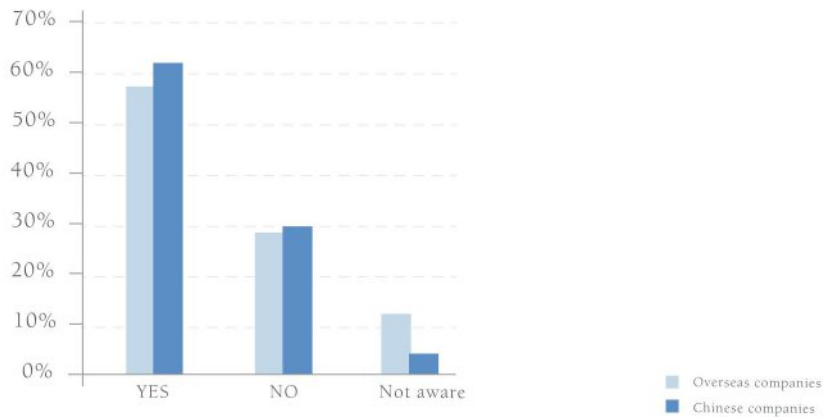
Source: Asian Banker Research

The trade conflict has however led to significant supply chain changes across the industry in 2018. 61% of Chinese companies and 57%

of overseas companies commented that they have made supply chain changes following the increases in trade tariffs.

Figure 29: 57% of overseas and 61% of Chinese companies made supply chain adjustments in 2018

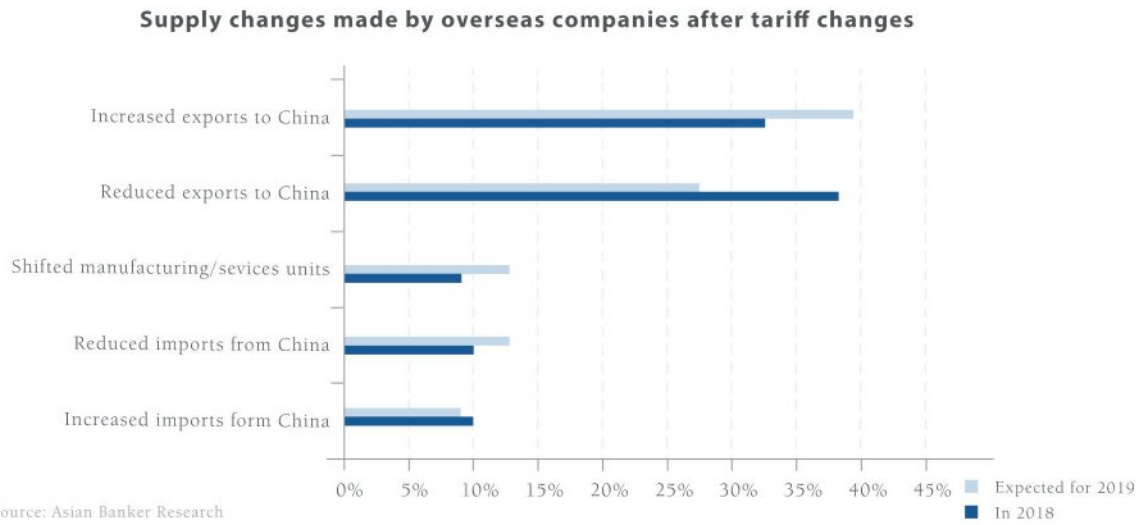
Supply chain adjustments in 2018 after tariffs increase



Source: Asian Banker Research

Among overseas companies, the largest proportion of companies (39%) reduced exports to China while 33% increased exports to China in 2018. Looking ahead, in 2019, 39% of companies plan to increase exports to

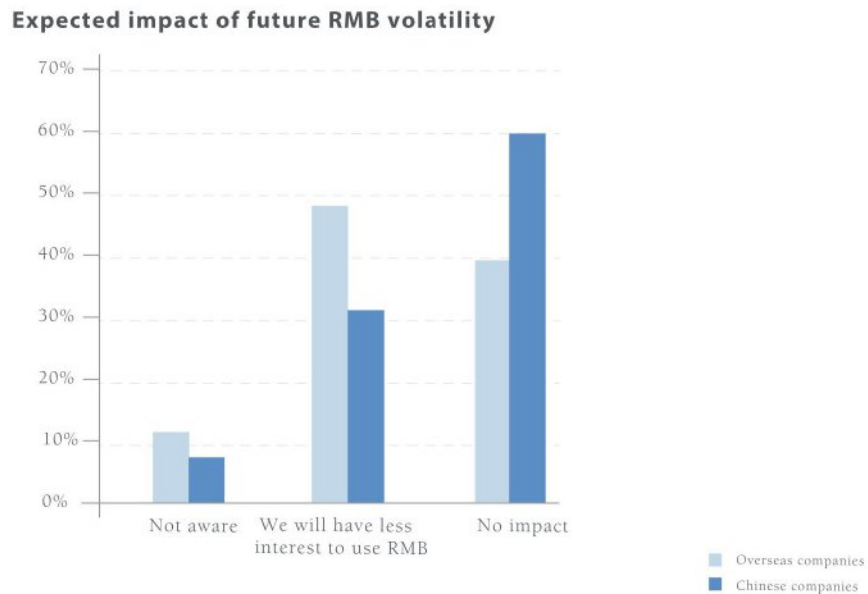
China. Imports to and from China had relatively less impact, while 9% of companies shifted their manufacturing or service units.

