

# Trade your Renminbi

IN FRANKFURT AM MAIN

THE 1.75 BILLION EURO CHANCE FOR EUROPEAN COMPANIES (PAGE 6)



#### Renminbi Centre Frankfurt

In 2014, Frankfurt became the first offshore renminbi hub in the eurozone when the Bank of China was appointed as the renminbi clearing bank. Frankfurt now offers a variety of financial products for companies and investors.

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#### A new lead currency

The renminbi is an emerging international currency, with China continuing to accelerate its internationalisation. In volume of payments, the renminbi ranks in fifth place according to Swift in April 2015.

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#### Business with China

China is the world's second largest economy. As the largest exporter and second largest importer worldwide, China plays a big role in business, ranking first in the world regarding the inflow of foreign direct investment.

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# Companies: expanding business opportunities

For trade with China and in renminbi, there are in addition to direct billing also other ways to use the Chinese currency in conjunction with other products. For example, the standard products offered by many banks include letters of credit, services related to supply chains and the financing of receivables, with a central role played by services in the area of cash and treasury management to include the renminbi in general liquidity management.

For German and foreign companies, carrying out and invoicing transactions in renminbi provides **KEY ADVANTAGES**:

- Strengthening market position and expanding business opportunities in China through settlement of transactions in renminbi
- Billing commercial transactions in the Chinese currency
- Improved negotiating position and making the most of price advantages by taking over the currency risk from Chinese contract partners
- Renegotiations for price adjustments due to exchange rate changes are no longer required
- Central currency management by including the renminbi in the currency basket
- Control of the currency risk through the parent company, thanks to invoicing in renminbi between parent company and subsidiary
- Access to trade with Chinese companies that have no licence to conduct cross-border transactions in US dollars or euros

To make the most of these benefits, the Frankfurt financial centre offers a **BROAD RANGE OF PRODUCTS AND SERVICES**. This includes, inter alia:

- Opening renminbi accounts
- Purchasing and selling renminbi
- Renminbi hedging
- Import and export payments in renminbi
- Opening and processing import and export letters of credit
- Issuing bank guarantees
- Processing capital transfers in China with the approval of the competent authority within groups of companies

The following are available for **ACTIVE CURRENCY MANAGEMENT** in renminbi:

- CNY forward hedging with Non-Deliverable Forward (NDF)
- CNY hedging with Non-Deliverable Option (NDO)
- CNH currency swaps

The latest joint venture between Deutsche Börse and the Shanghai Stock Exchange opens up new possibilities in the trade of renminbi products in the spot and forward markets, from which companies and institutional investors alike can benefit (see “Renminbi products” on page 3).



# Institutional investors: good reasons for China

Not just the long-term prospects for the Chinese currency and its expected upward movement are winning over many institutional investors, but also numerous other criteria, such as rising domestic consumption. Given the sustained **DYNAMIC DEVELOPMENT** of the Chinese economy, there is considerable scope for the further development of existing products and services.

In Frankfurt, many renminbi-related products are already available to institutional investors, including both **SPOT AND FORWARD PRODUCTS**, as well as foreign currency swaps and options, all traded over the counter between the parties and frequently used for hedging purposes. In addition, there are also so-called non-deliverable products, which are particularly well suited for currencies – like the renminbi – that are not freely convertible.

In terms of investment products, virtually the **ENTIRE PRODUCT RANGE** is available, with accounts and deposits in particular widely used as standard products. Another attractive option is investment in the (offshore) renminbi bonds available from German or European issuers, which can be made either directly or through a renminbi bond fund. There is also the option of investing in funds that make indirect investment in the domestic Chinese capital market possible.

In the area of financing products, which include all instruments used to borrow funds on the debt capital market, Germany is a leader in the area of offshore renminbi bonds.

## **RENMINBI PRODUCTS AND SERVICES**

### **(Non-) deliverables**

- **Spot forex**
- **Forwards**
- **Swaps & options**
- **Repos**

### **Financing**

- **Offshore bonds**
- **Offshore loans**

### **Investment**

- **Fund onshore/offshore trading**
- **Payments**
- **Letters of credit**
- **Financing**
- **Cash management**

### **Other**

- **Custodian bank**
- **Clearing**
- **Safekeeping**
- **Prime brokerage**



# Private investors: a thoroughly attractive option

Private investors have been thinking in a security-oriented manner over recent years. In times of this markedly high aversion to risk, the **RENMINBI WAS RELATIVELY STABLE**.

