London RMB business volumes 2014

City of London renminbi series

POLICY PRACTITIONER PAPER CITY OF LONDON CORPORATION

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Note of thanks

This report marks the last one in the series. Data on the London RMB market will continue to be monitored and the City of London RMB initiative will continue to support and promote the further development of the UK as a hub for RMB business.

Bourse Consult and the City of London would like to take this opportunity to thank all contributors to this series. Without their time and effort this successful series would not have been possible.

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Policy developments

Last year we reported that China's short-term economic prospects had become slightly less bright, and this has continued into 2014 with the acceptance of a "new normal" of slower growth, which is expected to continue at least through to 2017. As in the previous year the currency continued to depreciate and display increased levels of volatility. Concerns remain about the shadow banking system and the property markets, though market commentators continue to be sanguine about China's ability to engineer an orderly rebalancing of the economy. At the same time the number of economic initiatives has continued to multiply and the drive towards financial reform continues unabated. Last year saw major developments such as the launch of the Shanghai-Hong Kong Stock Connect and plans for a new Qualified Domestic Individual Investor 2 (QDII2) programme, whilst the governor of the People's Bank of China (PBoC) Zhou Xiaochuan gave his strongest yet commitment to capital market liberalisation by setting an ambitious goal of convertibility during 2015. These developments emphasise China's ambition to step-up the pace of financial reform.

SWIFT's payments data showed that the RMB had moved into the top five global payments currencies, displacing both the Australian and Canadian dollars in January 2015: a stellar increase over its 13th position in 2013, though still only representing 4.4% of total global payments. More generally the goal of transforming the RMB into a global currency will inevitably expose China to the risk of an outflow of a considerable amount of funds to other financial centres and investment opportunities around the world. Indeed to achieve its goal of becoming a global currency continued outflows are required to build-up a very sizeable pool of RMB outside the country. Achieving this level of outflows would require the PBoC to place trillions of dollars into risky foreign assets or for China to run large trade deficits.

The opening of the Shanghai-Hong Kong Stock Connect in mid-November (which allows equity investors in Hong Kong and Shanghai to invest directly in each other's markets through an electronic link between the stock exchanges subject to maximum quotas) is a significant further step in opening the market. The link allows investors that have been excluded from previous schemes (notably hedge funds outside the QFII arrangements and mainland retail investors) to access these markets directly for the first time. Volumes were initially disappointing but after some fine-tuning to the system the volumes have improved, though Hong Kong to Shanghai flows continue to dominate. Stock Connect is also the first example of a successful trading link of this kind with past attempts at linkages between stock exchanges having failed to attract significant business. The flows have had a positive impact on RMB liquidity in Hong Kong which had been under pressure as the depreciation of the yuan reduced the attraction for holding RMB deposits in Hong Kong.

China has also taken the lead in setting up a new development bank in Asia, the Asian Infrastructure Investment Bank (AIIB). The aim of the bank is to meet the vast infrastructure needs of Asia but it is also seen by some as a possible way of breaking the US/Japanese dominance of development funding in Asia through the Asian Development Bank (ADB). The US and Japan have declined to apply for membership but most EU countries including the UK are expected to join. The governance structure is expected to be weighted towards Asian countries but non-Asian countries will need to have adequate representation to ensure the institute achieves its full potential.

The London RMB market

The picture that comes out from this year's survey responses is that London has continued to consolidate its position as a global centre for RMB business, despite some volatility. 2014 for instance saw declines in trade finance, but also witnessed the continuation of very strong growth in RMB forex trading, reflecting one of London's key strengths.

During 2014 the rapid growth of trade finance was reversed with a decline to ¥35.2 billion from ¥42.8 billion in 2013. The first half of 2014 showed significant growth over the second half of 2013 – from ¥14.8 billion to ¥26.5 billion – but the second half of 2014 saw a sharp decline to ¥8.7 billion. A much slower second half has been the pattern over the last two years and is said to reflect the exhaustion of annual quotas in the first half. It is probable that the slowing of Chinese growth, RMB volatility and expectations of future depreciation in 2014 were also factors in depressing RMB-denominated trade finance business. However, even with the lower figure for 2014 as a whole, that year was still double the figure recorded in the first survey in 2011. The sharpest fall was in letters of credit which seem to have lost their lead role to alternative sources of trade financing such as loan finance.

In line with previous years, RMB forex trading continued to expand very rapidly. Total trading in 2014 averaged US$ 61.5 billion per day, a 143% rise over 2013 and nearly six times the volumes reported in the first survey in 2011. As in previous surveys, the growth has been spread across major participants, who are the major global investment banks, and across various trading and risk-management products.

The growth in the importance of deliverable products versus non-deliverables also continued: 2013 was the first year that deliverable volumes exceeded non-deliverables, and 2014 saw the continuation of this trend with deliverables representing 79% of all RMB forex trading. Deliverables grew 162% over 2013 and non-deliverables by 91%. The continued shift toward deliverable products reflects the growing liquidity in the offshore pool of RMB.

Within deliverable products spot trading was more than three times the 2013 figure at US$18.4 billion per day; a 229% increase. Other deliverables also increased strongly with both forwards and swaps more than doubling on 2013 levels (increases of 156% and 144% respectively). FX options rose 84% over 2013 to a daily value of US$5.8 billion. The analysis of London's share of offshore trading in the main deliverable products showed London slightly increasing its share in comparison to other offshore centres indicating that London is more than holding its own as an attractive centre for RMB forex in a rapidly growing global market. In spot trading respondents reported 67% of their business was conducted in London with the London proportion of forwards, swaps and options being 56%, 42% and 20% respectively and all categories except options showing an increase on 2013 and previous years.

While trading in non-deliverables is declining relative to deliverable products, the levels of non-deliverable trading in the major categories (forwards and options) grew strongly in 2014. Daily trading in non-deliverable forwards grew 88% compared with 2013 to US$6.6 billion and non-deliverable options increased by 153% to a daily average of US$5.4 billion.

Total deposits, after being relatively stable since 2011 at around ¥14 billion, increased strongly to ¥20 billion at the end of 2014, reflecting a significant increase in corporate deposits.

This report's overall findings fit with the key trends identified in previous *London RMB business volumes* reports in this series. Although market volatility continues, RMB business is developing globally both in terms of volume and in the breadth of products and services denominated in the currency. UK growth matches well this global trend and we expect London will maintain its position as a leading centre for RMB business for the foreseeable future, bringing with it even more opportunity within what remains a nascent but hugely exciting emerging financial market.

Introduction

In the previous annual report in this series, *London RMB business volumes 2013,* we noted that although China's short-term economic prospects had become slightly less bright, its drive towards financial reform continued unabated. 2014 saw a continuation of that pattern: as growth in China continued to slow, in line with the Chinese government's policy aim of rebalancing the economy, and the number of reform initiatives introduced multiplied.

We discuss some of the reforms in chapter 1 below, including China's first strong commitment to achieving capital account convertibility during the course of 2015 and the opening of the Stock Connect, which allows bilateral investment to flow between the Shanghai and Hong Kong stock exchanges. The Chinese government has also issued detailed regulations on local government bonds as part of a policy shift away from off-balance sheet bank borrowing by municipalities, and is also investigating ways to ease debt-financing for small and medium enterprises, many of which are currently excluded from accessing bank financing.

Previous reports have noted the significance of offshore clearing centres and 2014 saw the appointment of RMB clearing banks in major centres, including in London. That process has continued, and there are now 14 such clearing centres. More recently, RMB clearing banks were opened in Chile in May 2015 (the first in Latin America, operated by China Construction Bank) and Qatar in April 2015 (the first in the Middle East, operated by ICBC). Further such openings are planned, with Nairobi tipped to become the first RMB clearing centre in Africa.

The continued development of the RMB market in London, meanwhile, is shown in the statistical results presented in chapter 2. The 2014 results show particularly strong growth in forex-related business. Overall trading volumes more than doubled in the year rising by 143% over 2013 levels. Average daily volumes in 2014 were US$ 61.5 billion, nearly six times as large as those reported in the first survey in 2011. Within that total, spot trading volumes grew by 229%, deliverable forwards by 156% and deliverable swaps by 144%. The share of offshore RMB deliverable forex business that the responding banks transact in London were 67% in spot transactions, 56% in forwards, 42% in swaps and 20% in options, showing increases over 2013.

The City of London initiative on London as a centre for renminbi business was established in 2011 with the objective of encouraging the development of renminbi products and services in London. The initiative's overarching aim is to contribute to a private and public sector strategy for the development of London as a centre for international RMB business.

This is the seventh in a series of Bourse Consult reports, published by the City of London Corporation as part of this initiative, which document the capabilities of London in renminbi-denominated products and services. Each report quantifies the volume of business done in each of the product and service categories. This report covers the business done during 2014. Starting with the first report which covered business done during 2011, there are now three interim reports (covering the first half of each year) and four annual reports in the series. The quantitative information is derived from a survey of the fifteen banks most active in renminbi business in London.

Throughout the report the terms renminbi, RMB or yuan are used when referring generally to the currency of China. When referring specifically to either onshore or offshore currency the terms CNY for onshore renminbi and CNH for offshore renminbi are used as shorthand. Monetary amounts of yuan are denoted using the symbol ¥.

1 Development of the offshore renminbi market

1.1 Towards a multicurrency world?

Over the last few years the City of London's *London RMB business* reports have been following the global evolution of the RMB. One of the great challenges has been to fully understand the intentions and plans of the Chinese authorities as they face the challenge of opening their financial markets and allowing the RMB to become a trade, investment and reserve currency.

