Offshore Renminbi – Riding the tailwinds

- **Our Renminbi internationalisation tracker rose in July-October; all five components contributed**
- **Northbound portfolio flows stayed strong; China's monetary policy normalisation helped Dim Sum bonds**
- **Stronger CNY outlook helps, but is not a condition for boosting genuine Renminbi usage offshore**

Stronger CNY to keep offering support in H1-2021

Kelvin Lau
+852 3983 8565
Kelvin.KH.Lau@sc.com
Senior Economist, Greater China
Standard Chartered Bank (HK) Limited

Chidu Narayanan
+65 6596 7004
Chidambarathanu.Narayanan@sc.com
Economist, Asia
Standard Chartered Bank (Singapore) Limited

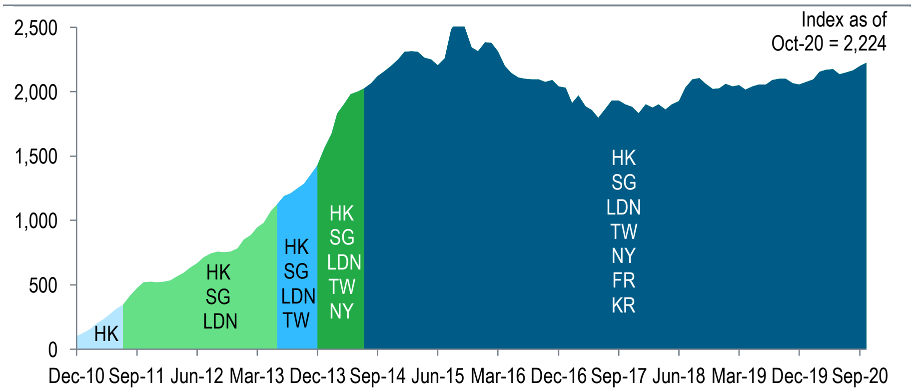
Terry Chan
+852 3983 8560
TerrySC.Chan@sc.com
Fixed Income Associate
Standard Chartered Bank (HK) Limited

The *Standard Chartered Renminbi Globalisation Index (RGI)*, our proprietary measure of international Renminbi usage, climbed for a fourth straight month in October. During this period, the RGI rose a cumulative 4.2% (to 2,224 from 2,134 in June), resuming its uptrend and exceeding the 3.9% increase for the entire preceding year (July 2019-June 2020). All five RGI sub-indices contributed positively to the headline improvement. 'Dim Sum bonds and certificates of deposit (CDs) outstanding' and 'foreign holdings of onshore assets' have been particularly strong drivers lately, accounting for an average c.70% of the m/m RGI increases in the four months through October.

China's normalising onshore monetary conditions (from an accommodative stance earlier this year to support the post-COVID recovery) have spurred greater interest in Dim Sum bond issuance. The market is also supported by limited supply, improving offshore Renminbi (CNH) liquidity conditions, and a strong Chinese yuan (CNY) outlook. Expectations of currency appreciation have also boosted capital inflows to China's bond and equity markets, which have been the most reliable driver of Renminbi internationalisation in recent years amid the increasing ease of onshore market access, allowing foreign central banks and investors to better diversify into China.

We forecast USD-CNY at 6.30 at end-H1-2021 on strong fundamentals (including favourable growth and interest rate differentials) and lower event risk premia following Biden's election win. We believe a stronger CNY is a welcome tailwind but not a pre-requisite for Renminbi internationalisation to make a comeback. More important, in our view, is that China continue to improve the transparency of its FX regime while boosting genuine demand for Renminbi usage via policy support. Our RGI should help to track the Renminbi's renewed global ascent in the coming years.

Figure 1: Our RGI confirms renewed Renminbi internationalisation momentum



Source: Standard Chartered Research

If you are in scope for MiFID II and want to opt out of our Research services, please *contact us*.

Broad-based improvement across RGI components

All five RGI components have improved in H2-2020 so far

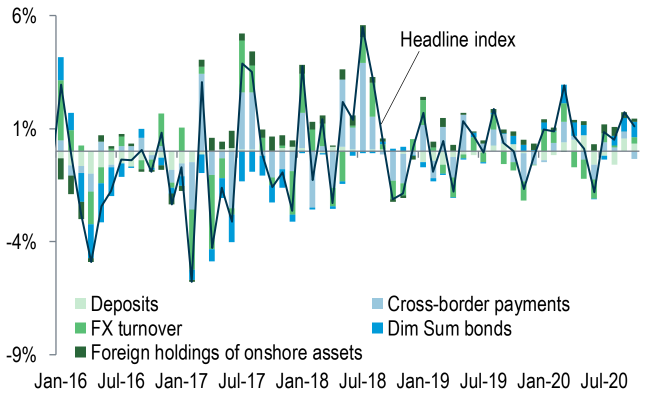
The RGI resumed its year-long uptrend in July after a brief dip to 2,134 in June; from there, it continued to rise to 2,224 in October, the highest since March 2016. Sequential growth has also accelerated, from 0.8% m/m in July and 0.5% in August, to 1.7% in September and 1.1% in October. All five of our RGI components were net positive contributors to the headline index between July-October (Figure 2). Below, we look at each component in greater detail.

