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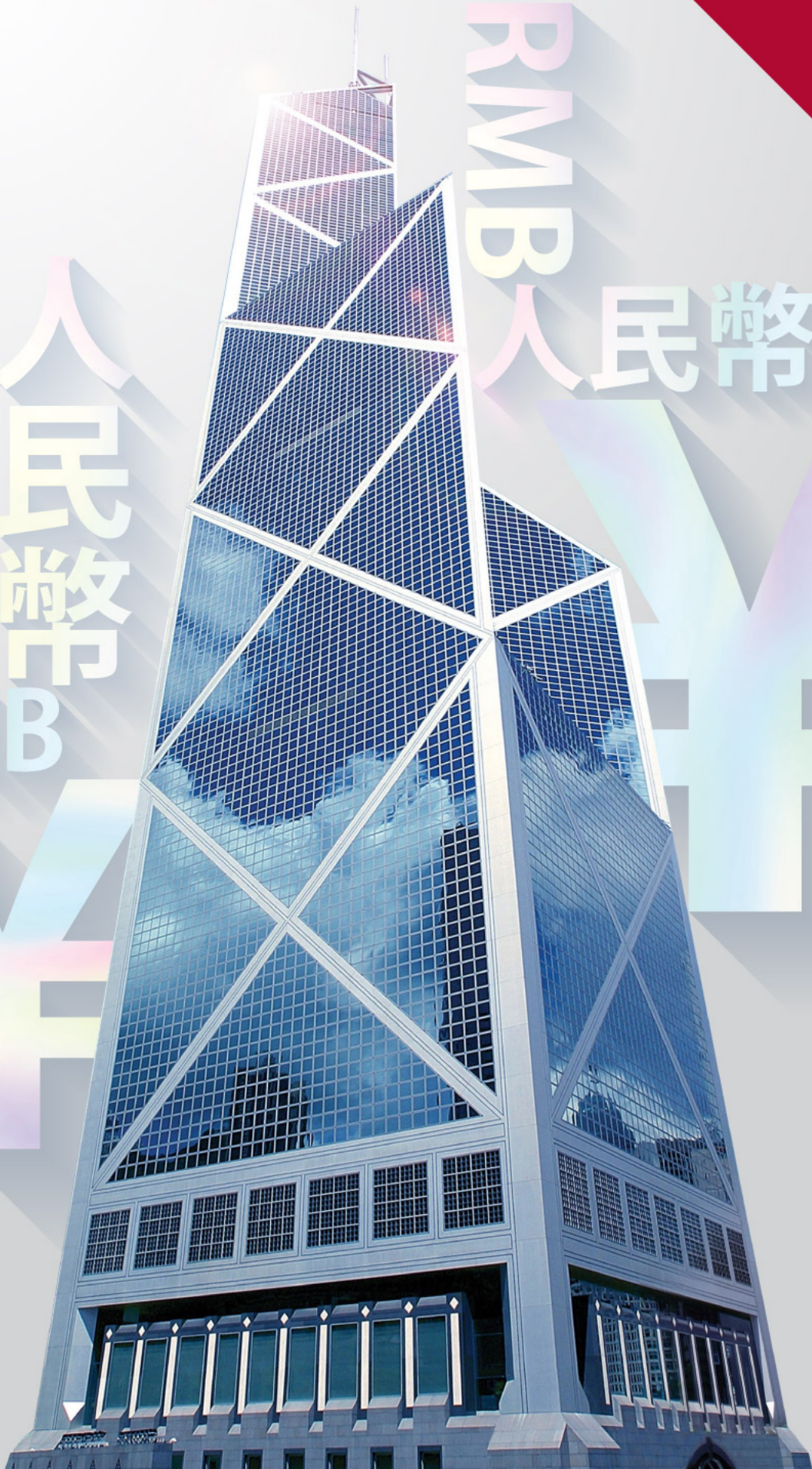
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Contents

Part 1	Market Review	1
Part 2	Policy Watch	6
Part 3	Special Topics	8
Part 4	Market Trends & Data	12

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20th CPC National Congress: China will promote the internationalization of the RMB in an orderly way

RMB's share of global FX turnover ranks the fifth

In October, the US dollar index remained strong, increasing depreciation pressure on offshore RMB exchange rate. Yet, with China's strong economic fundamental and normal monetary policy, RMB was stable compared to other major currencies. In October, the performance of offshore RMB business indicators stabilized, and offshore RMB bonds issuance continued to rise. The average daily trading volume of Bond Connect remained stable. RMB's function as a reserve currency has been further consolidated and RMB's share in global FX turnover rose to the fifth place. A number of RMB local government bonds were issued, with active subscription by international investors. The 20th CPC National Congress calls for promoting the internationalisation of the RMB in an orderly way. From "a steady and prudent manner" to "an orderly way", the internationalisation of RMB has entered into a new stage of development.