Full liberalisation inevitably means losing control of the fluctuations of the currency, which is why the Chinese authorities and regulators have previously always preferred an administered approach represented by the Chinese saying "crossing the river by feeling the stones". Even if a macro-prudential management of the currency replaces this approach, we expect Beijing will ensure that it remains in control, opening the markets but within an environment of firm rules and regulations. So we expect the evolution seen in past years to continue and for the RMB to be used more and more as a global currency, but under strong oversight from the People's Bank of China (PBoC) and the Ministry of Finance.

The ultimate policy goal appears to be to capture the "exorbitant privilege" which the US enjoys because of the US currency's position as the foremost global reserve asset. This privilege allows the US Treasury to fund its deficit via foreign inflows at a lower rate than other countries.[1] The challenge for the Chinese authorities remains the same, namely that full convertibility of the renminbi (by completing the liberalisation of capital accounts transactions) could make China vulnerable to an outflow of a considerable amount of funds to other financial centres and investment opportunities around the world. In this framework the internationalisation of the renminbi continues to be a critical aspect of Chinese policy, but authorities will proceed with a gradualist approach taking care, as now, to minimise risks.

Turning to the macro-economic situation, statements last September by the Chinese Premier Li Keqiang suggest that lower GDP growth will not cause Beijing the kind of anxiety it has in the past, and the market seems to be interpreting Mr Li's comments as recognition that growth rates will fall further this year. Most analysts are lowering their GDP forecasts from the present 7% to 6% or even lower for 2016 and 2017.

An orderly rebalancing of the economy is likely both to reduce and to transform the composition of net capital exports from China, with fewer or smaller net purchases of foreign assets and perhaps even net sales by the PBoC, and more private or quasi-public purchases. Although such an orderly rebalancing will most likely reduce net capital flows and will sharply reduce net purchases of US government bonds, it is unlikely to affect US interest rates because, while China is a significant investor in US Treasury Bonds, it remains a relatively minor part of the total market. 2016 is expected to be very important for China because of possible strains in the banking system as the economy slows, and the intensity with which the reformers present their case will give a better sense both of how much domestic debt exists in the country and of how well positioned President Xi Jinping and his officials are to

[1] Although with negative interest rates in Europe for some sovereign bonds it could seem ironic to see any "privilege" in the US Treasury position.

implement the needed reforms.

The Chinese ambition to convert the RMB into a major global currency, however, is not proving to be an easy task. For this to happen there needs to be a build-up of a very sizeable pool of RMB outside the country to finance trade and investment. This would require the PBoC to place trillions of dollars into risky foreign assets, or for China to run large trade deficits.

1.2 New developments

SWIFT data for 2014 (published in January 2015) showed that the renminbi had entered the top five world payment currencies, overtaking both the Canadian dollar and the Australian dollar by value of transactions. Two years ago, in 2013, the RMB was ranked in 13th position. However, despite this impressive climb the overall percentage of trade conducted in renminbi is still low: in 2014 the share of the RMB in the global payments system was only 2.17%. Measured against other currencies though, global RMB payments increased dramatically during 2014, growing in value by 102% while the growth of payments across all currencies was a mere 4.4%.[2]

Another interesting data point is that yuan deposits in Hong Kong have been contracting. Hong Kong yuan deposits fell 0.9% to ¥973 billion (US$157 billion) in February 2015 from the January level, which was itself 2.2% below December 2014[3]. Overall, between the end of 2013 and the end of 2014 yuan deposits in Hong Kong increased but the rise was only 16.6%, compared to 46.2% in 2013 and 86.9% in 2012. The possible reasons for this reduction are numerous, but the decreasing spread between the onshore and the offshore interest rate is probably the dominant factor.

In March 2015 the average yield of dim sum bonds surged to 5%, the highest level since the market was created in 2007. For government bonds, a five-year yuan bond in Hong Kong was trading with a quoted yield of 3.65/3.59% (bid/ask), compared with 3.37/3.31% quoted in mainland China for the same tenor. The main cause of the offshore market's higher funding cost is the shrinking yuan deposit pool in Hong Kong and a weaker yuan, which has dampened some investors' appetite for the currency. Traditionally (when CNH had a premium over CNY), Chinese importers took yuan out of China and converted them into dollars in Hong Kong causing an accumulation of offshore yuan deposits. Since May 2014 yuan deposits in Hong Kong have been shrinking due to currency depreciation, although the centre continues to remain strong as the leading centre for renminbi.

Also in March 2015, China urged the International Monetary Fund (IMF) to include the yuan in its Special Drawing Right (SDR) basket. The inclusion of the yuan in the SDR would greatly strengthen its global position as a rising world currency. It would also be likely to encourage more central banks to hold the RMB as part of their foreign exchange reserves. Although the IMF would not require the yuan to be fully convertible in order to be included in the SDR basket, PBoC Governor Zhou Xiaochuan said that China would “strive to achieve full capital account convertibility” in 2015. This is the first time that a high ranking Chinese official has

[2] http://www.swift.com/about_swift/shownews?param_dcr=news.data/en/swift_com/2015/PR_RMB_into_the_top_five.xml
[3] Data from the Hong Kong Monetary Authority (HKMA).

given a precise timeframe for capital account convertibility. The statement surprised even the most optimistic market participants and underlines China's ambition to step up the pace of financial market reform.

1.3 Shanghai-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect was launched on Monday 17 November 2014. It allows investors in Hong Kong and Shanghai to directly buy shares in each other's markets and therefore has the potential to attract significant incremental investment flows in both directions. It grants Hong Kong and international investors access to yuan-denominated China A-shares, and from the mainland side it gives domestic investors access to equities listed on the Hong Kong (SEHK), providing them with additional diversification and investment opportunities in Hong Kong's more established stock market.

The new system has been well described by ASIFMA and Thomson Reuters[4] as follows:

"For northbound investors - those outside China trading north into the Shanghai Stock Exchange - access to equities listed in Shanghai is via Hong Kong brokers executing trades through the Stock Exchange of Hong Kong (SEHK); for southbound investors, Hong Kong listed equities are traded by mainland brokers via the Shanghai Stock Exchange (SSE) rather than via the broker-to-broker relationships, which is more typical in cross-border trades. This structure - trading via brokers based in jurisdictions other than the target market and channelling the trades to the foreign exchange through the local exchange – is unique for global markets. Although investors in both jurisdictions will benefit, the northbound channel for foreign investment into Shanghai's equity markets is seen as the more significant development, given the global implications of China's financial reform trajectory and the tight regulations that have governed such investment into China previously."

The Stock Connect agreement also includes very close cooperation between regulators, the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) of Hong Kong and between the clearing and settlement infrastructure in both markets.

Stock Connect represents the first opportunity available for retail and other non-institutional investors outside China to trade Chinese stocks. And among northbound investors from Hong Kong and elsewhere, hedge funds have been the early participants because they are excluded from the QFII and RQFII schemes. In contrast, most institutional investors, including current QFII investors, who are mostly 'long only' in their investment style, are less active in using Stock Connect. For some this may be that they are choosing to stick with the QFII and RQFII vehicles they already have available until issues relating to the Stock Connect's operational and legal structures are clarified to their satisfaction. In future QFII investors are likely to use the two alternative channels for different products. Using their QFII quota for small and mid-cap equities (such as those traded on the Shenzhen Stock Exchange (SZSE)), which are not at present accessible via Stock Connect, and using Stock

[4] http://share.thomsonreuters.com/assets/forms/shanghai-hk-stock-connect-1008885.pdf

Connect for large caps traded at the SSE. In addition, QFIIs may be used for investments other than equities, such as bonds and ETFs, which are not accessible on Stock Connect.

Stock Connect was not an immediate success; some regulatory changes were needed in order to boost the flows in both directions[5]. From April 2015, a robust southbound trading flow through Stock Connect obliged the Hong Kong banks to begin cutting yuan deposits rates. This southbound flow of funds into Hong Kong is expected to shore up the shrinking offshore yuan pool, which has been recently shrinking as already noted above. Since the end of last year, and in the light of the sharp depreciation of the yuan, there has been very strong competition between banks to attract new yuan funds with attractive yuan rates. Yuan deposit rates have risen to above 4% in Hong Kong while the mainland benchmark rate is close to 2.75%. In April 2015 we saw more funds flowing into Hong Kong from the onshore market, partly due to the Stock Connect.

1.4 The new development bank

A major event of the last few months has been the well-publicised launch of the Asian Infrastructure Investment Bank (AIIB). Although it is not clear what role the new development bank will play in the expansion of use of the RMB, the enthusiastic reaction, led by political representatives in many countries including the UK and high level of interest shown globally, highlights its potential significance.

On 24 October 2014, 21 Asian nations signed an agreement to establish the AIIB, citing a need for greater levels of investment in the region than could be provided by the Asian Development Bank (ADB). The deadline for prospective founding members to submit their applications to the AIIB was 31 March 2015, leading to a flurry of final applications from countries all over the world. In the end, 57 countries signed up as prospective founding members, many of whom – France, Germany, Luxembourg, Singapore and the UK, for example – currently host RMB clearing banks, swap lines and RQFII/ QFII investment quotas.

Although many details remain to be agreed some aspects of governance have already been discussed. For example the AIIB's appointed CEO Jin Liqun stated that non-Asian countries would be limited to holding a total of 25% of AIIB shares, whilst China may hold a 29.8% share.[6]

[5] A number of attempts at inter-stock exchange linkages in the past have failed to attract significant business so the success of Stock Connect in attracting business marks the first successful linkage.