Figure 30: Notable impact on exports to China among overseas companies

6.3. Impact of currency volatility on RMB internationalisation

When asked about the impact of any future volatility on their transactions, overall, 55% of companies said that it will have no impact while 36% of companies said that they will have less interest in using RMB. The breakdown shows that 59% of Chinese companies

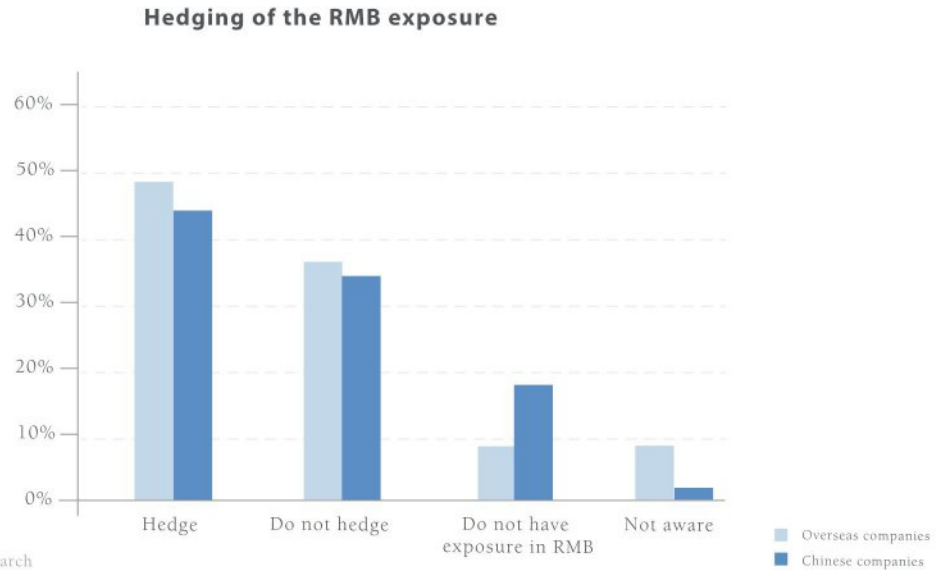
feel that future volatility will have no impact but 47% of overseas companies will have less interest in using RMB in case of future volatility. 47% of financial institutions also do not expect future volatility to impact on their RMB transactions.

Figure 31: The impact of future volatility in RMB currency brings contrary views

A significant 35% of companies do not hedge their exposure and remain susceptible to currency volatility. Last year's survey responses

had indicated a much weaker risk tolerance with over 96% companies hedging their RMB.

Figure 32: There is a strong focus among companies towards hedging their RMB exposure

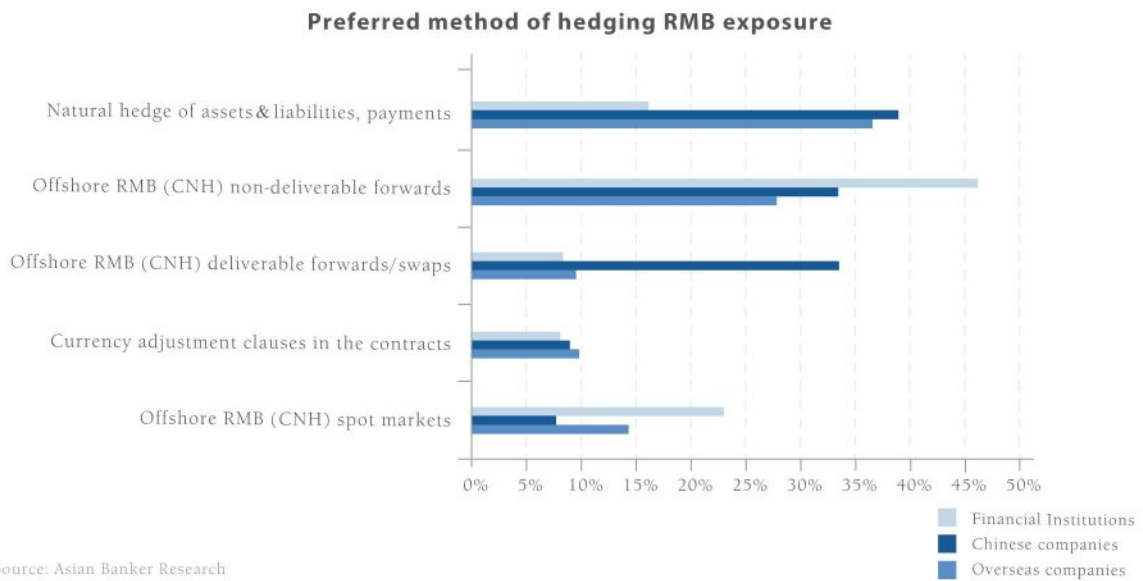


Source: Asian Banker Research

Consistent with last year's responses, both Chinese and foreign companies preferred method of hedging RMB exposure continue to be natural hedge of assets and liabilities, including leading and lagging of payments. In contrast, Chinese companies were much more

exposed (34%) to offshore RMB (CNH) deliverable forwards and swaps than overseas companies (10%). Among financial institutions, offshore RMB (CNH) non-deliverable forwards emerged as the most preferred method of hedging.