I. The offshore RMB experienced depreciation pressure in October

In October, as the US dollar index remained strong, the offshore RMB exchange rate experienced increasing depreciation pressure, fluctuating between 7.04 and 7.34. At the start of the month, due to the National Day holiday, the offshore RMB was relatively stable, trading in a narrow range of 7.04 to 7.13. After the National Day holiday, the offshore RMB weakened from the 7.11 level to near 7.20 in mid-month and depreciated to 7.32. On October 25, the PBOC raised the macro-

prudential adjustment parameters for cross-border financing of enterprises and financial institutions from 1 to 1.25. Afterwards, due to weaker economic data, the market expected the US rate hike might be slowing, causing the USD index went below 110, the offshore RMB rose more than 1,200 points, or 1.85%. On October 31, the CNH closed at 7.3363, down 2.72% MoM and 15.07% YTD; the CNY closed at 7.3050, down 2.66% MoM and 14.79% YTD; the central parity rate of RMB against US dollar published by CFETS was 7.1768, down 1.08% MoM and 12.53% YTD.

By the end of October, the DXY had risen about 17% this year, while the RMB's central parity rate against the dollar had only fallen about 13%, less than the dollar's appreciation. Thanks to China's strong economic fundamentals and normal monetary policy, the RMB has been relatively stable against a basket of currencies. Although the RMB depreciated against the US dollar, it recorded appreciation against other major currencies. The CNH strengthened 0.1% against the Euro, 2.6% against the pound and 11.1% against the yen YTD. It is believed that the US rate hike has limited effect to China since the RMB exchange rate has remained stable at a reasonable and balanced level, the foreign exchange market has operated smoothly, and cross-border capital flows have been stable.

Regarding offshore RMB liquidity, as of October 31, the overnight and 1-week CNH HIBOR rates were 1.14939% and 1.52% respectively; the 1-month CNH HIBOR rate stood at 1.98788%; and the 3-month CNH HIBOR rate was 2.78924%.

II. Review of major offshore RMB business indicators

According to HKMA, as of the end of September 2022, Hong Kong's RMB deposits amounted to RMB 857.71 billion, up 1.0% MoM. HK RMB loans stood at RMB

177.93 billion, up 2.3% MoM. The total remittance of RMB for cross-border trade settlement amounted to RMB 6.77 trillion in the first 9 months of 2022, up 28.5% YoY.

According to HKICL, RMB RTGS turnover was 29.32 trillion yuan in October 2022, accumulated 317.6 trillion in the first 10 months, up 8.97% YoY. According to SWIFT, the RMB has maintained its position as the fifth most active currency for global payments by value, with a share of 2.13%, lower than last month at 2.44% due to the national holiday, behind USD (42.05%), EUR (34.43%), GBP (7.85%), and JPY (2.95%).

The latest report from Bond Connect showed stable trading activities in October, with monthly trading volume reaching RMB 609.8 billion. Average daily turnover stood at RMB 32.9 billion. Chinese Government Bonds (CGBs) and Policy Financial Bonds (PFBs) were the most actively traded products, accounting for 53% and 33% of the monthly turnover.

According to PBOC, by the end of October 2022, foreign institutions held RMB 3.38 trillion worth of inter-bank bonds, accounted for 2.7% of the total (vs RMB 3.40 trillion in September). In terms of the change in holdings, the amount of bonds held by overseas institutions in the interbank market decreased by RMB 20 billion in October.

In terms of bond type, foreign institutions held RMB 2.28 trillion in government bonds (vs RMB 2.29 trillion in September), and RMB 0.77 trillion in policy bonds (vs RMB 0.79 trillion in September), respectively accounted for 67.6% and 22.8% of the total. Meanwhile, 4 more foreign investors entered the China interbank bond market in October, bringing the total number of foreign institutions to 1,063 by the end of October. Among them, 524 entered the market through the direct investment channel, 774 through the bond connect and 235 through the above two channels simultaneously.