[6] http://www.wsj.com/articles/how-china-plans-to-run-aiib-leaner-with-veto-1433764079

2 Survey results for January to December 2014

2.1 Methodology

This study is the fourth full year survey in a series reporting on London RMB trading volumes. There have also been three half-yearly interim surveys covering a smaller set of data. The data here is taken from both the annual and half-yearly reports. The methodology used for this survey is similar to that used previously. It covers trading for the whole of 2014 and collects data on the full set of financial instruments covered by the three previous annual surveys.

In order to avoid double counting of deals (primarily with Hong Kong), the definition of "London" business used for this report is any deal generated and/or executed in London. Care has also been taken to avoid any misunderstanding in the definition of the individual financial instruments and the way these should be accounted for.

A sample of 15 banks, was approached which are estimated to cover the majority (estimated at 85%) of the market. All responses were scrutinised for reasonableness, including comparisons with the submissions for the previous surveys, and a number of queries were raised and resolved either by revision of data or confirmation by the submitting banks.

The data provided by the banks was then aggregated and extrapolated to produce total market figures. The extrapolation takes account of the proportion of the market covered by the banks providing returns.

Comparisons between this survey and the previous surveys were made between end-of-period levels for deposits and average daily volumes for forex trading. Throughout the report, percentages are calculated on unrounded figures.

2.2 The RMB retail banking market

For the purposes of this survey the retail banking market includes all RMB banking services to individuals by London institutions. Services to all corporate entities are excluded from this group.

The survey asked banks to submit end of 2014 levels of deposits in four types of individual account:

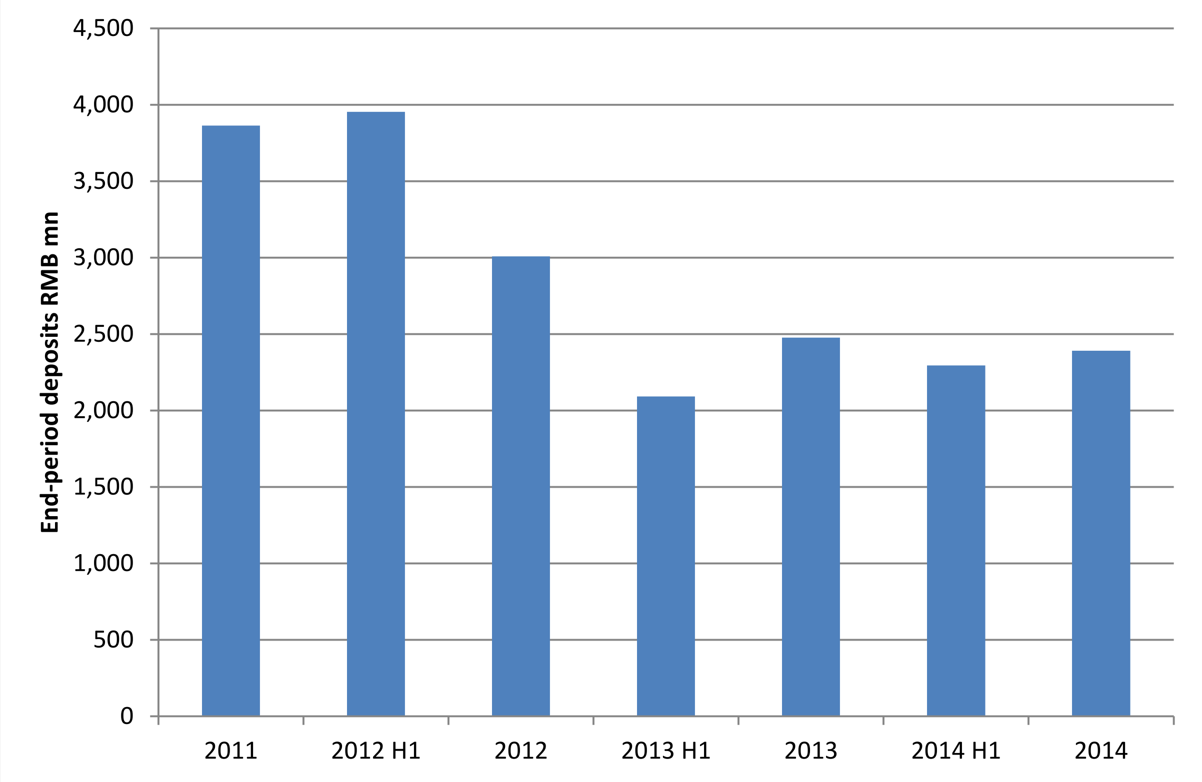
- Current (checking) accounts;
- Term deposits or certificates of deposit;
- Savings accounts with, for example, higher interest rates or restricted withdrawal conditions; and
- Private banking accounts, generally for high net worth individuals and offering additional, special wealth management services.

The survey separates private banking services from standard brokerage services for buying and selling of RMB-denominated equities and bonds.

The total level of deposits in retail current, savings and time deposit accounts has reduced from ¥408 million at the end of 2013, to ¥249 million at the end of 2014. The level of deposits in private banking accounts increased slightly from ¥2.07 billion at the end of 2013 to ¥2.14 billion at the end of 2014. Total retail deposits (shown in

Chart 2.1), especially the private banking component, have been volatile over the period since 2011 but have stabilised around ¥2 - 2.5 billion over the last two years. We have understood in the past from participants that this variability reflects in part the relative newness of the market in London and in part the behaviour of deposits when they are held as an asset class in a market with a relatively small number of participants, and the 2014 data is still consistent with that conclusion.

Chart 2.1 – Retail RMB deposits in London (incl. private banking) – end period



2.3 The RMB corporate banking market

For the purpose of this study the corporate banking market refers to services provided by the banks to corporate customers and does not include any services to individuals.

Banks were asked whether they offered the following services and, if so, to record the volume of business in certain categories. The survey shows that all these services have been on offer to companies in London:

- Corporate accounts;
- Term deposits;
- Debit and overdraft facilities;
- Online facilities;
- Treasury and Cash Management;
- Forex services;
- Supply chain services;
- Commercial loans;
- Letters of credit; and
- Import and export financing.

The corporate account figures relate to cash held in these accounts. Treasury and cash management refers to the services offered by banks to corporations to manage payments, transfers, and day-to-day working capital effectively. Forex services in this category refer only to services provided to corporations. Commercial loans include loans in RMB made by banks to companies for their investment and day-to-day operations. Import and export financing are two of the key services offered in the corporate banking market and do not include commercial loans. Letters of credit include other loan guarantees and refer specifically to trade in London.

2.3.1 Corporate banking services

Banks continue to offer these services where there is demand. The total level of deposits in corporate current and term accounts at the end of 2014 showed a further significant rise, more than doubling to ¥8.2 billion compared to the end of 2013 figure of ¥3.0 billion (though down on the peak of ¥16.7 billion in the first half of 2013). For the first time, banks have also reported some corporate lending in RMB, totalling ¥2.3 billion at the end of 2014.

2.3.2 Trade related services

This category includes all the import/export finance related activities in RMB in London. Letters of credit includes those in RMB issued in London and does not include those issued to China in other currencies. Financing includes loans to importers/exporters for trade related activities in RMB in London. The results presented below show the totals for three categories of trade finance for seven half-yearly periods[7] to give a better basis for comparison. Tables 2.1 and 2.2 present the data for each product (Table 2.1 shows the annual figures and Table 2.2 shows the more granular half yearly figures).

Table 2.1 – Value of trade finance business – full year figures

RMB millions	2011	2012	2013	2014
Letters of credit	370	4,723	4,212	1,825
Import financing	13,568	27,292	26,762	23,715
Export financing	3,302	6,640	11,808	9,686
Total	**17,240**	**38,655**	**42,782**	**35,266**