Figure 33: 39% of Chinese and 38% of overseas companies prefer natural hedge of assets and liabilities and leading and lagging of payments to manage their exposure



Source: Asian Banker Research

7. Future strategies on RMB internationalisation

7.1. RMB internationalisation with opening of financial markets

The relevant Chinese authorities promulgated a host of regulations in 2018 towards opening its markets for overseas investors. Major breakthroughs include:

- Quadrupling the daily trading quota for Stock Connect between Shanghai and Shenzhen with Hong Kong and moving ahead with the new Shanghai-London Stock Connect scheme.
- The removal of the fund remittance limit under Qualified Foreign Institutional Investor (QFII) and removal of the investment principal lock-up period for QFII and RMB qualified foreign institutional investors (RQFII) in addition to the lifting of the 20% cap on the funds that investors have been allowed to take out of China. Allowing investors under QFII and RQFII schemes to make foreign exchange hedging on their investments onshore.
- Among other industry initiatives MSCI announced that 234 China A shares will be added to its equity indexes.
- Authorising Chinese enterprises to transfer RMB funds raised through issuing bonds or

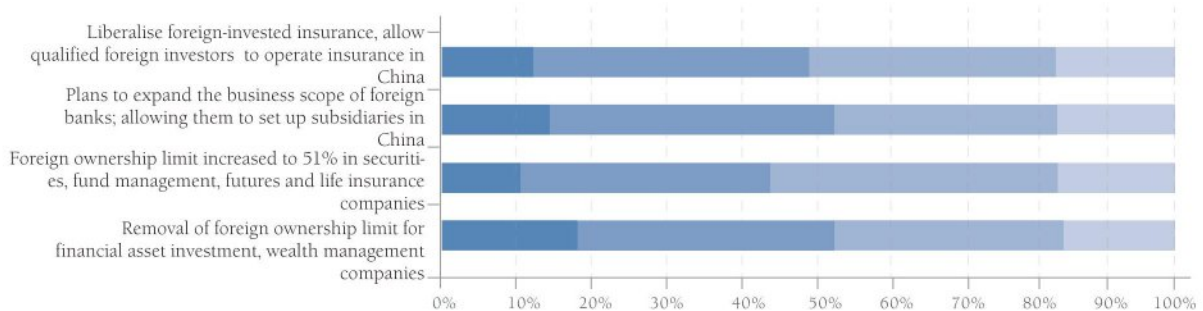
equities overseas back onshore.

- Raised the foreign ownership limits to 51% in securities, fund management, futures and life insurance companies with plans to remove all restrictions by 2021.
- Abolishing the requirement for joint venture securities firms to have at least one local security firm as a shareholder

In addition, China plans to expand the business scope of foreign banks, allowing them to set up branches and subsidiaries in China, liberalise the operations of foreign-invested insurance companies and allow qualified foreign investors to operate insurance agencies in China.

Financial institutions were asked about the expected impact of these reforms on their institutions and most institutions responded positively on these reforms. Among these, the initiatives towards expanding the scope of foreign banks are expected to bring increase in use of RMB by maximum number of institutions.

Figure 34: A significant number of financial institutions expect to see greater use of RMB following the reforms



Source: Asian Banker Research

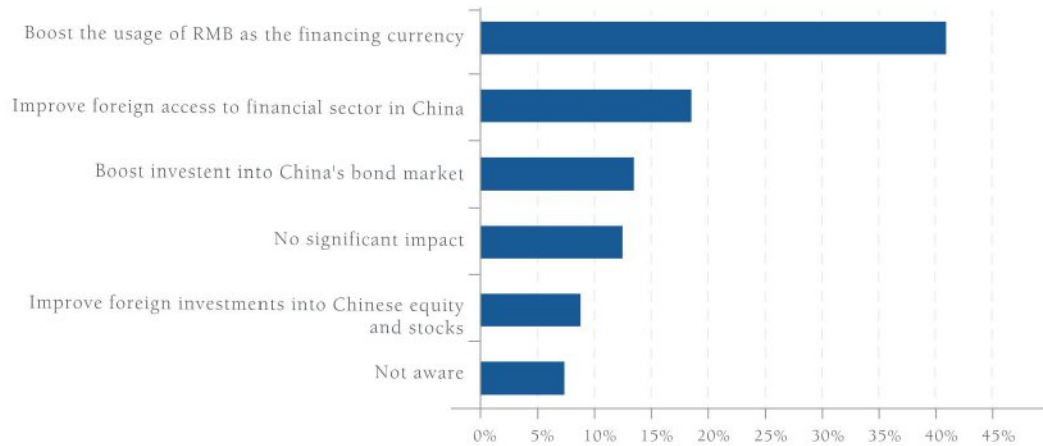
■ Significant increase in use ■ Some increase in use ■ No change in use ■ Not aware

The financial institutions were asked about the likely impact of the opening of financial markets for their institution and 41% financial

institutions said they expect these initiatives to boost the usage of RMB as a financing currency.

Figure 35: 41% of financial institutions expect that the opening of financial markets will boost the usage of RMB as a financing currency

Biggest impact of opening of financial markets for Financial Institution



Source: Asian Banker Research

■ Financial Institution

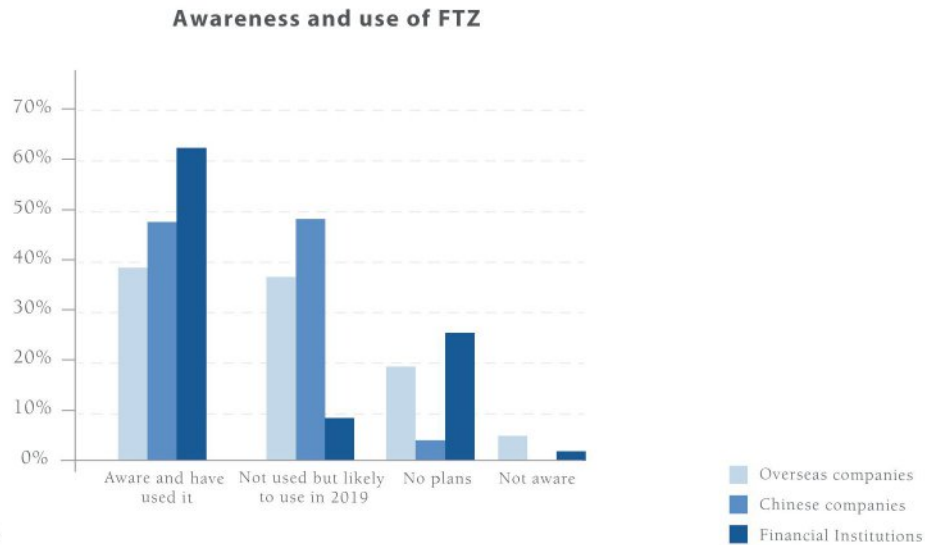
7.2. RMB internationalisation with freedom of trade and new channels

In April 2018, Chinese President Xi Jinping announced the decision to build the whole island of Hainan into a pilot free trade zone, in addition to the existing eleven of: Shanghai, Guangdong, Tianjin, Fujian, Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shanxi provinces.

