

The RMB Odyssey and China's Third Plenum

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- Review June IBAC Speech & Conclusion
- Third Plenum Results
- Financial Reforms Contemplated
- Shanghai Free Trade Zone
- The RMB – Bold Predictions
- China's Evolving Global Role

- The New Leadership
- The Reform Agenda
- Issues of Concern
- The Birth of a New Global Currency?

- Encourage Private Sector Participation
- Liberalization of Private Capital Outflow
- Interest Rate Liberalization
- Gradual Shift to RMB Convertibility
- SOEs / SMEs
- Shadow Banking
- Growing Social Discontent

- RMB has come far
- Key factor is China's role in world trade
- Market demand and gradual lifting restrictions to continue
- Sovereign interest will grow
- What are alternatives?
- Long way to go but is very high on financial reform agenda

- For 2012, China's GDP measured USD 8.3 Trillion
- representing 13.3% of world economy
- According to IMF, China's GDP is projected to overtake U.S. in 2017
- Growth is moderating to 7-8%; its not exactly slow
- FX Reserves – increased to 3.6 trillion USD

“Governing a big country is as delicate as frying a small fish.”

- President Xi Jinping

“Reform is like rowing upstream. Failing to advance means falling back. Those who refuse to reform may not make mistakes, but they will be blamed for not assuming their historical responsibility.”

- Premier Li Keqiang

“Central Leading Group” established to coordinate economic reforms and security.

Xi has firm grip on military and domestic security.