Table 2.2 – Value of trade finance business – half yearly figures

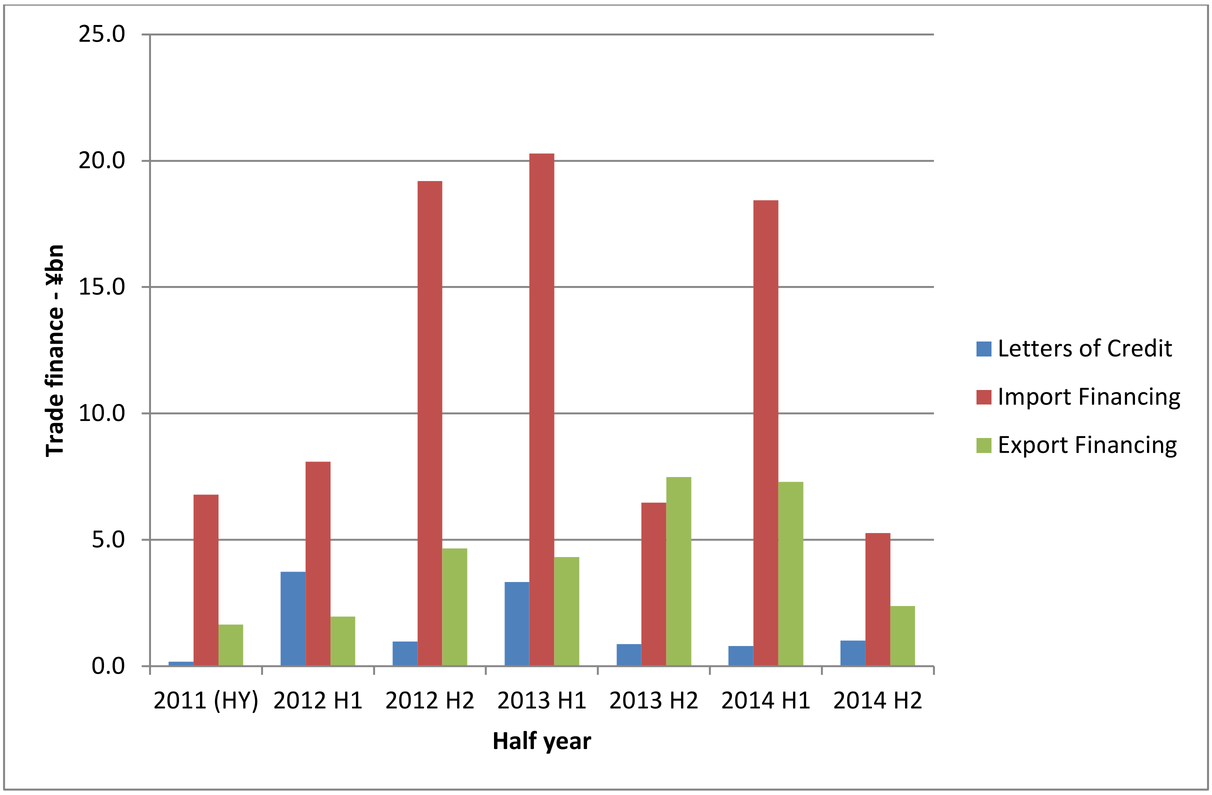
RMB millions	2011 HY	2012 H1	2012 H2	2013 H1	2013 H2	2014 H1	2014 H2
Letters of credit	185	3,738	985	3,336	876	807	1,018
Import financing	6,784	8,097	19,195	20,283	6,479	18,438	5,277
Export financing	1,651	1,970	4,670	4,321	7,487	7,298	2,388
Total	**8,620**	**13,805**	**24,850**	**27,940**	**14,842**	**26,543**	**8,683**

[7] The figures for the July–December period in 2012, 2013 and 2014 in Table 2.2 are calculated from the full year figures less the figures submitted for the first half of the year. The 2011 (HY) figures are calculated as 50% of the 2011 annual total.

The key results are:

- Business in letters of credit remained relatively flat in the second half of 2014 at ¥1 billion, continuing the level established in the second half of 2013. The year-on-year comparison showed a large decline from ¥4.2 billion in 2013. Indications are that letters of credit are not a particularly strong product and are being superseded by other methods of trade finance such as conventional loans.
- The 2014 total for import finance (i.e. to finance imports of goods from China) was ¥23.7 billion, somewhat down on the ¥26.8 billion recorded in 2013. The volume of import finance fell significantly to ¥5.3 billion in the second half of 2014 from ¥18.4 billion in the first half. Discussions with respondents have suggested that trade finance is limited by internal quotas based on decisions as to where business priorities lie, and the fall in the second half reflects the substantial exhaustion of the annual quota in the first half.
- For 2014 as a whole, export finance (i.e. finance for exports to China) was ¥9.7 billion compared to ¥11.8 billion in 2013, an 18% decrease. Export finance business fell significantly in the second half of 2014 to ¥2.4 billion. As for import finance, this is reported to be due to the exhaustion of annual quotas earlier in the year.
- Total trade finance fell 17.6% to ¥35.2 billion, whilst levels over the past three have averaged ¥39 billion (with a high degree of volatility throughout the period).

Chart 2.2 – Value of RMB denominated trade finance business



2.4 The RMB institutional and interbank market

The institutional and interbank market is the largest and broadest of the three market divisions in the survey. Institutional is a broad definition of the buy side (investment funds, pension funds, hedge funds, insurance companies and sovereign funds). The interbank market refers to the trades settled between banks.

2.4.1 Foreign exchange services and risk management products[8]

The London forex market for RMB has continued the rapid growth seen over the period since the first survey in 2011. Average daily volumes of all forex products totalled US$ 61.5 billion in 2014, compared to US$ 25.3 billion in 2013 (a 143% increase) and US$ 16.8 billion in 2012. As in previous surveys, the growth has been spread across the major participants (major global investment banks) and across various trading and risk-management products.

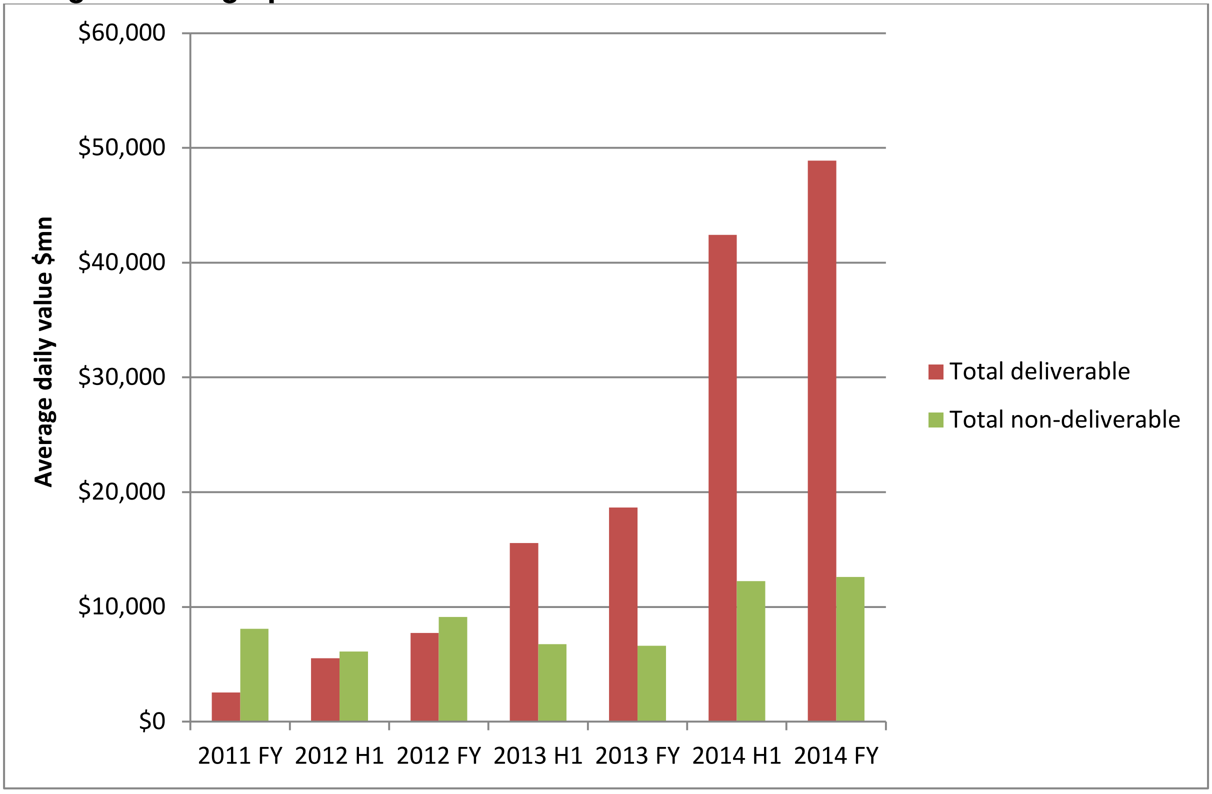
Both deliverable and non-deliverable products are traded. It had been expected that as liquidity in deliverable products increased, the trading of non-deliverable products would become less important and ultimately decline. In 2011, trading in the non-deliverable products was dominant; representing 76% of the market, but for the first time in 2013 deliverable products represented the majority of trading. In 2013, deliverable products had a 74% share, more or less reversing the 2011 position. The move towards deliverable contracts continued in 2014 when deliverables made up 79% of total London RMB trading.

Table 2.3 - Total trading in deliverable and non-deliverable RMB denominated foreign exchange products

Average daily value US$ million	**2011 FY**	2012 H1	**2012 FY**	2013 H1	**2013 FY**	2014 H1	**2014 FY**
Deliverable	**2,530**	5,528	**7,725**	15,558	**18,668**	42,417	**48,889**
Non-deliverable	**8,093**	6,101	**9,123**	6,760	**6,618**	12,234	**12,621**
Total	**10,623**	11,629	**16,848**	22,318	**25,286**	54,651	**61,510**

[8] In line with market conventions foreign exchange trading volumes are presented in US$ as average daily values (ADVs).

Chart 2.3 – Total trading in deliverable and non-deliverable RMB denominated foreign exchange products



Deliverable forex

London spot RMB forex volumes continued to grow rapidly in 2014, as the market consolidated its position based on past gains in liquidity. Average daily volumes in 2014 reached US$ 18.3 billion, a 229% increase compared to 2013. The growth continued though at a slightly slower pace during the second half, with the whole year figure showing a 27% increase over volumes in the first half of 2014.