The survey shows that the awareness of these

FTZs remains high with 63% financial institutions, 48% of Chinese companies and 39% overseas companies already utilising them. In addition, another 48% of Chinese and 36% of overseas companies said that they plan to begin using them in 2019. This indicates a growth in usage as last year's survey had shown that 32% of overseas and 34% of Chinese companies were using FTZ.

Figure 36: 68% of financial institutions and 39% of Chinese companies have used free trade zones



Source: Asian Banker Research

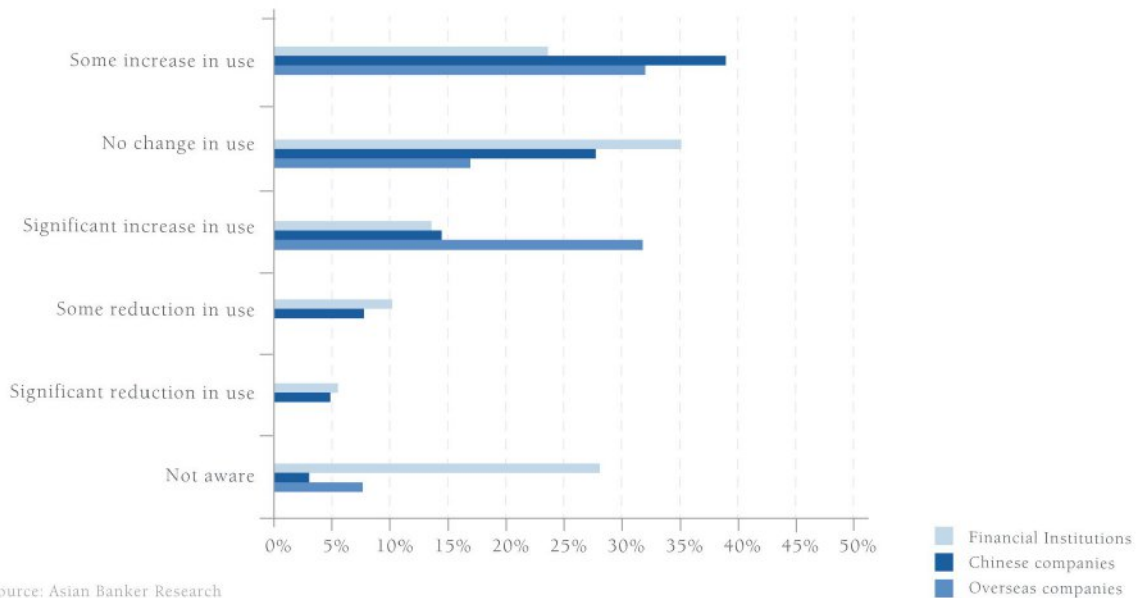
Among other international cooperation initiatives, China maintains several Free Trade Agreements (FTAs) with its trade and investment partners such as ASEAN, Singapore, Chile and Australia, and is in the process of implementing several additional ones.

The survey reveals that 63% of overseas and

54% of Chinese companies believe that these FTAs have resulted in the increased use of RMB in cross-border transactions. 32% of overseas companies stated that FTAs have resulted in 'a significant increase' in their use of RMB products. However, among FIs, over one third did not see any impact of FTAs on RMB transactions.

Figure 37: 63% of overseas and 54% of Chinese companies say that implementation of FTAs have increased their RMB cross-border transactions

Impact of free trade agreements of China with other countries on use of RMB products



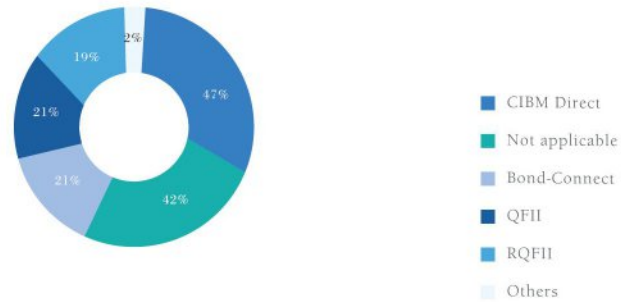
Source: Asian Banker Research

The China Interbank Bond Market was the most popular channel among financial institutions for accessing China's onshore bond mar-

kets with 47% of financial institutions using CIMB Direct while 21% reported using Bond-Connect and QFII respectively.