III. Mainland local governments issues offshore RMB bonds in Hong Kong and Macau

This year, under US's rate hike cycle, RMB has a relatively low financing cost, boosting the growth of Dim Sum Bond issuance. According to Bloomberg, in the first ten months of 2022, offshore Dim Sum Bonds (excluding Certificates of Deposit) were issued at RMB 221.1 billion, up 47.5% YoY. The issuance of Certificates of Deposit reached RMB 330.2 billion, up nearly 7.9 times YoY. Among them, the Ministry of Finance issued RMB 5.5 billion of sovereign bonds in Hong Kong to institutional investors on October 12, including RMB 3.5 billion of bonds maturing in 2024 and RMB 2 billion maturing in 2027. The issuance was oversubscribed 4.1 times, with rate of 2.286 and 2.674 respectively, 5-10 basis points

lower than the sovereign bonds yields in the secondary market. The Ministry of Finance planned to issue a total of RMB 23 billion of sovereign bonds in four phases in Hong Kong in 2022. The fourth phase of RMB 5 billion will be issued in December.

From the end of October to the mid of November, mainland local governments successfully issued offshore RMB bonds in Hong Kong and Macao, including:

Issuer	Notional (100 mn)	Tenor	Oversubscription (Times)
Hainan	50	2 \ 3 \ 5	2.2
Guangdong	20	3	2.5
Shenzhen	50	2 \ 3 \ 5	2

Shenzhen issued 2-year, 3-year green bonds and 5-year blue bonds; Hainan issued RMB 1.2 billion worth of 2-year blue bond, RMB 2.6 billion worth of 3-year sustainable development bond and RMB 1.2 billion worth of 5-year sustainable development bond. Dr E Zhihuan, Chief Economist of Bank of China Hong Kong, said in an interview that the recent issuance of green and blue bonds by mainland local governments is a major innovation, further enriching the bond types in the offshore market and meeting overseas demand for high-quality and diversified RMB assets. It will also play an active role in promoting the in-depth development of offshore RMB bond market and the internationalization of the RMB. It is expected that Mainland local governments will issue offshore RMB bonds in Hong Kong regularly.

IV. RMB further consolidates its function as an international reserve currency, and RMB's share in global foreign exchange turnover rose to the fifth place

According to IMF COFER data, in the second quarter of 2022, the proportion of RMB in global foreign exchange reserves reached 2.88%, 1.8 percentage points higher than that in 2016 when RMB was included in the Special Drawing Rights (SDR) currency basket for the first time. It ranked the fifth among major reserve currencies. It is estimated that more than 80 foreign central banks and monetary authorities have included RMB in their foreign exchange reserves. "The rising share of RMB reserve assets further demonstrates China's relatively strong economic and financial resilience against the international downturn of persistently high inflation, slowing economic recovery and deepening financial turbulence," Guan Tao, Chief Economist at BOC Securities, said in a media interview.

In October, the Bank for International Settlements (BIS) released its latest global OTC foreign exchange turnover survey. The survey collected data from more than 1,200 banks and dealers in 52 countries. Globally, the USD remains the dominant currency for

global FX trading activities, accounting for 88.5% of total (FX transaction involves two currencies, therefore the combined total is 200%), followed by the Euro (30.5%), sterling (12.9%) and the Japanese yen (16.7%). The OTC foreign exchange turnover of RMB recorded a significant increase, with its share rising sharply from 4.3% to 7.0%, a higher increase than most other currencies. RMB's ranking in OTC foreign exchange turnover jumped from the eighth most active currency in the world in 2019 to the fifth in 2022, surpassing the Australian dollar, Canadian dollar, and Swiss franc. In terms of trading volume, RMB rose from USD 285 billion in 2019 to USD 526.4 billion, increasing nearly 85%.

Hong Kong continues to be the world's largest market for offshore RMB foreign exchange and interest rate derivatives. The average daily turnover of RMB foreign exchange trading increased by 77.7% from USD 107.6 billion in April 2019 to USD 191.2 billion in April 2022. The rise in the RMB internationalisation shows that the continuous opening up of financial market and the advancement of RMB internationalisation in a steady and prudent manner have achieved positive results over the past three years.