There was also strong growth in the three main deliverable, derivative product lines:

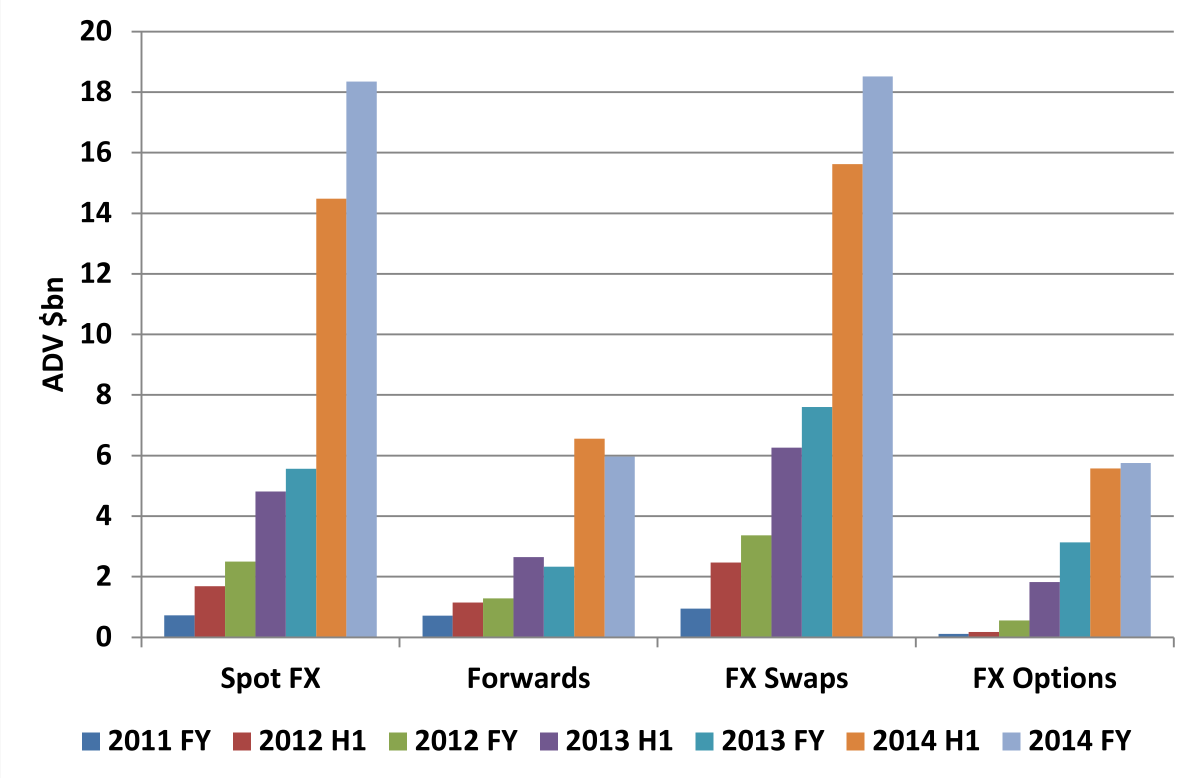
- Deliverable FX forwards grew to an average daily volume of US$ 6 billion, a 155% increase compared to 2013.
- Deliverable FX swaps grew to an average daily volume of US$ 18.5 billion, a 144% increase compared to 2013.
- Deliverable FX options grew sharply to an average daily volume of US$ 5.7 billion, an 84% increase compared to 2013.

Deliverable cross currency swaps remained small in volume but continued to grow rapidly averaging a daily value of US$ 297 million, a 707% increase compared to the 2013 daily average of US$ 37 million.

Table 2.4 - **Trading in deliverable RMB denominated foreign exchange products**

Average daily value US$ million	2011 FY	2012 H1	2012 FY	2013 H1	2013 FY	2014 H1	2014 FY
Deliverable							
Spot FX	**727**	1,691	**2,496**	4,815	**5,564**	14,485	**18,350**
Forwards	**717**	1,151	**1,288**	2,646	**2,335**	6,562	**5,970**
FX Swaps	**951**	2,468	**3,364**	6,260	**7,600**	15,625	**18,518**
FX Options	**113**	175	**554**	1,828	**3,131**	5,571	**5,754**
Interest Rate Swaps	**10**	2	**10**	0	**0**	1	**0**
Cross Currency Swaps	**12**	41	**14**	8	**37**	173	**297**
Total deliverable	**2,530**	5,528	**7,726**	15,557	**18,667**	42,417	**48,889**

Chart 2.4 – Trading in all deliverable RMB denominated foreign exchange products



Forex business done in other centres

Starting in the 2012 full year survey, respondents have been asked to report the amount of their RMB forex business in the main deliverable forex categories which was carried out in other offshore centres (i.e. excluding business in mainland China but including Hong Kong and business in other branches throughout the world). The results from this data, while not comprehensive since they only include business by banks that have a presence in London, are indicative of the business patterns and choices of the respondents. In 2014 six respondents were able to give this data. In support of the data it is worth noting that the banks that were able to give this data represented 97% of the total reported spot forex RMB turnover in London and a similarly high proportion of deliverable forex derivatives.

Chart 2.5 shows the results for the four main classes of deliverable forex in 2014 and Chart 2.6 compares it with earlier periods (shown with fainter shading). The 2014 results show that in spot trading the respondents conducted 67% of their offshore RMB business in London (compared to 57% in 2013). The figure for forwards in 2014 was 56% (47% in 2013), for swaps 42% (35% in 2013) and for options 20% (17% in 2013 but down from 25% in H1 2014). The comparative figures in Chart 2.6 seem to show a pattern of gradual increase in the proportion traded in London. As already reported, the results for deliverable forex trading in London have continued to show very strong growth and these results suggest that growth of trading in other centres has been similarly rapid. It is certainly true that, as the offshore RMB market has grown, other centres have developed and global banks have strengthened their linkages with long-standing and newer centres – the pie continues to grow and London has been gradually improving its position.

Chart 2.5 – Offshore RMB forex – business transacted in other centres

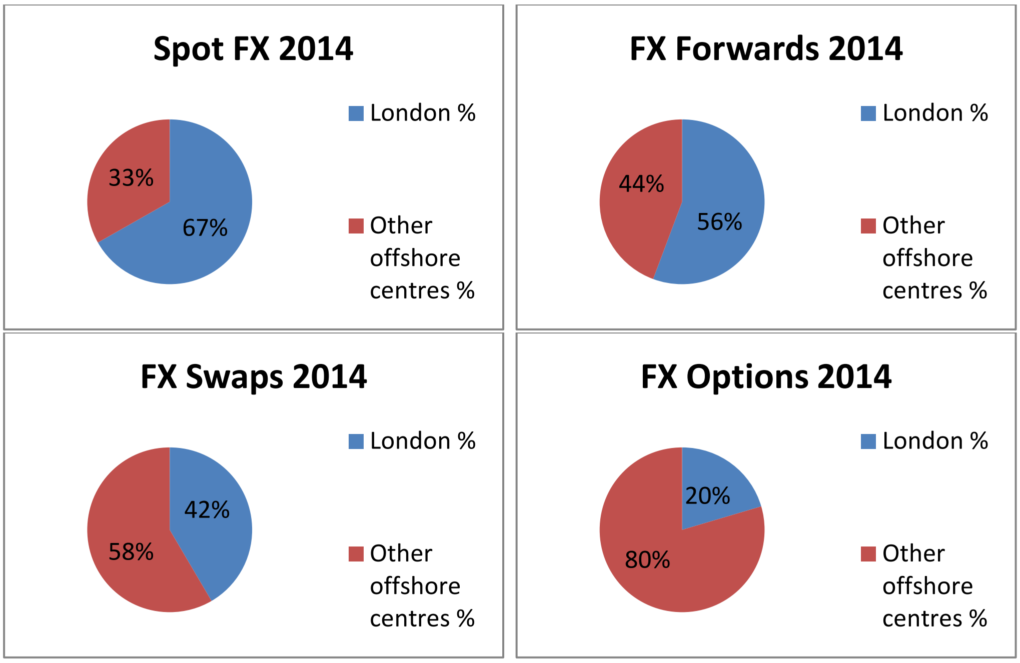
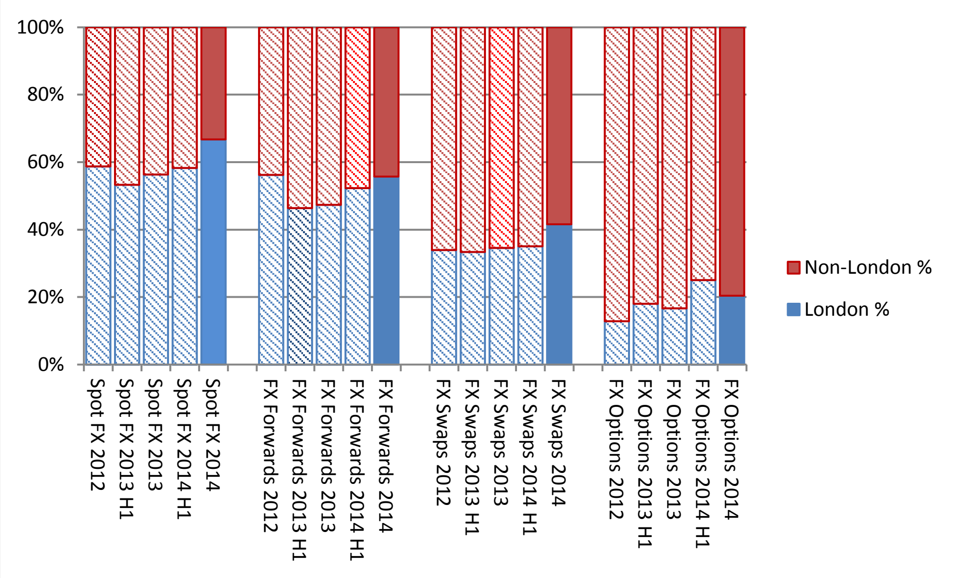


Chart 2.6 – Offshore RMB forex – business transacted in other centres – historic data