Figure 38: CIMB Direct emerged as the most commonly used channel by financial institutions

Channels used by FIs to access China's onshore bond market



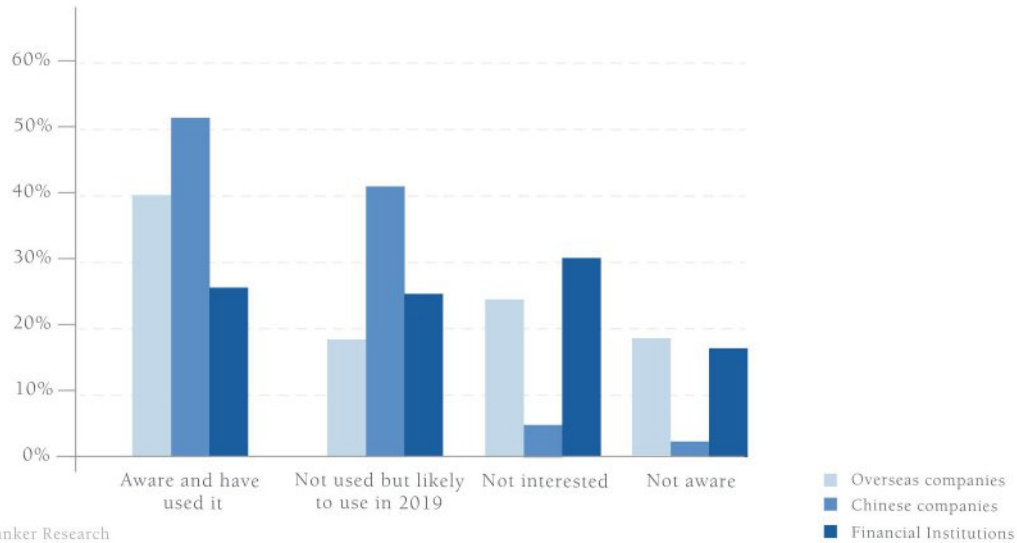
Source: Asian Banker Research

The survey reveals that a significant 51% of Chinese and 41% of overseas companies are already using the Greater China Stock Connects. In addition, 41% of Chinese companies that are not currently using it, but plan to do so in 2019. The awareness and interest among overseas companies in using Stock-Connect

remains lower than Chinese companies perhaps suggesting a preference for other mechanisms such as the China Interbank Market (CIBM). Among FIs, a significant 31% reported that they were not interested in using Stock-Connect.

Figure 39: More than half of Chinese companies used Stock-Connect in 2018

Use of Stock-Connect programme

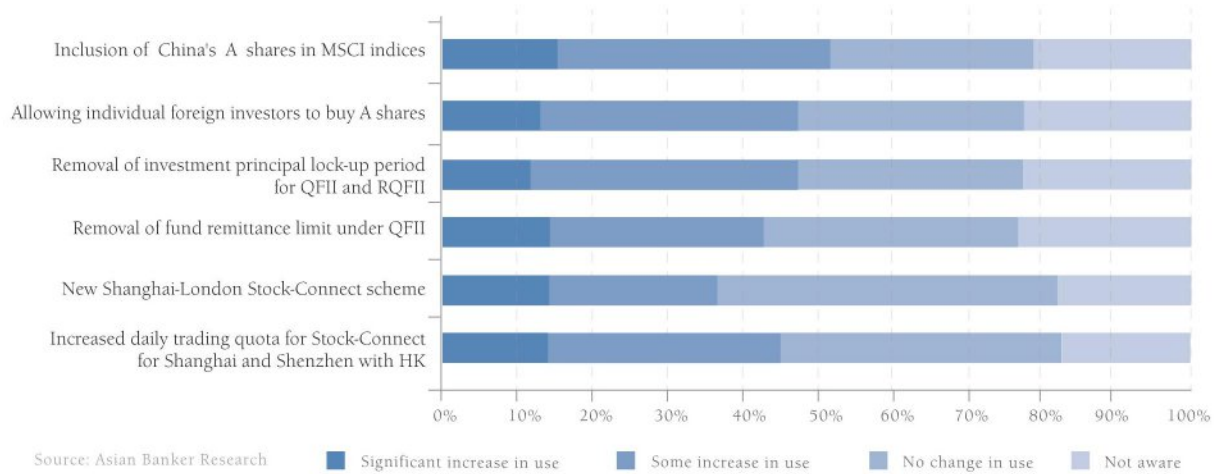


Source: Asian Banker Research

FI respondents were asked about the impact of recent initiatives towards the opening of China's markets for overseas investors and the highest proportion of institutions expect a

positive impact in use of RMB. However, about one third of institutions do not expect to see an impact of these on their usage of RMB in 2019.

Figure 40: A significant number of institutions expect a positive impact on use of RMB following recent initiatives towards opening of China's market



7.3. Belt and Road Initiative and potential impact

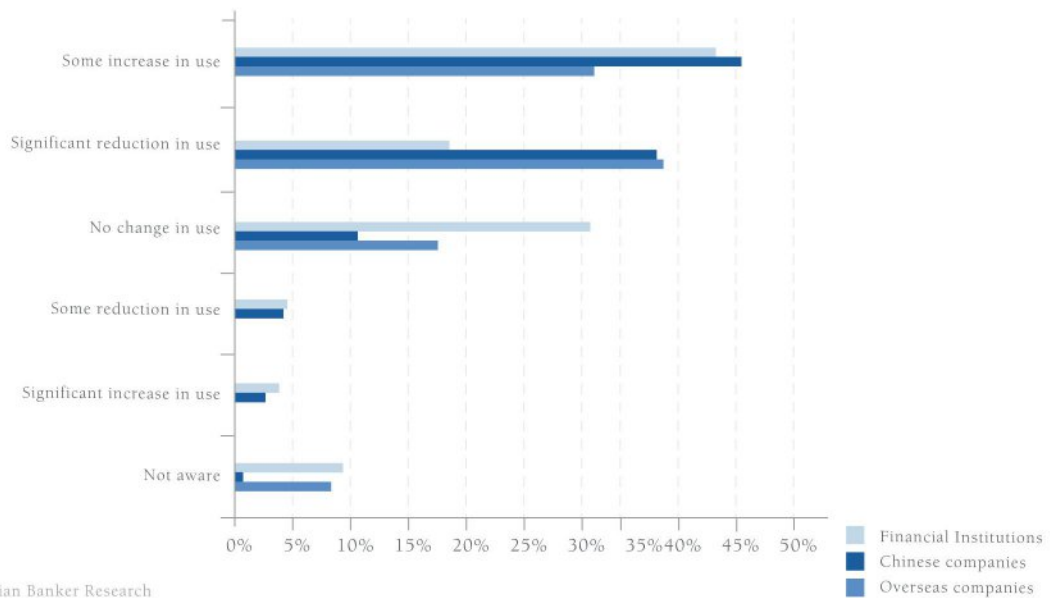
China's Belt and Road Initiative, a vast infrastructure and connectivity initiative spanning the Asia Pacific, Middle East Africa and Europe, is one of the key drivers of RMB internationalisation.