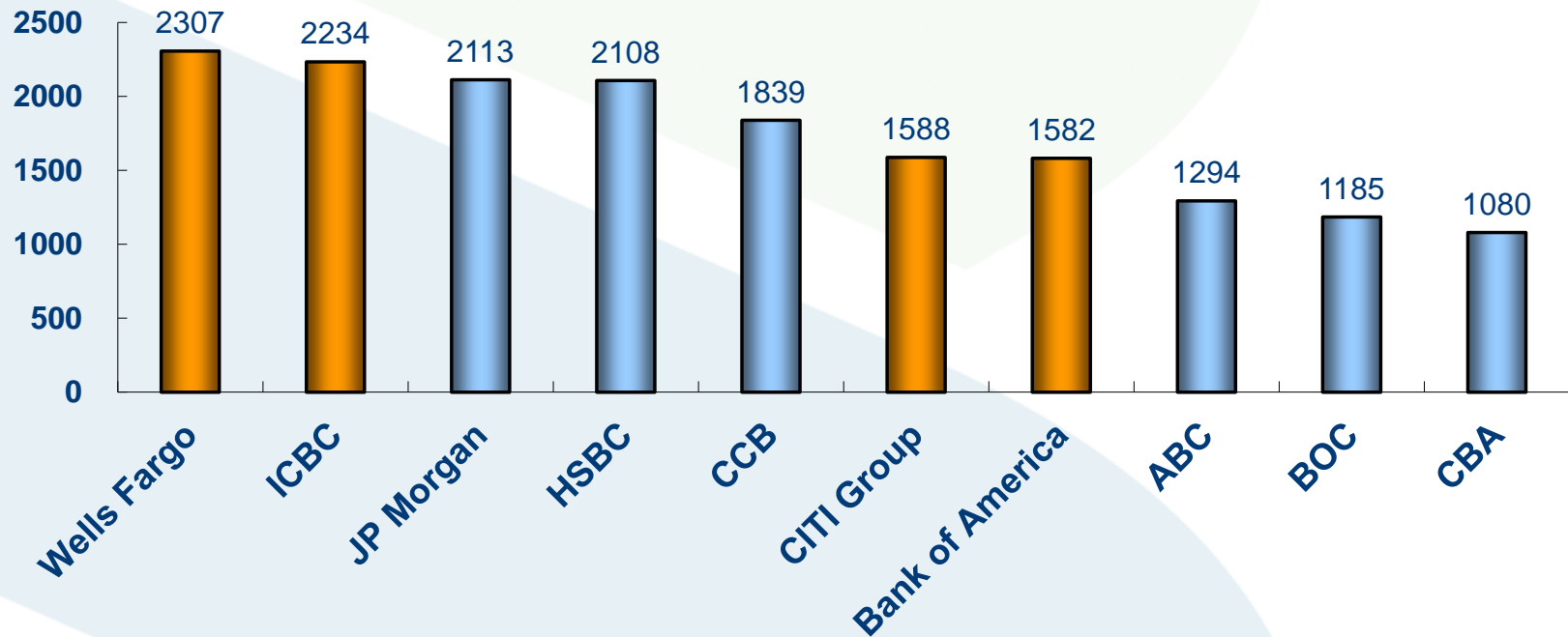
Ten Key Reforms Sixty Policy Measures

- Leadership Consolidation
- One Child Policy Change
- “Decisive” Role of Markets
- Land Ownership / Property Tax
- Corruption and Governance
- Tax on Environment / Pollution
- Social controls less onerous but “thought control” remains
- Farmers can sell land
- State Assets and Foreign Investment
- Finance and Banking

- New, private banks can establish
 - 27 applications received
 - 9 approved
 - Small companies and SMEs
 - Microcredit (7,398)
- Retail, Real Estate, Tech Investors
- Online payments developing
- Foreign participation hinted
- Shadow Banking Implications
- Other areas highlighted
 - Deposit insurance
 - Bankruptcy process
 - Interest rate liberalization
- Foreign Trade Zones

World Top 10 Listed Banks (by Market Value)

Unit : 100 Mn US Dollars



- Large banks must deal with interest liberalization
- Lending to SMEs and microfinance are top priority
- Small and private financial institutions will be developed to support agriculture, rural areas and micro enterprises
- Public-Private Partnership model

China Banking Sector Overview (2012)

Bank Category	Total Asset (RMB 100 million)	Y-on-Y Growth	Weight in the Banking Industry
Large Commercial Banks (Big 5)	600,401	11.94%	44.93%
Share-Holding Commercial Banks (12 Banks)	235,271	28.01%	17.61%
City Commercial Banks	123,469	23.66%	9.24%
Other banking institutions	375,420	20.40%	28.60%

Overview

- Overview: Shanghai Free Trade Zone is a testing ground for easing regulations on the service and financial sectors

Opportunities

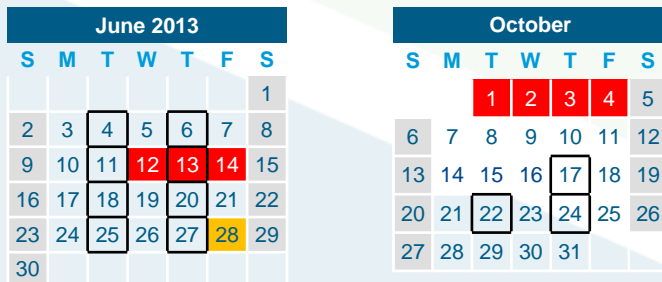
- Current FDI regulations to be relaxed
- Easing of tariffs to allow duty-free imports and re-exports
- Greater flexibility in financial services: The zone to host greater interest rate liberalisation, freer cross-border lending, and foreign debt quota reform, among others
- RMB convertibility: Opportunity to allow free convertibility of the RMB within the zone
- Services: The authorities may allow hospitals and schools to be set up in the zone.



PBOC Induces Mainland Liquidity Squeeze

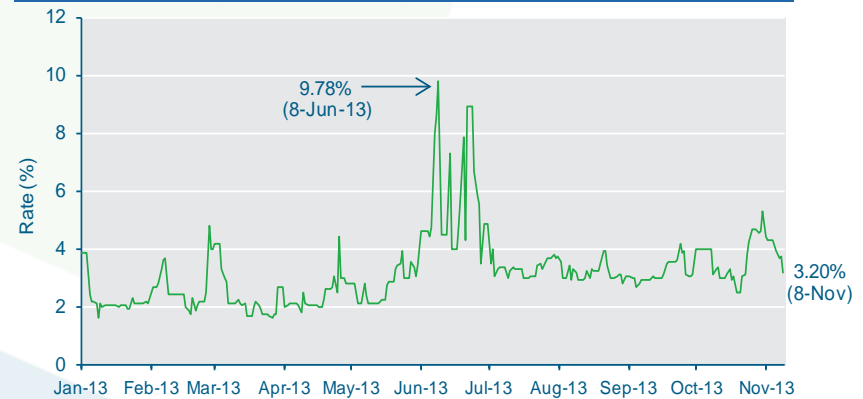
- In June 2013, the PBOC intentionally halted open market operations to expose overextended banks as they promote better banking governance and liquidity management practice