Non-deliverable forex

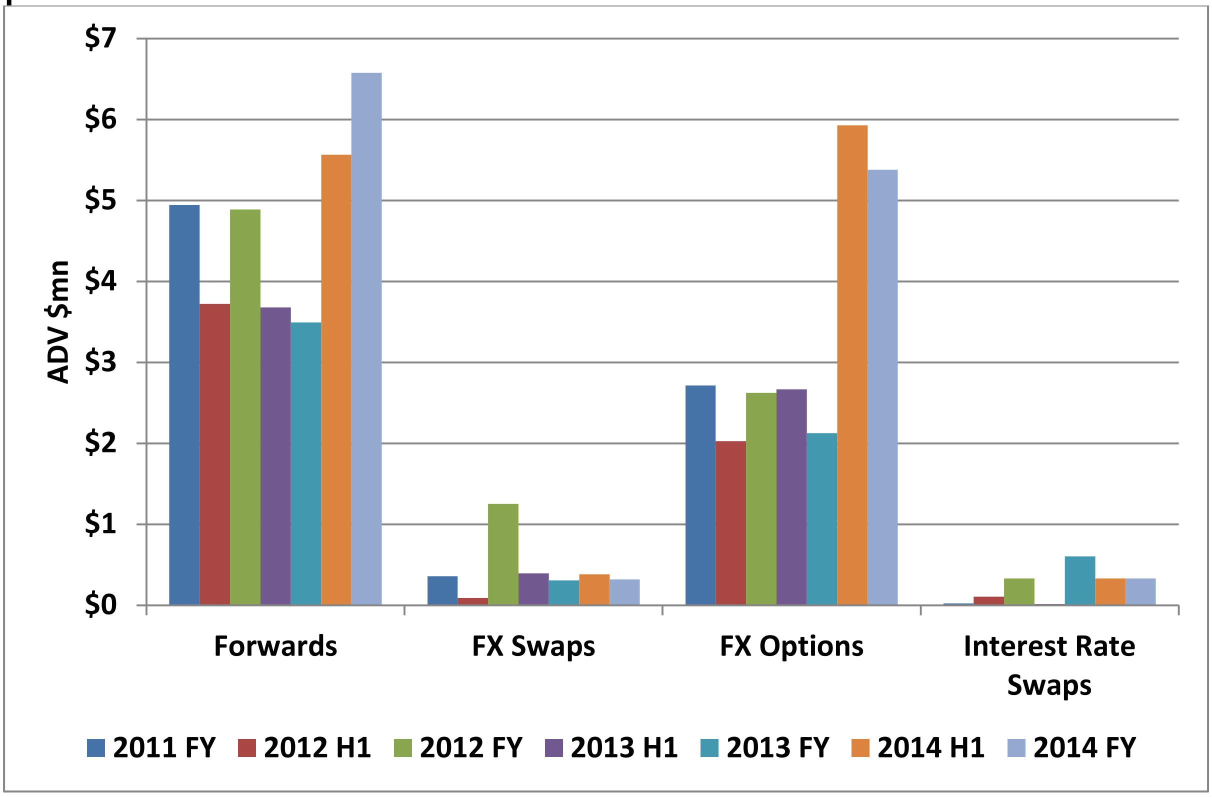
Non-deliverables are specific cash-settled instruments for non-convertible currencies. RMB non-deliverable contracts are predominantly based on the onshore (CNY) exchange rate and traded offshore specifically because trading in deliverable RMB was not possible offshore. As shown in Chart 2.3 the relative importance of non-deliverable products has declined as the liquidity of the offshore market has increasingly supported the trading of deliverable products. In 2013, for the first time, the relative importance of non-deliverable products became less than that of deliverable products, and the absolute level of trading of non-deliverable products declined. In 2014 the very steep growth of deliverable forex products contrasted with the resumed but slower growth for non-deliverables reducing the non-deliverable share to just 20% of the total. That said trading in non-deliverables in 2014 at a daily average of US$ 12.6 billion was still 91% above the 2013 level of US$ 6.6 billion. The main results were:

- Non-deliverable forwards grew to an average daily volume of US$ 6.6 billion, an 88% increase compared to 2013.
- Non-deliverable FX swaps remained small but steady with an average daily volume of US$ 318 million, higher than 2013 but a decline over H1 2014 which saw US$ 382 million.
- Non-deliverable FX options grew strongly to an average daily volume of US$ 5.4 billion, a 153% increase compared to 2013 (though slightly below the US$5.9 billion in H1 2014).

Table 2.6 - Trading in non-deliverable RMB denominated foreign exchange products

Average daily value US$ million	2011 FY	2012 H1	2012 FY	2013 H1	2013 FY	2014 H1	2014 FY
Non-deliverable							
Forwards	**4,945**	3,722	**4,889**	3,679	**3,493**	5,565	**6,577**
FX Swaps	**360**	88	**1,250**	394	**307**	382	**318**
FX Options	**2,716**	2,027	**2,624**	2,665	**2,125**	5,928	**5,380**
Interest Rate Swaps	**22**	103	**332**	15	**604**	330	**331**
Cross Currency Swaps	**51**	161	**28**	7	**89**	30	**16**
Total non-deliverable	**8,094**	6,101	**9,123**	6,760	**6,618**	12,235	**12,622**

Chart 2.7 – Trading in all non-deliverable RMB denominated foreign exchange products



2.4.2 Borrowing and financing products

This category includes instruments for raising money from capital markets. Banks were asked whether they offered services in bond issuance and collateralised lending. Bond origination activity in London in 2014 was ¥11.5 billion, an increase on the figure of ¥8.5 billion in 2013.

2.4.3 Investment products

This category includes:

- All RMB time deposits and certificates of deposit for institutional clients;
- Trading of RMB denominated bonds (not issuance); and
- Structured products linked to forex, interest rates, equities and commodities.

Experience of these surveys has shown that the volumes in these products are very volatile. Activities become important for a while and then, as conditions change, the market moves on to other products. The current general lack of liquidity in Chinese bond markets is reflected in the lack of trading activity in RMB bonds in London:

- Interbank deposits remained steady at ¥9.5 billion at end 2014 compared with ¥9.1 billion at the end 2013. The mid-2014 figure has shown a decline to ¥6.4 billion.
- Trading of dim sum bonds rose from close to zero in 2013 to ¥4.5 billion in 2014. It is certainly true in bond markets that secondary trading is mainly driven by primary issuance, and high profile issues in the UK – including by the British Government– will have stimulated turnover. However, an annual ¥4.5 billion is still a very modest amount for a bond market, so the London secondary RMB bond market has yet to take off.

2.5 Total deposits in London

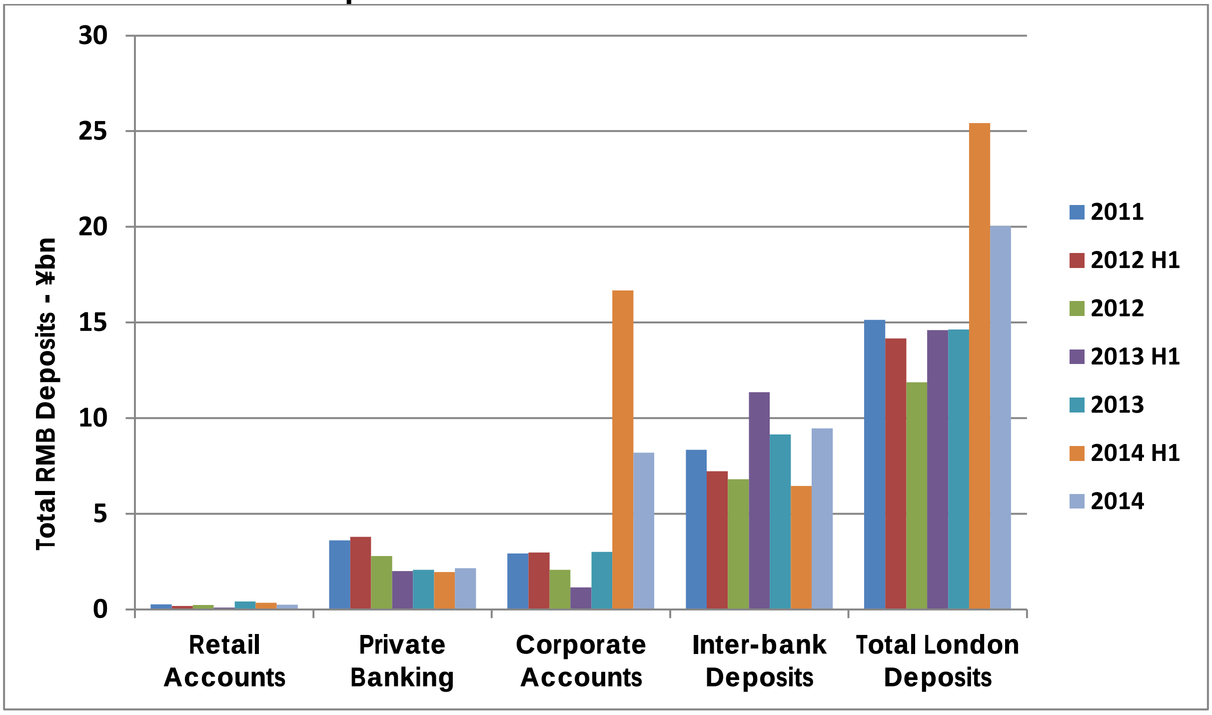
The levels of the various categories of London RMB deposits have been very variable and this continued into 2014. In 2013 we speculated that the aggregate level of deposits seemed to have stabilised around the ¥14 billion mark, but 2014 saw an increase in overall deposits to ¥20 billion at the end of 2014. While down on the mid-year figure of ¥25.4 billion, the end of 2014 showed a substantial rise compared to the end 2013 figure of ¥14.6 billion. The peak in mid-year and the overall growth were largely driven by a growth in corporate deposits.

