The Asset Update

Australia plays catch up on RMB use

15 May 2014 by Jacqueline Fox

***Arnold**: Australian banks lack the urgency to act on RMB opportunity*

Australian businesses are rapidly increasing their use of the renminbi as a trading currency to finance a growing percentage of the A$100 billion (US$94.15 billion) annual bilateral trade between Australia and China.

Global payments group SWIFT monitors the Chinese currency flows through its RMB Tracker, with the most recent data showing that the value of Australia's renminbi payments increased by a major 248% between February 2013 and February 2014, putting Australia at number six in the world for renminbi payments by value – excluding China and Hong Kong.

According to SWIFT, the renminbi flows translate to 14.2% of the value of payments between the two countries, up from 7.7% 12 months previously and from only 1.9% in February 2012.

SWIFT is not the only organization picking up a major increase in renminbi engagement with Australia.

Citigroup publishes a quarterly Trade Finance Index in Australia, tracking engagement with a basket of currencies by Australian trading businesses. The most recent February round of the index, executed for Citi by research house East & Partners, showed that these businesses composed of importers and exporters were forecasting a 21% increase in their renminbi use in the coming quarter, a new high for the index.

Cumulatively, the index shows that Australian businesses have doubled their engagement with the renminbi over 2013, with the biggest pick up being among larger enterprises, or those turning over A$500 million or more per year. In the same research round, these businesses forecast a 28.8% increase in renminbi use. At the other end of the scale, the index also tracks renminbi usage by smaller businesses turning over between A$25 million-A$150 million.

Where the Chinese currency did not register with those businesses as a trading currency at all in January 2013, in February 2014 this segment was forecasting an 8.5% increase in renminbi volumes, taking total forecast engagement since April 2013 to around 30%.

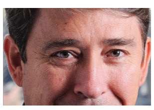
Backing RMB internationalization

The rapid uptake – not just by Australian businesses – prompted HSBC's chief executive in Australia, Tony Cripps, to forecast that the renminbi would be "one of the top three global trade currencies by 2015" and would be fully convertible "within two to three years". "While China is Australia's most important trade partner, receiving nearly a third of our goods and exports, we've historically been underweight in our use of the renminbi," Cripps says.

"The SWIFT RMB Tracker, however, shows this is changing. Australia has taken a number of steps to support the internationalization of the renminbi, including the Reserve Bank of Australia's (RBA) bilateral swap agreement, official dialogue and investment and RMB:AUD convertibility. As a result, Australian companies are increasingly attuned to renminbi developments as part of their global trade and liquidity strategies and they're capitalizing on the opportunities the currency provides, " he observes.

The RBA and the People's Bank of China already have in place a A$30 billion swap agreement, the fourth largest yet negotiated, giving the Australian banking system the liquidity for the renminbi to be available to all authorized deposit-taking institutions through a standing facility.

Ultimately, as renminbi trading matures and China's capital controls come off, there is talk that Australia will need to have an official renminbi settlement bank in Australia, similar to the role given to the Industrial & Commercial Bank of China in Singapore in 2013. Two Australian banks, Westpac and ANZ, were among those given renminbi trading licenses last year.



The internationalization of the Chinese currency has also opened up a discussion in Australia on the country's opportunity to become a renminbi trading hub, and was the subject of a recent academic research report by the Centre for International Finance and Regulation

***Cripps**: We've historically been underweight in our use of the renminbi*

(CIFR). That report, which was based on interviews with more than 100 Chinese companies, concluded that in the near to medium term, capital controls would be largely or completely lifted; borrowing and lending rates, as well as the renminbi exchange rate, would be market determined, and it would become a significant reserve currency.

Australia, said the report, could benefit from these freer capital controls, but warned that policy and attitudes needed to change if the country was not to risk being left behind.

"In Australia's case, its very close trading ties with China, its funds management expertise, its natural endowments in sectors of strategic importance to China and its on-going need for overseas capital to help fund investments, all suggest considerable scope for building much closer and mutually beneficial financial ties between the two countries," comments Kathleen Wash, a CIFR research fellow.

This wouldn't happen, however, without significant work.

Major challenges

"For Australia to benefit from the coming changes in global finance, we will need to create the right financial architecture and policy settings in Australia," she says, adding: "Financial services companies in particular will also need to do some considerable strategic thinking and investment of time and resources."

Vivianne Arnold until recently held a senior management role at the Australian government agency EFIC – the Export Finance and Insurance Corporation. Now operating an executive search company in the Asia-Pacific region focussing on trade finance talent for the banking sector, she says that while Australia has many natural advantages in aspiring to be a renminbi hub, it has some major challenges and some serious competition.

"Australia has three advantages: major bilateral trade flows with China, a sophisticated financial system desperate to export its expertise to the world, and since 2013, the ability to directly trade AUD for the renminbi," comments Arnold. "Put the three together and you should have a major renminbi trading hub, but Australia needs to get its financial architecture configured rapidly so that it doesn't miss out."

She notes that London already accounts for more than 60% of renminbi trading outside of China and Hong Kong, according to SWIFT data from international payments, and that percentage is rising.

"So how much does that leave for everyone else?" asks Arnold. "Understandably, Singapore has been quick to identify the trend. The Lion City signed a renminbi trading agreement last year and is rapidly on track to become the next largest renminbi hub in the region outside of Hong Kong. "Global corporates, among them BHP Billiton, are making Singapore their regional headquarters along with 4,000 Chinese companies. All this creates a financial ecosystem which supports greater renminbi trading."

Australian banks, she says, lack the urgency in acting on the renminbi opportunity, even though few countries -- in Asia-Pacific in particular – have such large trade volumes with China as Australia does. "Australian corporates, for example, will increasingly need to raise funds in Hong Kong in renminbi, the so called dim sum bonds. New Zealand agri conglomerate Fonterra has issued two dim sum bonds in the last three years, but no Australasian bank has been a lead manager on either deal," Arnold points out, remarking: "Soon, corporates from Australasia will be tapping the so-called Panda bonds from onshore mainland markets."

But while Australian banks and the government – which configures the country's financial architecture – may be lagging competitors, Australian trading businesses of all sizes are continuing their usage of the renminbi.

"Sydney restaurants and merchants are already taking renminbi payments through the increasingly ubiquitous Union Card scheme, which is following the Chinese diaspora and the growing number of Chinese travellers everywhere they go," says Arnold. "If easy renminbi trading can exist at such a grassroots level, then why can't Sydney be a significant regional hub for the renminbi on a much bigger scale?"

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