Our survey revealed that a large majority, 61% FIs, 80% of Chinese companies and 69% of overseas companies, consider the Belt and Road Initiative to be contributing to the

increase in the use of RMB based cross-border products and services. Of these, 37% of Chinese and overseas companies reported that the BRI has brought about a 'significant increase' in the international use of RMB. The findings are consistent with last year's survey where 74% of Chinese and 54% of overseas companies said that they were 'optimistic' about the impact of the BRI.

Figure 41: 80% of Chinese and 69% of overseas companies believe Belt and Road Initiative led to increase in use of RMB cross-border products

Impact of Belt and Road Initiative on use of RMB based cross-border products



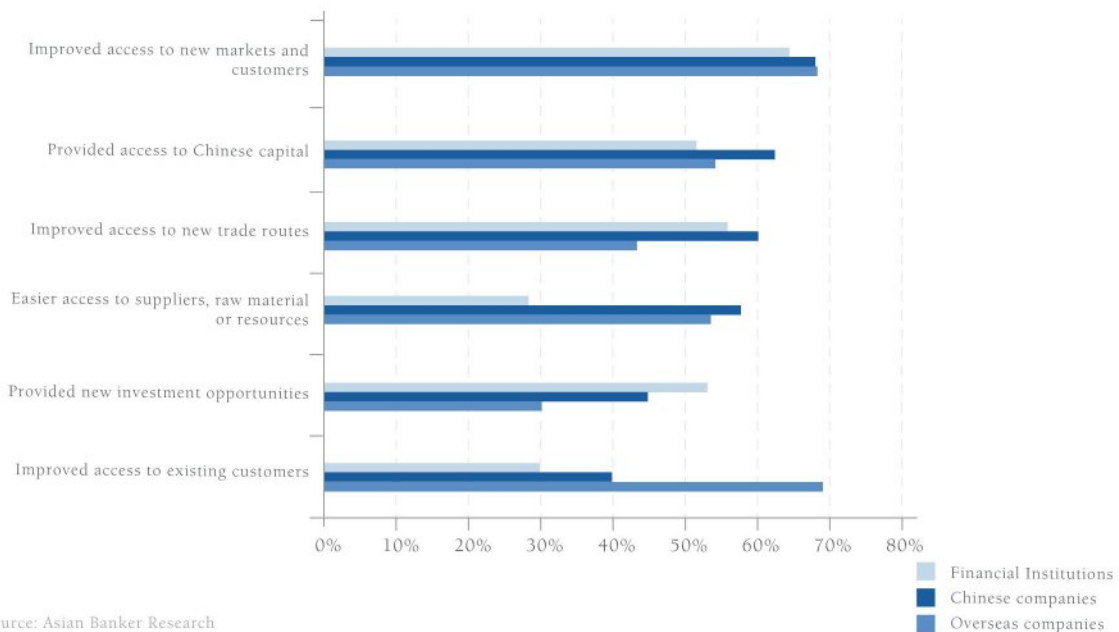
Source: Asian Banker Research

Among the most highly rated benefits, the most common cited by financial institutions and Chinese companies is 'easier access to new markets and customers', access to Chinese capital and access to new trade routes.

Among overseas companies, 69% stated that it provided easier access to existing customers and 68% said that it improved access to new markets and customers.

Figure 42: Belt and Road Initiative led to several advantages for companies

Impact of Belt and Road Initiative on companies



Source: Asian Banker Research

8. Conclusion

New regulations promulgated by Chinese authorities over the last year have given greater access to the onshore market for investors, streamlined financial infrastructure, Free Trade Zones and the Belt and Road Initiative are also driving the use of RMB globally. Comparing to 2017, cross border transactions conducted in RMB picked up remarkably. Overseas entities increased their total domestic RMB financial assets, with bond ownership growing the fastest.

Although tariffs on trade, currency volatility and uncertainty over China's economic outlook are cited as the main concerns, the respondents surveyed were largely bullish on

the use of RMB into 2019 as they track developing avenues as they emerge.

For the RMB to be an international currency, continued liberalisation of the financial markets will increase the use of RMB between residents and non-residents and also in transactions that involve only non-residents.

New inroads are incrementally paving a way for the global use of the RMB and 2019 should see an uplift in the RMB internationalisation as de-regulation and streamlined financial infrastructure take effect.