As has been remarked before, this variability reflects in part the relative newness of the market in London and in part the behaviour of deposits when they are held as an asset class in a market with a relatively small number of participants. It remains to be seen whether the upsurge in corporate deposits will be sustained into 2015.

Deposits at the end of December 2014 compared to those reported in the last year-end survey for December 2013 were as follows:

- Total deposits at the end of 2014 were ¥20 billion, very considerably higher than the figure at end 2013 (¥14.6 billion), representing a 37% increase.
- Deposits in accounts for retail customers (including private banking) remained relatively unchanged at ¥2.4 billion at the end of 2014 compared to ¥2.5 billion at end 2013, largely reflecting the stability of private banking deposits.
- Interbank deposits of ¥9.5 billion at end 2014 were slightly up on the end 2013 figure of ¥9.1 billion.
- Deposits in accounts for corporate customers increased very significantly to ¥8.2 billion, 173% above the end 2013 figure of ¥3 billion.

Chart 2.8 – Total RMB deposits in London



3 Conclusions

The picture that comes out from this year's survey is that London has continued to cement its position as a global centre for RMB business, though the results are more variable with declines in trade finance but continued very strong growth in RMB forex trading.

During 2014 the rapid growth of trade finance was reversed with a decline to ¥35.2 billion from ¥42.8 billion in 2013. The first half of 2014 showed significant growth over the second half of 2013 (from ¥14.8 billion to ¥26.5 billion) but the second half of 2014 saw a sharp decline to ¥8.7 billion. A much slower second half has been the pattern over the last two years and is said to reflect the exhaustion of annual quotas in the first half. Despite the disappointing figure for 2014, that year was still double the figure recorded in the first survey in 2011. The sharpest fall was in letters of credit which seem to have lost their lead against alternative sources of trade financing.

In line with previous years, RMB forex trading continued to expand very rapidly. Total trading in 2014 averaged US$ 61.5 billion per day, a 143% rise over 2013 and nearly six times the volumes reported in the first survey in 2011. The growth in the importance of deliverable products versus non-deliverables continued. 2013 was the first year that deliverable volumes exceeded non-deliverable volumes, and 2014 saw the trend continuing with deliverables representing 79% of all RMB forex trading. Deliverables grew 162% over 2013 and non-deliverables by 91%.

Within the deliverables, spot trading was more than three times the 2013 figure at US$18.4 billion per day – a 229% increase. Other deliverables also increased strongly, with both forwards and swaps more than doubling the 2013 levels (increases of 156%

and 144% respectively). FX options rose 84% over 2013. Among the non-deliverables, forwards rose 88% and FX options rose 153%.

The analysis of London's share of offshore trading in the main deliverable products showed London slightly increasing its share in comparison to other offshore centres, indicating that London is more than holding its own as an attractive centre for RMB forex in a rapidly growing global market.

Total deposits, after being relatively stable since 2011 at around ¥14 billion, increased strongly to ¥20 billion at the end of 2014 reflecting a large increase in corporate deposits.

This report's overall findings fit with the key trends identified in previous *London RMB business volumes* reports in this series. Although market volatility continues, RMB business is developing globally both in terms of volume and in the breadth of products and services denominated in the currency. UK growth matches well this global trend and we expect London will maintain its position as a leading centre for RMB business for the foreseeable future, bringing with it even more opportunity within what remains a nascent but hugely exciting emerging financial market.

Appendix A - Notable regulatory and commercial developments since January 2014

2014

January

PBoC announced the commencement of centralised clearing of RMB interest rate swaps in China. The launch took place at the Shanghai Clearing House amid hopes from commercial banks and other financial institutions in attendance that the development would improve China's financial market infrastructure. The decision to introduce interest rate clearing had been taken earlier by a plenary session of China's ruling Communist Party Central Committee.

Bank of China (London) issued and listed a bond on the London Stock Exchange with a record high value for London of RMB 2.5 billion.

February

The International Finance Corporation (IFC) issued an RMB 1 billion bond listed in London. The proceeds will be used to finance IFC private sector projects on the mainland. "The pace of internationalisation has been very robust," Hua Jingdong, the IFC's Vice-President, told The Financial Times. "We have already received permission from Beijing to repatriate the proceeds." The IFC has a triple-A rating, which makes its bonds safer than investment in Chinese sovereign debt. Demand is likely to stem from central banks that are eager to diversify their currency holdings without taking any credit risk, as well as institutional investors and commercial banks.

March

The Bank of England and the PBoC on 31 March signed an agreement on renminbi clearing and settlement in London. The move will allow investors to reduce the risk from making overseas payments in RMB. It also enhances London's position as the global centre for foreign exchange trading.

Coinciding with Chinese President Xi Jinping's visit to Berlin, the Deutsche Bundesbank and the PBoC signed a memorandum of understanding regarding the clearing and settlement of payments denominated in renminbi in Frankfurt. Both central banks have agreed to intensify their cooperation in clearing and settlement arrangements for renminbi payments. They also laid the groundwork for establishing a clearing bank.

April

Euroclear Bank and the Taiwan Depository & Clearing Corporation (TDCC) launched a new service allowing international investors to settle Taiwanese-issued RMB bonds (Formosa bonds) through the Taiwan Depository & Clearing Corporation (TDCC). The service, the first of its kind, will allow settlement transactions to be routed from Euroclear Bank's account with Citi to the TDCC.

SWIFT data was released showing that Singapore's RMB payments value increased by 375% between March 2013 and March 2014, making Singapore number one outside of China and Hong Kong in terms of RMB world payments value. Singapore's share represents 6.8% of the overall RMB payments value, behind Hong Kong, which still leads with 72.4%. London overtook Singapore in June 2012, but, since February 2014, it has slipped behind Singapore despite a good growth rate of 203% year-over-year from 2013 giving London a share of 5.9%.

May

China's central bank guided the renminbi to its highest level in 20 months. The renminbi depreciated more than 3% since it hit an all-time high against the US dollar in January 2014, driven down by active intervention from the central bank, which manages the currency within a narrow band. That is the strongest depreciation for the renminbi since Beijing unpegged the currency from the US dollar in 2005 and allowed it to gradually and steadily appreciate by around 30% since then.

June

Azerbaijan's sovereign wealth fund announced plans to invest up to US$1.8 billion in renminbi by year's end in what would be one of the largest investments in the Chinese currency to be made public and a further indication of its rapid move towards reserve currency status. Shahmar Movsumov, chief executive of the US$37 billion State Oil Fund of Azerbaijan (Sofaz), said that the fund was applying for permission from Chinese regulators to access renminbi assets and hoped to start investing in the currency by the end of the year.

Standard & Poor reported that China had overtaken the US in 2013 in levels of outstanding non-financial corporate debt. Corporate debt issued by Asian borrowers is expected to exceed that of North America and Europe combined by 2016, says the rating agency. In a published report S&P estimates that non-financial corporate debt in China reached US$14.2 trillion at the end of 2013 compared with US$13.1trillion in the US. Up to the end of 2018 Chinese companies are expected to borrow US$20 trillion, a trend supported by the increased willingness of the Chinese authorities to allow more government-related entities to issue debt securities. China's non-financial corporate issuance now accounts for about 30% of the global total. Up to one-third of this is sourced from the informal banking sector, according to S&P, which argues that therefore as much as a tenth of global corporate debt is exposed to a risk of a contraction in China's shadow banks.

The Monetary Authority of Singapore (MAS) announced that a facility for providing overnight renminbi (RMB) liquidity to financial institutions in Singapore would be launched on 1 July 2014. MAS also welcomed the directive issued by the People's Bank of China (PBoC) Nanjing branch that would allow eligible corporates and individuals in the Suzhou Industrial Park (SIP) to conduct cross-border RMB transactions with Singapore. These initiatives will further promote the international use of RMB and facilitate the growth of the RMB offshore market in Singapore.

The Chinese government designated China Construction Bank (CCB) as the official clearing bank for yuan-denominated transactions in the UK and agreed to launch direct trading between the pound and the yuan in China. These announcements were made to coincide with a trip to London by Li Keqiang, the Chinese Premier. The change will potentially allow investors to reduce the risk from making overseas payments in renminbi, and should make trading the currency more efficient and liquid. It may also attract Chinese companies keen to invest in Europe, as well as making it easier for investors to gain access to China's onshore capital markets. Frankfurt has also been awarded a clearing bank for renminbi transactions.

The London Stock Exchange Group (LSEG) signed a memorandum of understanding with the Bank of China. The agreement (signed by LSEG Chairman Chris Gibson-Smith and Bank of Chairman Tian Guoli) will see the two organisations form a strategic partnership and work closely together to expand each company's access to UK, European and Chinese markets as well as promoting the development of the offshore RMB market in the UK.

France's central bank has taken the first step towards the creation of a Paris-based renminbi clearing and settlement system. The bank said it had signed a memorandum of understanding with the PBoC to set up a payments arrangement in Paris designed to facilitate and promote cross-border renminbi transactions.