A stronger CNY further strengthens the case for foreign investors to keep divesting into Renminbi assets

Foreign holdings of onshore assets accelerated further in Q3, rising at an average monthly pace of 37% y/y (up from 25% in Q2) to a total CNY 7.9tn across equities, bonds, loans and deposits (Figure 4). Equity and bond holdings led the way higher, rising 12% q/q and 16% q/q in Q3. More timely proxy indicators suggest a further improvement in foreign holdings in October: China Central Depository and Clearing (CCDC) data for the month showed a 49% y/y increase in bond-related foreign holdings, the fastest since December 2018 (Figures 5). All of this reflects global investors' continued interest in diversification as China continues to open up its financial markets; this has been further supported by the recent improvement in global risk sentiment (amid reduced political uncertainty following Biden's win), improving vaccine prospects, and still-accommodative major central banks thanks to low inflation.

Figure 2: Four straight months of m/m RGI increases

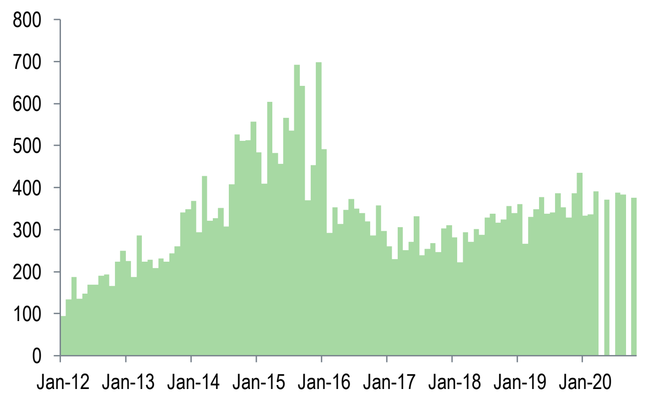
Contribution of RGI components to % m/m change



Source: Standard Chartered Research

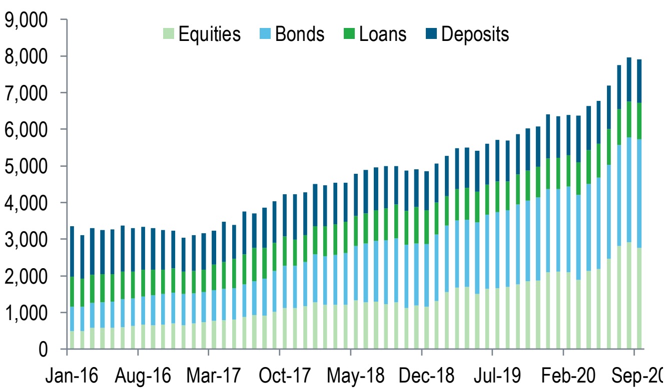
Figure 3: Steady Renminbi invoicing post-COVID

China's Renminbi-denominated trade settlement, CNY bn



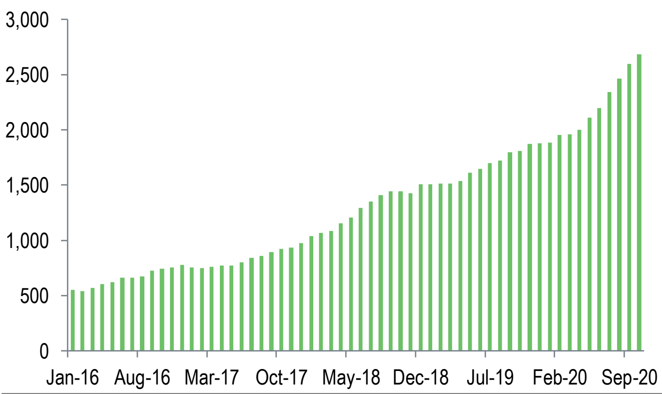
Source: CEIC, Standard Chartered Research

Figure 4: Foreign holdings of onshore assets accelerated further after breaching CNY 7bn in June *(CNY bn)*



Source: Bloomberg, Standard Chartered Research

Figure 5: Foreign holdings of onshore bonds kept rising in October *(CCDC, CNY bn)*



