

China: Direct RMB-GBP Trading To Quicken Pace of RMB Internationalization

China's central bank People's Bank of China (PBoC) announced yesterday (Wednesday 18 June):

1. direct trading of RMB and GBP will commence today, Thursday 19 June, joining the likes of JPY, AUD, NZD, CAD, MYR, which were added in recent years; and
2. the appointment of a subsidiary of China Construction Bank, China's second largest lender, to undertake RMB clearing business in London.

In addition to the above, UK Chancellor George Osborne said yesterday that UK Export Finance, the UK's trade finance body, will start to provide guarantees for transactions denominated in RMB.

Implications

No surprise from yesterday's announcement as the Bank of England had in March 2014 signed a memorandum of understanding with PBoC setting out the deal, and now the arrangement is formalized.

The latest step also takes RMB internationalization up a notch with London as the base for the first clearing bank outside of Asia, allowing RMB payments and receipts in the western time zone, thus improving efficiency and cost effectiveness and making the currency an attractive alternative for exporters and importers.

London is also the world's largest FX center, accounting for 41% share of the world's average daily FX trading volume of US\$5.3tn in 2013, according to BIS, and for 2/3 of all RMB payments outside of China and Hong Kong, according to UK Chancellor Osborne. Singapore is the world's third largest and Asia's largest FX trading center, with a 5.7% share of global trading volume. London is now in a leading position in the Western time zone against other centers which are vying for a slice of the RMB business, including New York, Paris and Frankfurt.

With this development, there is very little doubt about China's ambitions in internationalization of the RMB, which is expected to gain further traction now that the currency is being anchored in London, facilitated by the guarantees on international trade denominated in RMB. With China Premier Li Keqiang having concluded trade deals on Tuesday with the UK worth more than £14bn during a state visit, RMB will get a strong head start in London.

The appointment of China Construction Bank as a clearing bank in London also shows that China is diversifying the ground in RMB internationalization, joining the ranks of Bank of China (in HK, Macau, Taiwan) and ICBC (in Singapore). Meanwhile, RMB internationalization is gaining further ground with a foothold for the first time in Western time zone. While the cross-border RMB pie is getting larger, this also means keener competition for existing centers, which would need to stay ahead of the pack in terms of connectivity, efficiency, and innovation as the pace of RMB internationalization accelerates.

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