August

Mainland China-based companies are to be allowed to engage in trading a wider range of RMB derivatives trading as a result of the implementation of a regulation by China's State Administration of Foreign Exchange (SAFE). Besides the simple buying and selling of currency call and put options, onshore Chinese companies can now engage in the trading of new currency derivatives such as foreign exchange call spreads. These new instruments will allow Chinese companies to better manage their currency risks as the exchange rate of the RMB becomes more volatile. It will also allow corporates to hedge more effectively and significantly reduce the cost of hedging.

September

On September 11, as part of the 6th UK-China Economic and Financial Dialogue, Vice-Premier Ma Kai and Chancellor of the Exchequer George Osborne agreed a number of areas of cooperation between the UK and China for the coming year. Both sides agreed that further cooperation between UK and Chinese financial services firms would benefit the development of China's capital markets, and welcomed the creation of a new private sector working group chaired by the International Capital Market Association (ICMA) and the National Association of Financial Market Institutional Investors of China (NAFMII)

The UK Government issued the world's first non-Chinese sovereign offshore renminbi bond. The UK Government announced on September 12th, as part of the conclusion of the Economic and Financial Dialogue (EFD) with China that it intends to issue the bond and the proceeds will be used to finance the UK Government's reserves of foreign currency. The government is taking this step in recognition of the increasingly prominent role that renminbi is playing in the global economy and financial markets, including as a potential future reserve currency. The proceeds of the issue will be used to finance the UK's reserves held in the Government's Exchange Equalisation Account, which include financial assets denominated in foreign currencies, gold and IMF Special Drawing Rights. The proceeds are expected to be reinvested in the renminbi offshore market.

October

China is considering allowing non-banks (including brokerages, insurers and trust firms) to trade in the interbank foreign exchange market. The move would represent the latest step by Beijing to liberalise the country's tightly-controlled financial markets. Currently the interbank foreign exchange market in China is limited only to banks. Authorities are seeking feedback on a draft proposal to allow non-banks to conduct trades with market makers in the spot and derivatives markets.

The UK Prudential Regulatory Authority granted Industrial and Commercial Bank of China a branch license to operate in the UK. The issue of Chinese banks wanting to set up branches first emerged in 2012 when a group of Chinese banks expressed frustration over regulatory matters in a letter sent by the Association of Foreign Banks to the UK Treasury. Their main complaint concerned foreign-owned banks not being allowed to open branches, which would have had lending and financing capacity proportional to the parent company's balance sheet. Subsidiaries, in contrast, are subject to the strict capital requirements that apply to Britain's local banks, hence their lending and financing capacity is proportional to the balance sheet of the subsidiary only.

The London Metal Exchange (LME) launched its new clearing house, LME Clear, which plans to accept RMB as collateral by the end of the year to attract more business from the world's top metals consuming nation. The launch of LME Clear is a key step by LME’s owner, Hong Kong Exchanges and Clearing Ltd (HKEx), to generate profits after paying US$2.2 billion to buy LME in December 2012. The 137-year-old LME set out to build its own clearing house three years ago to take over from LCH.Clearnet allowing it to collect fees not only for transactions on the exchange, but for clearing them. The LME also plans to launch Hong Kong-based commodities contracts as it seeks to attract direct investment from mainland China.

Singapore Exchange (SGX) successfully launched Chinese renminbi derivatives, specifically USD/CNH and CNY/USD futures. Transactions in the new SGX RMB futures achieved a first day volume of 1,836 contracts or approximately RMB 1.1 billion in notional value. Trading was robust with active participation from a diverse pool of counterparties. Market makers and key participants for the contracts include Bank of China Singapore branch, DBS Bank, ICBC Singapore branch (ICBC), Quantrun Investment Management and Virtu Financial.

November

Stock Connect, an equity trading scheme linking the Hong Kong and Shanghai exchanges, opened on Monday November 17th, with mainland investors showing only limited appetite for buying shares listed offshore. The Shanghai-Hong Kong Stock Connect allows investors in both financial centres to buy equities in each other’s market, giving global hedge funds and retail investors direct access to China for the first time while offering domestic investors a new route into international assets. The pilot project is subject to both daily and aggregate limits on how much capital can flow in each direction. Each day global investors can put as much as RMB 13 billion (US$2.1 billion) into Shanghai stocks, while mainland investors can send up to RMB10.5 billion south into Hong Kong. International investors exhausted their daily quota by 2pm on the first day, having bought more than US$1 billion of stock during the pre-trade auction. However, the southbound flow from Chinese investors into Hong Kong was significantly lower. At the close, mainland buyers had bought less than RMB 180 million worth of Hong Kong shares, leaving more than 80% of their daily quota untouched.

China Construction Bank Asia (the Hong Kong subsidiary of CCB) listed four renminbi bonds in Luxembourg on 18 November. The Luxembourg Stock Exchange listed the bonds and admitted them to trading on its Euro MTF market.

December

Hong Kong Exchanges and Clearing Limited (HKEx) launched incentive programmes for RMB currency futures amid record trading volumes. The RMB currency futures contracts have proven themselves as an effective risk management tool for market users in a time of increased USD/CNH volatility, and HKEx is introducing the additional incentives to solidify the development of the RMB currency futures market.

CCB in London was authorised to operate as a branch in London. It is operating a branch and a subsidiary in parallel in London.

2015

January

According to data from SWIFT, the international currency clearing system, published in January 2015, 2.2% of the world's payments were conducted using the Chinese currency in December 2014, putting it above both the Canadian and Australian dollars for the first time. The rise puts the RMB in 5th position, just behind the Japanese yen, which was used for 2.7% of transactions in December, the British pound, the euro and the top-ranked US dollar.

February

Disappointing trading volumes in the first months of Stock Connect, the link between the Hong Kong and Shanghai stock exchanges were announced. Trading in each direction is subject to a quota as described above (November). Except for the first few days when foreigners snapped up A shares, none of these ceilings have been hit. Since the opening of Stock Connect mainland buyers have invested only US$4 billion, a tenth of the money permitted. Since Stock Connect began the Shanghai market has risen by 33%, three times the rise of the H share index. Hong Kong's blue-chip Hang Seng has fared worse showing no movement since the opening of Stock Connect. As a result, southbound participants, predominantly retail, have preferred to invest at home. However, northbound flows have not been much better: a mere third of the quota has been used, equivalent to US$16 billion.

March

On 17 March the Moscow Exchange started trading in a futures contract on the currency pair RMB/RUB. The launch has been driven by a substantially increasing renminbi turnover on the exchange, growing volume of settlement in the currency between Russia and China as well as newly arising demand for hedging of such transactions.

Clearstream, the international central securities depository of Deutsche Börse, announced that it would open three new offshore renminbi Cash Correspondent Bank (CCB) accounts with Chinese banks based in Frankfurt, Luxembourg and Singapore. The move is the latest by Deutsche Börse Group and Clearstream to provide investors in Asia and Europe with more options and greater flexibility in managing their offshore RMB liquidity. The new accounts will be opened at Bank of China (Frankfurt), ICBC (Luxembourg) and ICBC (Singapore), and are in addition to two existing RMB CCB accounts with Bank of China (Hong Kong) and Standard Chartered Bank (Hong Kong). This offers customers a choice of five RMB CCB accounts in four leading financial centres.

Use of the renminbi in global payments fell in February according to SWIFT, raising questions over how closely the currency's path to internationalisation is tied to expected currency appreciation in the coming years. The Chinese currency broke into the top five most used payments currencies in December overtaking the Canadian and Australian dollars. However in February, renminbi use dropped to 1.8% of global payments from 2.2% in December, nudging it back down to seventh in the rankings. SWIFT said the fall was likely to be due to the seasonal effects of Chinese New Year, which fell in February this year. However, other recent indicators suggest a possible slowdown in the pace of renminbi take-up by investors and companies. A recent survey by HSBC found that fewer global companies were expecting to increase their use of renminbi in cross-border business this year than in a similar survey a year earlier. HSBC also found that only 27% of those not currently using the renminbi are planning to start using it, down from 32% in 2014.

Issuance of offshore renminbi bonds (dim sum bonds) were reported as having fallen sharply this year, leading some analysts to record it as the first expected annual contraction since the market opened in 2007. Up to March 2015, US$5 billion has been raised in the dim sum bond market according to Dealogic, down from US$8.6 billion over the same period in 2014.

April

Chinese use of the Stock Connect, which allows investors in Hong Kong and Shanghai to trade in each other's markets, rose sharply after mainland authorities in March gave domestic mutual funds permission to use the scheme. On April 8, southbound flow — purchases and sales — through the Stock Connect leapt to HK$21 billion ($2.7 billion), more than three times the previous daily record set on April 2. Southbound turnover has already surpassed HK$30 billion in the first three trading days of April, up from HK$35 billion last month and just HK$10 billion in February. Just after 2.30pm local time on Wednesday 8th April HKEx announced that the Rmb10.5 billion (US$1.7 billion) daily southbound quota, which restricts mainland purchases of Hong Kong stocks, had been fully used up for the first time since the launch of the crossborder trading link in November.

Appendix B - Organisations contributing to this report

Banks surveyed:

- Agricultural Bank of China (London)
- Australia and New Zealand Banking Group Limited (ANZ)
- Bank of China (London Branch)
- Bank of Communications (London)
- Barclays
- China Construction Bank (London)
- Citi
- Deutsche Bank
- Goldman Sachs
- HSBC
- ICBC (London) plc
- JP Morgan
- RBS
- Standard Chartered
- UBS

Bank interviewed for background information:

- People's Bank of China

London RMB business volumes 2014

City of London renminbi series

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