Source: Bloomberg, Standard Chartered Research

Strong northbound portfolio investment matched by strong southbound flows

CNH deposits in Hong Kong improved in Q3, despite strong northbound portfolio flows (which would normally be a drain on offshore liquidity). We see a number of offsetting factors replenishing the CNH deposit pool: (1) a more bullish CNY outlook, encouraging more holdings and/or conversion from deposits in other currencies; and (2) a pick-up in southbound portfolio flows as onshore investors increase their foreign asset purchases. This is consistent with the results of *our monthly capital flows tracker for China,* which confirm persistent but modest net capital outflows, especially in recent months. This is despite a stronger CNY (or maybe *because of* a stronger CNY, as offshore assets become cheaper in CNY terms). Flows under the two Stock Connect schemes have also spent much of H2 so far in net southbound territory, despite still-strong northbound equity flows (Figure 6).

CNH FX turnover has contributed positively to the headline RGI for four straight months. This is not surprising, as FX turnover tends to increase when the market is trending directionally; USD-CNY traded all the way from above 7.0 in early July down to c.6.7 as of end-October. CNH FX turnover is likely to stay well supported, as *we see USD-CNY reaching 6.3 by end-H1-2021* on strong fundamentals.

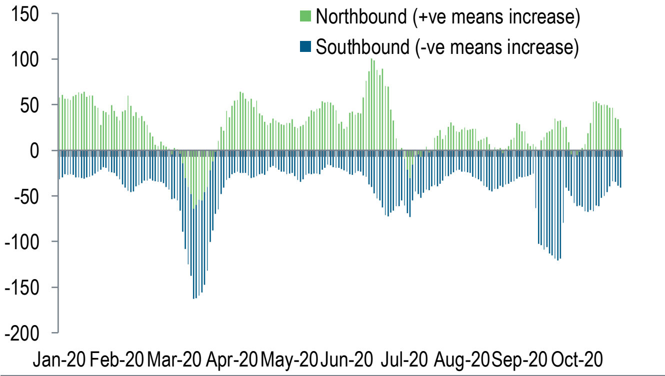
CNH liquidity is likely to loosen while onshore monetary policy normalises

Dim Sum bonds (and CDs) outstanding were the biggest RGI driver in September (+0.6ppt) and October (+0.7ppt), growing an average 14% y/y in July-October (Figure 7). We believe China's recent shift to a more neutral monetary policy stance (as the focus shifts to limiting leverage from outright monetary easing) has boosted appetite for borrowing offshore. Providing further support, offshore borrowing costs *look likely to remain lower than onshore costs for longer*. For the first time since July 2019, the PBoC did not fully roll over maturing offshore PBoC bills in November; this appears to be an effort to stem recent rapid CNY appreciation, boosting CNH liquidity in the process.

More corporates need to get back into the game as China renews its Renminbi internationalisation push

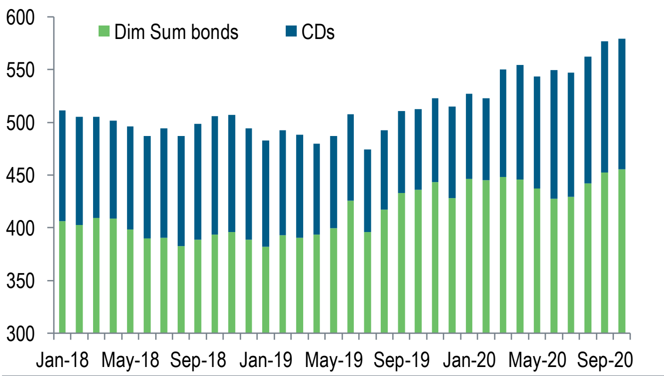
Cross-border Renminbi payments (based on SWIFT data) helped to push the RGI higher throughout Q3, before dipping in October. Another proxy that we track is official data on Renminbi-denominated trade settlement. While reporting has been intermittent recently, the data confirms steady cross-border activity both in volume terms (CNY 376bn for goods in October (see Figure 3) and percentage terms (just over 13% of China's total goods trade). *In our recent in-depth report*, we argued that China can revive Renminbi trade settlement via increased policy support, as the re-acceleration of Renminbi internationalisation also needs to be driven by genuine corporate users. Renminbi trade settlement has plenty of lost ground to regain after its initial rise in 2010-15; this time, regional trade corridors, rather than Western multinational corporates, look likely to take the lead.