Factors Impacting Interbank Liquidity

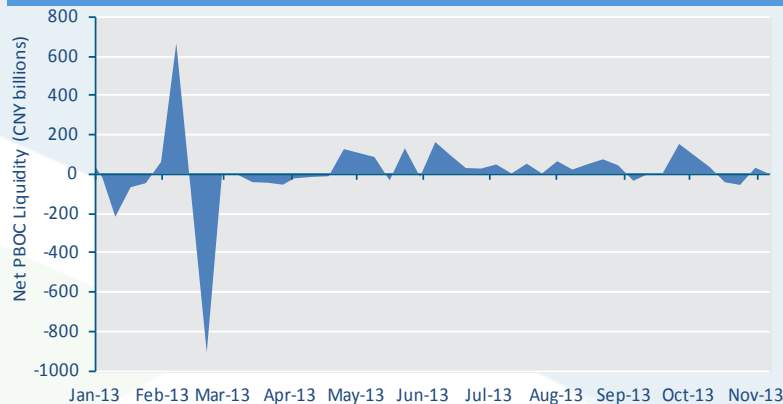


- PBOC suspends liquidity injections
- Holiday
- Quarter-end; A/D ratio requirement

Overnight Repo Rate

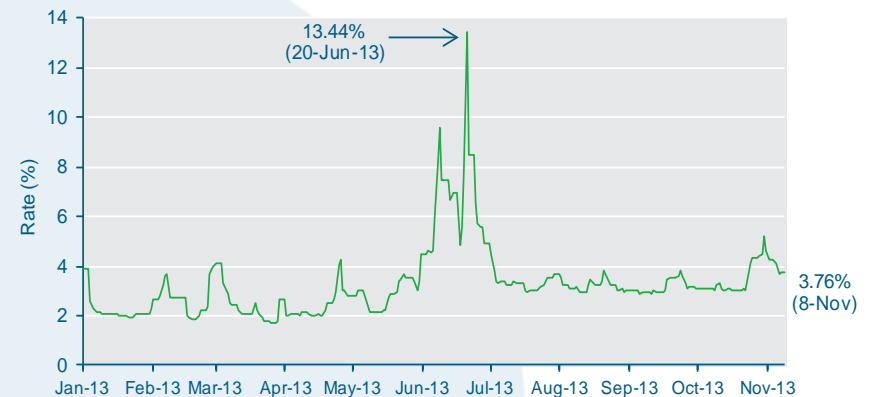


PBOC Net Liquidity Injections



Sources: TMA, Bloomberg as of 8-Nov-13.

Overnight SHIBOR



- China's Communist Party Leadership gathered to present a plan for the coming decade

Discussed changes:

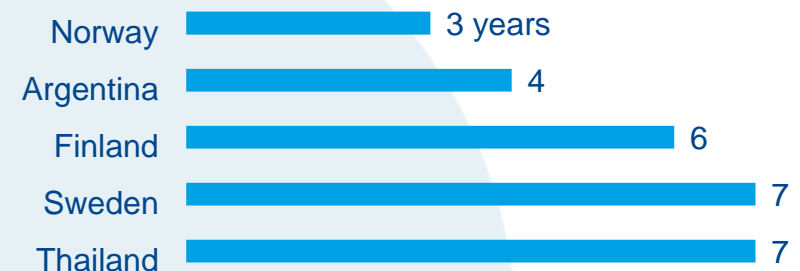
- Ease restrictions on capital flows
- Allow competition on bank-deposit rates

Opponents:

- Chinese state-owned banks worried about lower profits
- Academic warning of economic turmoil

- **Interest rate liberalization:**
Letting the market set interest rates can make financial sectors more efficient but can lead to banking crises

Years after interest-rate liberalization that banking crises occurred



Source: The Wall Street Journal, November 5, 2013

- Intensely ambitious agenda
- Transformational in nature
- Extraordinarily positive
- Unified market entry system
- Free Trade Zone Experiment
- Will accelerate role of RMB
- Issues remain
 - SOEs
 - Consumption / Investment re-balancing
 - Social media
 - Reigning in the elite

Domestic Currency

- Increasing exports and imports denominated in CNY

Trading Currency

- Requires a pool of investible instruments (through HK or access to onshore Bond markets)

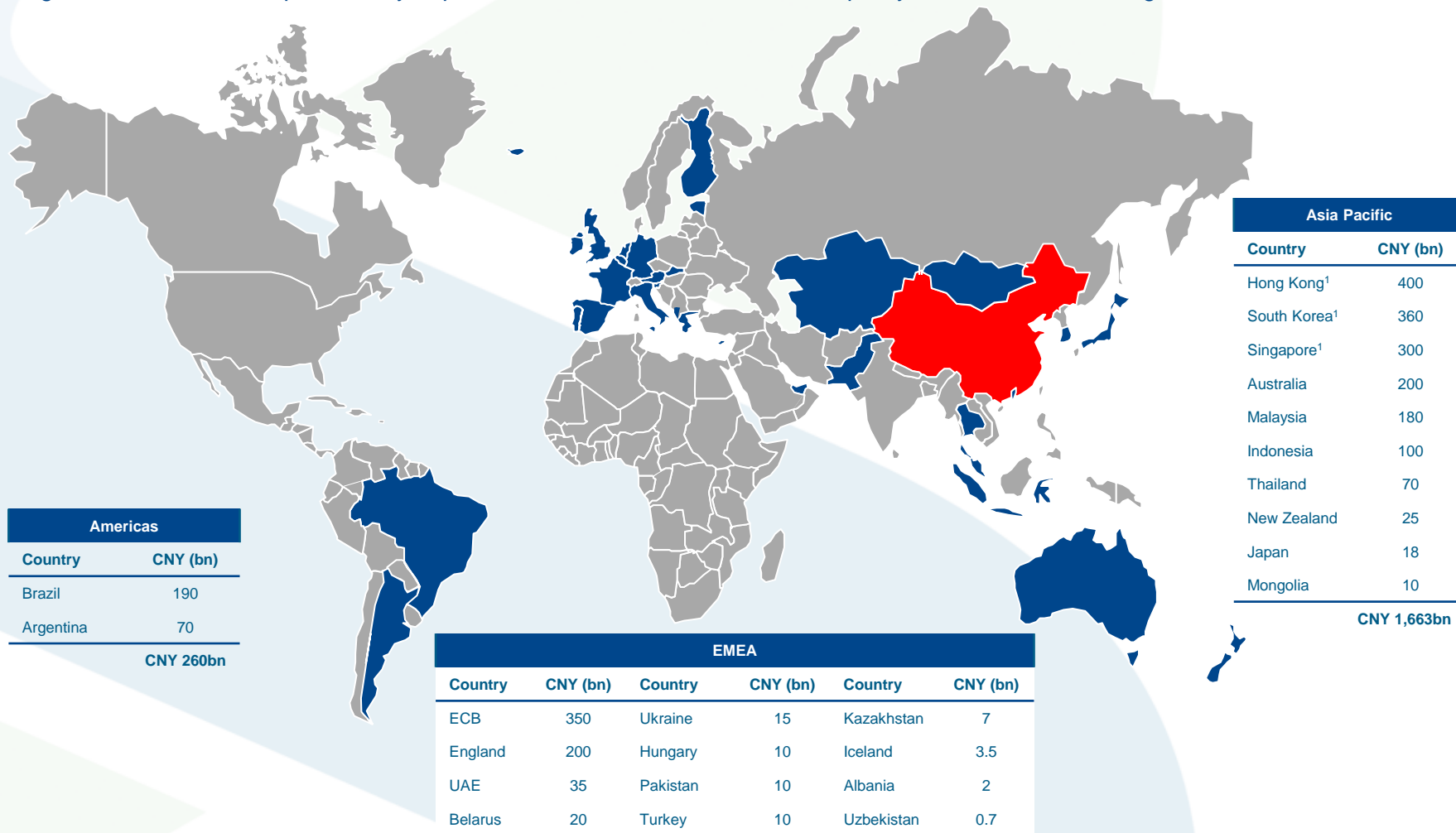
Global Investment Currency

Global Reserve Currency

- Holds value
- Deep and Liquid Capital Markets
- Free Convertibility (SDR)

Support from Central Banks

Since 2008, the PBOC has signed RMB bilateral currency swap agreements with 24 central banks totaling over CNY 2.5 trillion, providing foreign central banks an important way to promote RMB business and secure liquidity in the event of shortages.



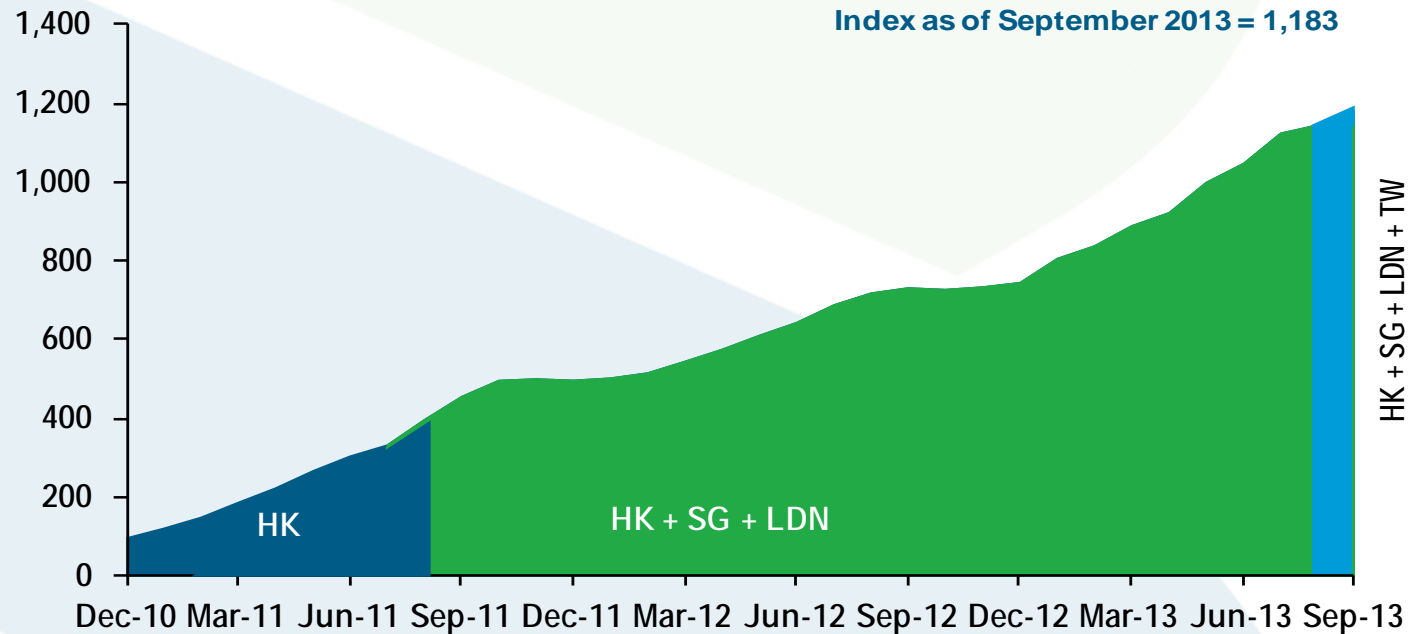
Source: Standard Chartered Bank as at 11-Nov-13.

Note: China's bilateral currency swap agreements are typically 3 years in duration and are extendable.