The RMB exchange rate remained stable at a reasonable and balanced level, compared with the US dollar, the Euro and most emerging market currencies. An increasing number of enterprises conduct cross-border trade settlement in RMB, and foreign capital continues to invest in RMB assets, driving the demand for RMB foreign exchange

trading activities. Correspondingly, financial institutions have been developing and diversifying RMB risk hedging products, boosting the overall trading volume in the offshore market. In the future, driven by both policy opening-up and the market demand, the cross-border use and acceptance of RMB will be further improved.



China raises key parameter to facilitate cross-border financing

On October 25, China raised a key parameter in its macro-prudential management to allow companies and financial institutions to borrow more foreign debt, an official statement said. The macro-prudential adjustment parameter, a multiplier that decides the upper limit of outstanding cross-border financing an institution can have, has been revised to 1.25, up from 1 previously, according to a joint statement by the People's Bank of China and the State Administration of Foreign Exchange. The upward revision aims to further improve the macro-prudential management of cross-border financing and guide enterprises and financial institutions to optimize their foreign debt structure.

Chinese yuan becomes most traded foreign currency on the Moscow Exchange

The Chinese yuan became the most traded currency on the Moscow Exchange for the first time on October 3, with trading turnover in the yuan-ruble pair reaching 70.3 billion rubles, surpassing the 68.2 billion rubles for the dollar-ruble pair, according to a report from RBC. The report said a total of 64,900 transactions were made using the yuan-ruble pair, compared with 29,500 for the dollar-ruble pair on the same day. According to data from SWIFT, Russia ranked the fourth in terms of offshore RMB payments by value in October, after Hong Kong, UK and Singapore, accounting for a 3.33 percent share.

ESMA Recognizes Shanghai Clearing House

On 27 September, the European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has updated its list of recognized third-country central counterparties (TC CCPs) to include the Shanghai Clearing House as TC CCPs under Article 25 of the European Market Infrastructure Regulation (EMIR). The recognition of Shanghai Clearing House as a third-country CCP follows the adoption of a decision on the equivalence of the regulatory framework of the People's Republic of China for central counterparties with EMIR requirements on 22 June 2022. It will promote the capabilities of Shanghai Clearing House to provide efficient, low-cost and stable services for a wider range of foreign institutions such as European investors to deeply participate in China's interbank market.

Cross-border e-CNY pilot testing in Shenzhen Luohu

On November 3, Luohu District announced the launch of the "Shenzhen-Hong Kong e-CNY pilot testing", once again leading the national digital RMB innovation. The test will support further integration between Shenzhen and Hong Kong, by developing GBA e-CNY hard wallet products to cover consumption needs of the residents of Shenzhen and Hong Kong in Luohu.

According to statistics, there are currently about 40,000 Hong Kong residents living in Luohu, and about 6,400 Hong Kong-invested enterprises operating here. In addition, Shenzhen-Hong Kong Development Zone in Luohu has gathered a number of SMEs and individual businesses serving cross-border exchanges and cooperation, which have growing demand for further improvement of cross-border financial services.

New advantages of Hong Kong's offshore RMB business

Dr E Zihuan , Chief Economist of BOCHK

In the first 9 months of 2022, the main indicators of offshore RMB business in Hong Kong maintained steady growth, indicating that RMB internationalization is entering a new period of development, and continuously enhancing Hong Kong's competitiveness as an international financial center.

I. Hong Kong's offshore RMB business continues to maintain its advantage as the first-mover, with a large business scale

Hong Kong's offshore RMB market has a comprehensive RMB product system. RMB deposits account for more than half of global offshore RMB deposits, and RMB RTGS clearing accounts for more than 70% of global RMB clearing. Most RMB Dim Sum Bond issuance is conducted in Hong Kong, and RMB wealth management products and RMB insurance businesses have formed a certain scale.

According to Hong Kong Monetary Authority, the outstanding RMB deposit in Hong Kong rose to RMB 849.294 billion by the end of August 2022, up 4.4% MoM. Outstanding

RMB-denominated loans in Hong Kong rose 0.8% MoM to RMB 173.926 billion. Cross-border RMB trade settlement totalled RMB 5.88 trillion in the first eight months of this year, up 26.7% from the same period last year.

Data from the Hong Kong Interbank Clearing Corporation (HKICL) showed that the RMB RTGS clearing volume reached RMB 35.50 trillion in September, and the cumulative clearing volume in the first 9 months was RMB 288.2 trillion, up 7.77 % YoY.