There are good reasons to invest in China. Considered over a five to ten year period, China is a thoroughly attractive option since ratings are quite favourable at present, and consumption will effectively serve as a **DRIVING FORCE** for the economy in future. Even the striking ups and downs of the Chinese currency at the moment have not deterred investors: indeed, they remain confident about the currency's long-term prospects.

All currency experts emphasise the chances that the Chinese currency will appreciate. The fact is that the Chinese renminbi has appreciated around 30 percent against the US dollar since 2005 (even 40 percent, as some experts claim, if one calculates the inflation-adjusted exchange rate).

The following **PRODUCTS AND SERVICES** for private individuals are offered at the Frankfurt financial centre:

- Opening renminbi current accounts
- Purchasing and selling renminbi
- Renminbi money transfers – incoming and outgoing
- Fixed-term deposits
- Bank cards
- Investment products for wealthy private customers, such as renminbi bond funds or funds with indirect access to the domestic Chinese capital market.



# China's Renminbi: an emerging international currency

According to the payment service provider Swift, more than **900 FINANCIAL INSTITUTIONS** in over **70 COUNTRIES** are already doing business with the Chinese renminbi. Overall, Swift says, the renminbi maintains its position as the **FIFTH MOST ACTIVE CURRENCY** for global payments and accounted for 2.07 percent of payments worldwide. Renminbi payments increased in value by 33.5 percent in March 2015 compared to February 2015, while at a global level, all currencies increased in value by 18.9 percent during the same period.

If a company is active in China, it has little choice but to formulate an renminbi strategy – it's time to **SEIZE THIS OPPORTUNITY** to develop new business, Swift says. China has developed into a world economic giant. In 2010, China overtook Japan to become the world's second largest economy, with a GDP of 9.2 trillion US dollars, or 14.9 percent of the world's total GDP. China is the world's largest exporter. Some analysts predict China will overtake the US as the world's largest economy by the mid-2020s. While China's GDP growth in 2010 was at 10.3 percent, China's economic growth is gradually slowing as the structural transformation of the economy continues. In 2015, growth in China is expected to be at 7.5 percent.

International usage of the renminbi is still in its early days. However, there are **MANY BENEFITS TO BE ACHIEVED** through the liberalisation and promotion of the use of renminbi beyond

China's borders. Mindful of the benefits to be achieved, China embarked on a gradual approach to renminbi internationalisation, sometimes described as a strategy of 'crossing the river by feeling the stones'. While there is no official timetable, some market analysts expect the renminbi to become fully convertible within the next years until 2020. Meanwhile, everybody is **POSITIONING FOR GROWTH** – banks and their clients. Many companies see it as a question of 'when', not 'if', and have made a strategic decision to actively pursue this opportunity.

## Renminbi as world payments currency in value

Customer initiated and institutional payments based on value.



Source: Swift RMB Tracker, April 2015



# At a glance: advantages for companies

Companies throughout the entire eurozone can make and receive payments in renminbi at the Frankfurt financial centre if their bank maintains an account at the Bank of China in Frankfurt – 50 institutions are already offering this service to their customers. Trading with China opens up new opportunities, because the **BENEFITS OF LOCAL RENMINBI TRADING** are many and varied, and can be summed up in five essential points:

**FIRST**, companies can now operate their Renminbi accounts on the same day so that no currency losses are incurred.

This is related to the fact that payments can now be processed within their own time zone – which is the **SECOND BENEFIT**. Until now, this was possible only in Asia – in most cases Hong Kong – and therefore only in the early morning.

In addition, these transactions are handled in Hong Kong in US dollars. For billing in renminbi, for example, a German company has to first exchange euros for dollars and then dollars for renminbi – a so-called “double-spread”. This circuitous route and the costs it involves will in future be eliminated. This is the **THIRD BENEFIT**.

**FOURTH**, there is also a benefit in terms of billing. Where billing, as just assumed, is not in renminbi but in euros – which is still the case today in about 80 percent of transactions – the Chinese partner bears the full currency risk while at the same time having no recourse to hedging instruments. But if European companies switch their billing systems to renminbi, they can generally grant their Chinese business partners a discount of between two and six percent, because the currency risk is eliminated. Conversely, European exporters can also bill in renminbi, sparing their Chinese customers the need to exchange euros for renminbi – a clear saving for the importer in China.

And there is also a **FIFTH ADVANTAGE**: payment processing is under European jurisdiction.

## THE 1.75 BILLION EURO CHANCE

In 2014, the trading volume between the eurozone and China amounted to around 350 billion euros – and only some 20 percent were transacted in renminbi. This share is expected to double within the next years. If companies save an estimated 2.5 percent by using the renminbi, their cost advantage will total 1.75 billion euros per year for this additional renminbi share.

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