Figure 6: More southbound Stock Connect flows than northbound in H2 so far *(10-day moving average, CNY bn)*



Source: Bloomberg, Standard Chartered Research

Figure 7: CNH bond market is growing again
Total outstanding, CNY bn



Source: Bloomberg, Standard Chartered Research

Disclosures appendix

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

advice as defined by MiFID II. **Australia:** The Australian Financial Services Licence for Standard Chartered Bank is Licence No: 246833 with the following Australian Registered Body Number (ARBN: 097571778). Australian investors should note that this communication was prepared for "wholesale clients" only and is not directed at persons who are "retail clients" as those terms are defined in sections 761G and 761GA of the Corporations Act 2001 (Cth). **Bangladesh:** This research has not been produced in Bangladesh. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED IN BANGLADESH AND MAY NOT BE OFFERED OR SOLD IN BANGLADESH WITHOUT PRIOR APPROVAL OF THE REGULATORY AUTHORITIES IN BANGLADESH. Any subsequent action(s) of the Recipient of these research reports in this area should be subject to compliance with all relevant law & regulations of Bangladesh; especially the prevailing foreign exchange control regulations. **Botswana:** This document is being distributed in Botswana by, and is attributable to, Standard Chartered Bank Botswana Limited, which is a financial institution licensed by Bank of Botswana under Section 6 of the Banking Act CAP 46.04 and is listed on the Botswana Stock Exchange. **Brazil:** SCB disclosures pursuant to the Securities Exchange Commission of Brazil ("CVM") Instruction 598/18: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **China:** This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking and Insurance Regulatory Commission (CBIRC), State Administration of Foreign Exchange (SAFE), and People's Bank of China (PBoC). **Hong Kong:** This document (except any part advising on or facilitating any decision on futures contracts trading) is being distributed in Hong Kong by, and any part hereof authored by an analyst licensed in Hong Kong is attributable to, Standard Chartered Bank (Hong Kong) Limited 渣打銀行（香港）有限公司 which is regulated by the Hong Kong Monetary Authority. Insofar as this document advises on or facilitates any decision on futures contracts trading, it is being distributed in Hong Kong by, and any part hereof authored by an analyst licensed in Hong Kong is attributable to, Standard Chartered Securities (Hong Kong) Limited 渣打證券（香港）有限公司 which is regulated by the Securities and Futures Commission. **India:** This document is being distributed in India by Standard Chartered Bank, India Branch ("SCB India"). SCB India is a branch of SCB, UK and is licensed by the Reserve Bank of India to carry on banking business in India. SCB India is also registered with Securities and Exchange Board of India in its capacity as Merchant Banker, Depository Participant, Bankers to an Issue, Custodian, etc. For details on group companies operating in India, please visit *https://www.sc.com/in/important-information/india-result/*. **Indonesia:** Standard Chartered Bank, Jakarta Branch is a banking institution duly registered with and supervised by the Indonesian Financial Service Authority. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or represent that any such future movements will not exceed those shown in any illustration. Future changes in such laws, rules, regulations, etc., could affect the information in this document, but SCB is under no obligation to keep this information current or to update it. Expressions of opinion are those of SCB only and are subject to change without notice. **Japan:** This document is being distributed to Specified Investors, as defined by the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, known as "FIEA"), for information only and not for the purpose of soliciting any Financial Instruments Transactions as defined by the FIEA or any Specified Deposits, etc. as defined by the Banking Act of Japan (Act No.59 of 1981). **Kenya:** Standard Chartered Bank Kenya Limited is regulated by the Central Bank of Kenya. The information in this document is provided for information purposes only. The document is intended for use only by Professional Clients and should not be relied upon by or be distributed to Retail Clients. **Korea:** This document is being distributed in Korea by, and is attributable to, Standard Chartered Bank Korea Limited which is regulated by the Financial Supervisory Service and Financial Services Commission. **Macau:** This document is being distributed in Macau Special Administrative Region of the Peoples' Republic of China, and is attributable to, Standard Chartered Bank (Macau Branch) which is regulated by Macau Monetary Authority. **Malaysia**: This document is being distributed in Malaysia by Standard Chartered Bank Malaysia Berhad only to institutional investors or corporate customers. Recipients in Malaysia should contact Standard Chartered Bank Malaysia Berhad in relation to any matters arising from, or in connection with, this document. **Mauritius:** Standard Chartered Bank (Mauritius) Limited is regulated by both the Bank of Mauritius and the Financial Services Commission in Mauritius. This document should not be construed as investment advice or solicitation to enter into securities transactions in Mauritius as per the Securities Act 2005. **New Zealand:** New Zealand Investors should note that this document was prepared for "wholesale clients" only within the meaning