9. Appendix – Survey respondents' profile

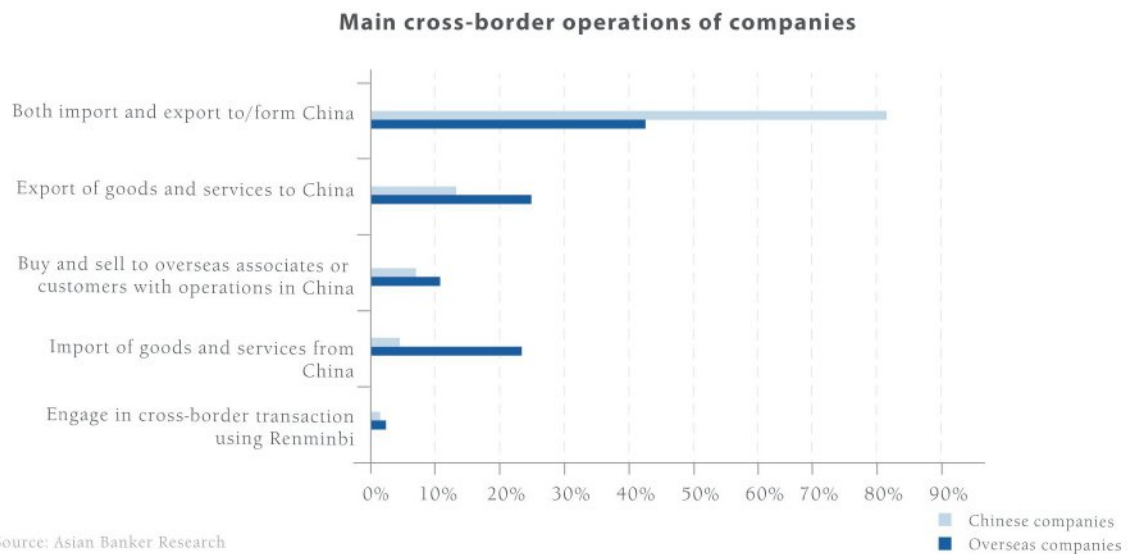
The comprehensive survey conducted in December 2018 and January 2019 covered 402 Chinese companies (includes only companies from mainland China), 117 overseas companies from North America, South America, Europe and Asia-Pacific (including Hong Kong and Macao). Only companies that engaged in cross-border operations with China were invited to participate in the survey. Across the report, 'Mainland China' is shortened to 'China' and excludes Hong Kong and Macao, while the 'Greater China' reference includes Hong Kong and Macao.

The survey was conducted across senior executives in finance, including chief financial offi-

cers, corporate treasurers and senior executives in treasury. Only those executives that were involved in RMB products or financing participated in the survey.

The companies surveyed are spread across industries with the highest proportion of companies coming from the industrial and manufacturing sector (53% Chinese and 42% overseas companies), followed by 42% of overseas companies from the financial sector and 23% of Chinese companies with information technology operations. In addition, a survey was also carried across senior executives in 43 financial institutions.

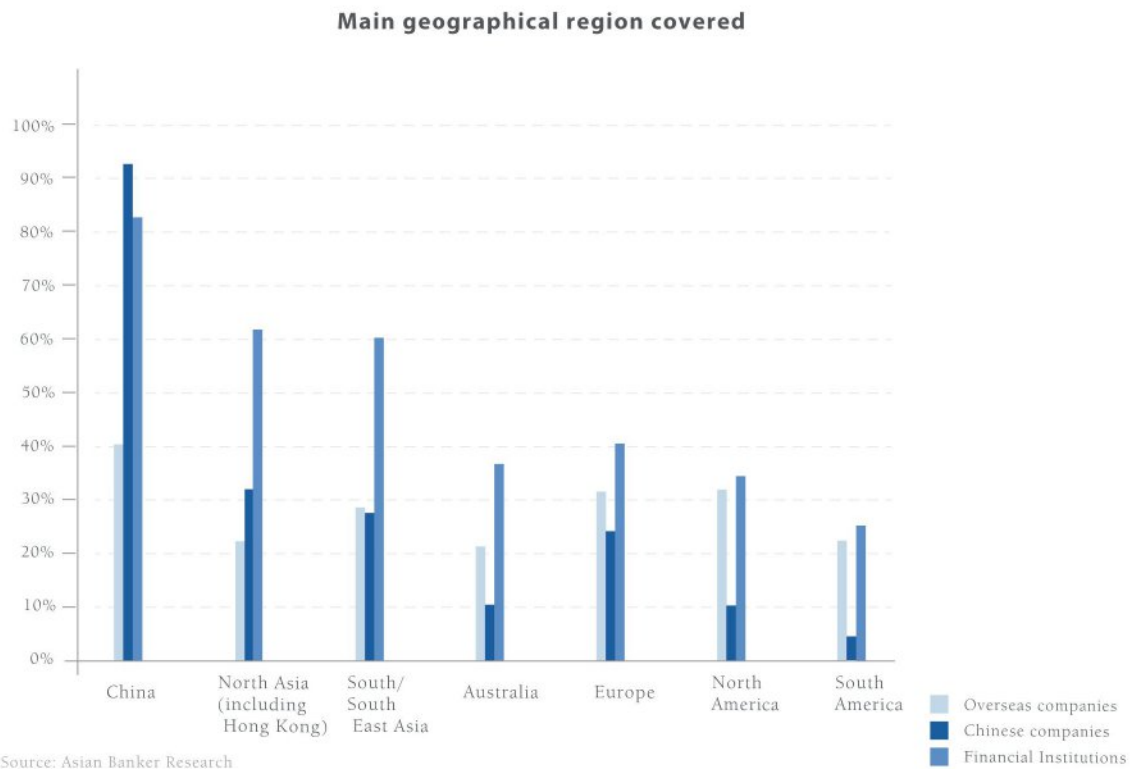
Figure 43: The majority of companies surveyed conduct both import and export of trade and services to and from China