¹ To date, only HK, South Korea and Singapore have publicly announced the utilisation of bilateral swap lines to support trade and offshore RMB activities.

The Standard Chartered Renminbi Globalisation Index (RGI)

The Standard Chartered Renminbi Globalisation Index (RGI) is the first industry benchmark that effectively measures the internationalisation of the offshore Renminbi (CNH) across markets and geographies.

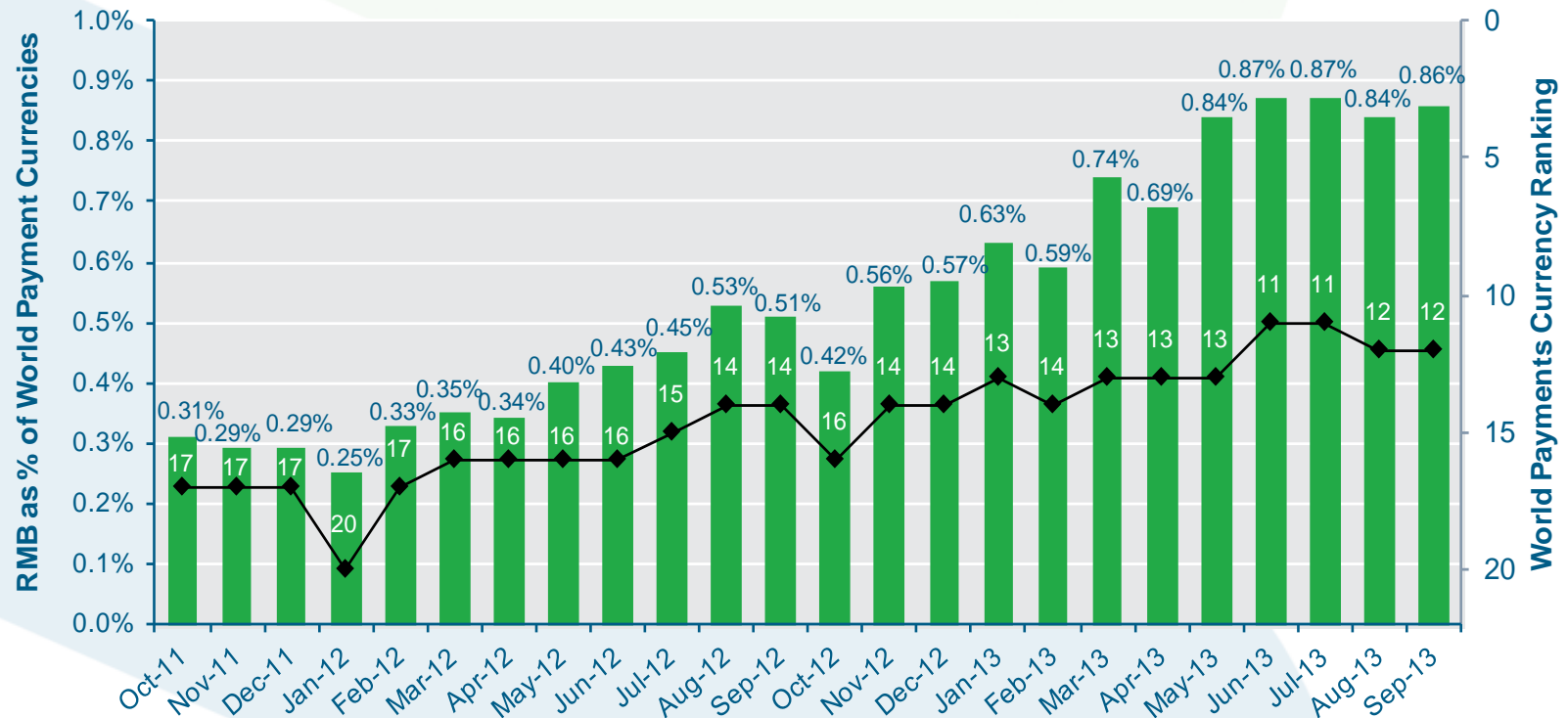


Source: Standard Chartered Research

RMB Payment Growth

Use of RMB hit an all-time high in June 2013, moving the RMB closer to the top 10 world payment currencies.