of section 5C of the Financial Advisers Act 2008. This document is not directed at persons who are "retail clients" as defined in the Financial Advisers Act 2008. NOTE THAT STANDARD CHARTERED BANK (incorporated in England) IS NOT A "REGISTERED BANK" IN NEW ZEALAND UNDER THE RESERVE BANK OF NEW ZEALAND ACT 1989, and it is not therefore regulated or supervised by the Reserve Bank of New Zealand. **Pakistan:** The securities mentioned in this report have not been, and will not be, registered in Pakistan, and may not be offered or sold in Pakistan, without prior approval of the regulatory authorities and/or relevant governmental statutory body(ies) in Pakistan. **Philippines:** This document may be distributed in the Philippines by Standard Chartered Bank (Philippines) ("SCB PH") to Qualified Buyers as defined under Section 10.1 (L) of Republic Act No. 8799, otherwise known as the Securities Regulation Code ("SRC"), other corporate and institutional clients only. SCB PH does not warrant the appropriateness and suitability of any security, investment or transaction that may have been discussed in this document with respect to any person. Nothing in this document constitutes or should be construed as an offer to sell or distribute securities in the Philippines, which securities, if offered for sale or distribution in the Philippines, are required to be registered with the Securities and Exchange Commission unless such securities are exempt under Section 9 of the SRC or the transaction is exempt under Section 10 thereof. SCB PH is regulated by the Bangko Sentral ng Pilipinas (BSP) (e-mail: *consumeraffairs@bsp.gov.ph*). Any complaint in connection with any product or service of, or offered through, the Bank should be directed to the Bank's Client Services Group via e-mail at *straight2bank.ph@sc.com* (or any other contact information that the Bank may notify you from time to time). **Singapore:** This document is being distributed in Singapore by Standard Chartered Bank (Singapore) Limited (UEN No.: 201224747C) only to Accredited Investors, Expert Investors or Institutional Investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact Standard Chartered Bank (Singapore) Limited (as the case may be) in relation to any matters arising from, or in connection with, this document. **South Africa:** Standard Chartered Bank, Johannesburg Branch ("SCB Johannesburg Branch") is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4. **Thailand:** This document is intended to circulate only general information and prepare exclusively for the benefit of Institutional Investors with the conditions and as defined in the Notifications of the Office of the Securities and Exchange Commission relating to the exemption of investment advisory service, as amended and supplemented from time to time. It is not intended to provide for the public. **UAE:** For residents of the UAE – Standard Chartered Bank UAE does not provide financial analysis or consultation services in or into the UAE within the meaning of UAE Securities and Commodities Authority Decision No. 48/r of 2008 concerning financial consultation and financial analysis. **UAE (DIFC):** Standard Chartered Bank, Dubai International Financial Centre (SCB DIFC) having its offices at Dubai International Financial Centre, Building 1, Gate Precinct, P.O. Box 999, Dubai, UAE is a branch of Standard Chartered Bank and is regulated by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients and is not directed at Retail Clients as defined by the DFSA Rulebook. In the DIFC we are authorized to provide financial services only to clients who qualify as Professional Clients and Market Counterparties and not to Retail Clients. As a Professional Client you will not be given the higher retail client protection and compensation rights and if you use your right to be classified as a Retail Client we will be unable to provide financial services and products to you as we do not hold the required license to undertake such activities. **United States:** Except for any documents relating to foreign exchange, FX or global FX, Rates or Commodities, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Exchange Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities North America, LLC, 1095 Avenue of the Americas, New York, N.Y. 10036, US, tel + 1 212 667 0700. WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES LAWS NOR DO WE OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS (i) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL ARE PROPERLY REGISTERED OR LICENSED TO CONDUCT BUSINESS; OR (ii) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL QUALIFY FOR EXEMPTIONS UNDER APPLICABLE U.S. FEDERAL AND STATE LAWS. Any documents relating to foreign exchange, FX or global FX, Rates or Commodities to US Persons, Guaranteed Affiliates, or Conduit Affiliates (as those terms are defined by any Commodity Futures Trading Commission rule, interpretation, guidance, or other such publication) are intended to be distributed only to Eligible Contract Participants are defined in Section 1a(18) of the Commodity Exchange Act. **Zambia:** Standard Chartered Bank Zambia Plc (SCB Zambia) is licensed and registered as a commercial bank under the Banking and Financial Services Act Cap 387 of the laws of Zambia and as a dealer under the Securities Act, No. 41 of 2016. SCB Zambia is regulated by the Bank of Zambia, the Lusaka Stock Exchange and the Securities and Exchange Commission.

Document approved by
Shuang Ding
Chief Economist, Greater China and North Asia

Document is released at
03:34 GMT 25 November 2020