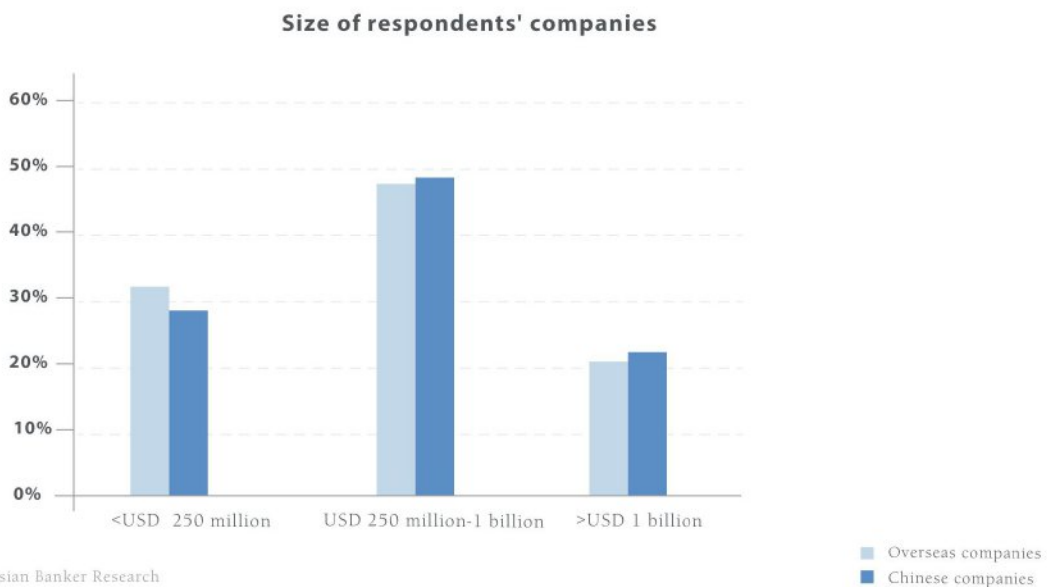
Source: Asian Banker Research

A majority of Chinese respondents cover China and North Asia (including Hong Kong) and thereafter South/Southeast Asia region. Comparatively,

overseas respondents are more evenly spread across different geographical regions, besides China.

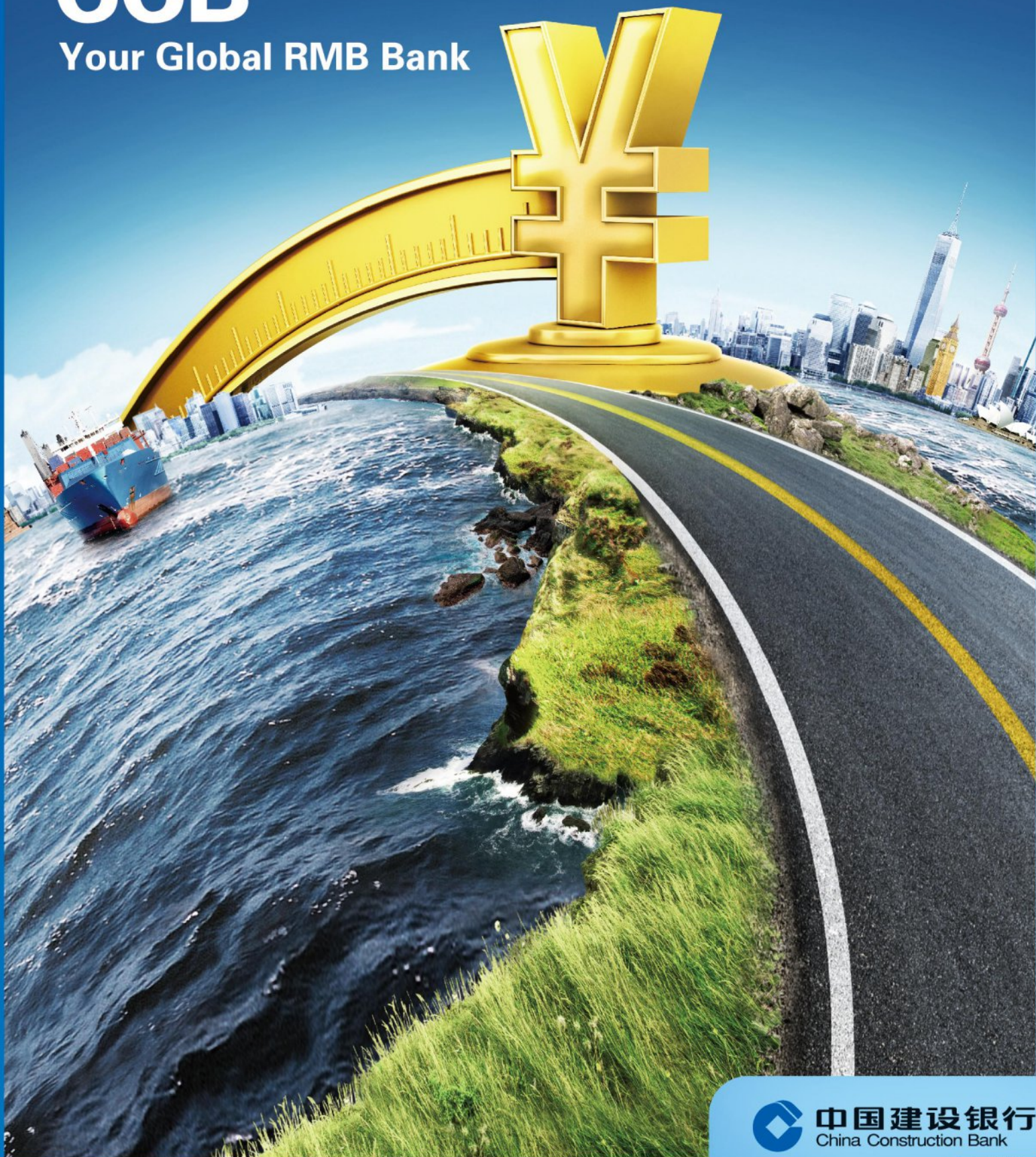
Figure 44: Respondents covered regions across different continents

While the companies vary in size, over 47% of companies are mid-sized with global turnover ranging between \$250 million to \$1 billion.

Figure 45: Majority of the respondents were mid-sized

CCB

Your Global RMB Bank



中国建设银行
China Construction Bank

www.ccb.com