RMB as a % of World Payment Currencies
October 2011 through September 2013



Source: SWIFT RMB Tracker October 2013.

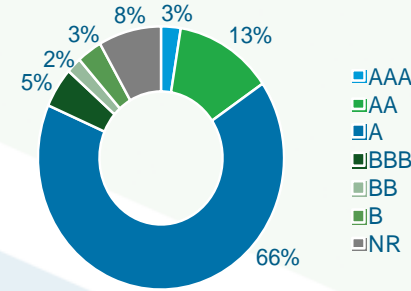
CNH Bond Market Update

The CNH bond market is the world's fastest growing bond market.

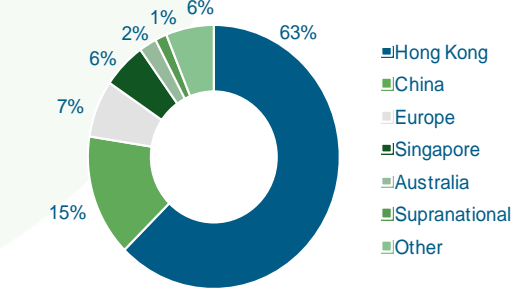
CNH New Issue Volumes (CNH Bn)



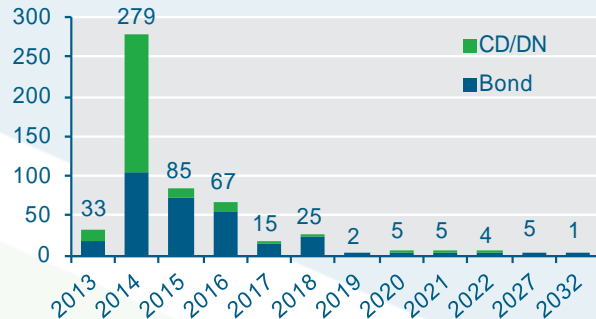
Credit Quality 2013 YTD



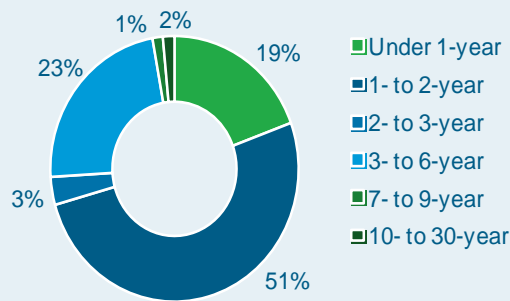
Issuer Profile by Geography 2013 YTD



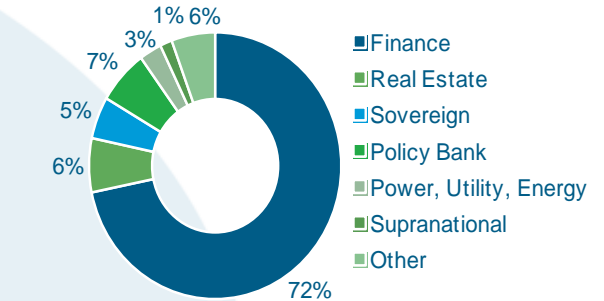
Maturity Distribution (CNH Bn)



Original Issue Tenor 2013 YTD



Issuer Profile by Sector 2013 YTD



Source: Standard Chartered as at 8-Nov-13

- 28% China's International Trade
- USD, EUR and RMB will dominate
- Daily CNY turnover to grow four times to USD500bn
- Open Capital Account with some Chinese Characteristics
- Cross-boarder RMB payment clearing system
- RMB basically free floating
- SHIBOR will be China's Fed Funds Rate

- Money Power: China's Economic Output parallels itself with the U.S. entry on the world stage
- RMB Internationalization
- China as the engine for the second Globalization
- G2 not G7, G8 or G20
- Thirst for resources
- Sino-Western relations can be mutually transformational
- “Strategic Trust Deficit”

Thank you!

Questions Please?