According to SWIFT, the RMB share in global payments rose to 2.44% in September from 2.31% in August. The RMB ranked fifth in the global payment currency rankings, after the US dollar (42.31%), the Euro (35.15%), the British pound (6.54%) and the Japanese yen (2.88%).

In the first 9 months of 2022, the issuance volume of offshore RMB bonds (excluding certificates of deposit) was RMB 190.12 billion, up 53.8% YoY; The issuance of certificates of deposit reached RMB 310.98 billion, up nearly 7.7 times YoY.

II. Offshore RMB product offering will be further enriched through optimization of RMB stock trading mechanism.

The Policy Address proposed to waive stamp duty on share trading by dealers in the dual currency stock market, in order to optimize the RMB stock trading mechanism. Clearly, enhanced cooperation between the mainland and Hong Kong capital markets will further optimize the Shanghai-Shenzhen-Hong Kong Stock Connect trading mechanism and further enrich the offshore RMB product system.

The average daily trading value of the Shanghai-Shenzhen-Hong Kong Stock Connect hit a new high in 2021, accounting for about a quarter of Hong Kong stock turnover. Mainland investors regard Hong Kong stocks as an important choice for asset allocation. Supporting the launch of RMB stock trading counter in Hong Kong will help control exchange risks. In the current mechanism, when mainland investors purchase Hong Kong stocks in Hong Kong dollar, the foreign exchange rate will be confirmed after the close of the market. If the RMB exchange rate fluctuates significantly during the day, additional foreign exchange risk will be involved. Therefore, if mainland investors trade Hong Kong Stock Connect shares in RMB, it can not only increase the use of RMB, but also reduce the foreign exchange risk.

Currently, there are more than 800 investable stocks in the Southbound trading of Hong Kong Stock Connect, with an average transaction volume of more than RMB 40 billion per day. When mainland investors trade Hong Kong stocks in large quantities, the exchange rate may fluctuate, which will also affect the listing, trading and settlement of the Hong Kong Stock Exchange. Therefore, the introduction of "dual currency and dual shares" is also conducive to stabilizing RMB deposits in Hong Kong, increasing the liquidity of Hong Kong offshore RMB market, and conducive to the construction of Hong Kong global offshore RMB business hub.

III. The launch of the "Southbound Bond Connect" will further drive RMB Internationalization.

Bond Connect is a major innovation that has promoted the opening up of the bond market and promoted the RMB Internationalization. Currently, Northbound Connect accounts for more than 56% of the total RMB bond trading by foreign investors, which is an important channel for foreign investors to increase their holdings of RMB assets. In the future, through institutional design and policy support, Bond Connect can play a greater role in simplifying the investment process of foreign investors entering the Chinese market.

According to PBOC's Shanghai headquarter, by the end of September 2022, foreign institutions' holding in the interbank bond market was RMB 3.40 trillion (RMB 3.48 trillion as of the end of August), accounting for about 2.7% of the total. Foreign bond holding in the interbank market fell by about RMB 80 billion in September.

The amount of government bonds held by overseas institutions was RMB 2.29 trillion (RMB 2.33 trillion as of the end of August), accounting for 67.2% of the total. The amount of policy financial bonds held by foreign institutions was RMB 0.79 trillion (RMB 0.81 trillion as of the end of August), accounting for 23.2% of the total.

In September 2022, 4 more foreign institutions entered the interbank bond market. By the end of September, 1,060 foreign institutions had entered the market. Among them, 524 entered the market through direct investment channel, 771 through Bond Connect and 235 through both channels.

The average daily trading volume of the Bond Connect continued to grow in September, with a total of RMB 723.5 billion

and an average daily trading volume of RMB 34.5 billion. Government bonds and policy financial bonds were the most actively traded, accounting for 46% and 37% of monthly trading volumes.

We believe that, in the future, new policies and measures will continue to be introduced to further simplify the investment process for foreign investors to enter the onshore market, enrich the types of investable assets, and facilitate world central bank to allocate RMB assets; The Southbound Bond Connect will also accelerate development. When conditions are mature, the two places will optimize the system and trading rules, gradually expand the scope of onshore financial institutions participating in the Southbound Bond Connect and increase the eligible types of bonds.



IV. The E-CNY will bring new opportunities to technology development of offshore RMB business in Hong Kong

The mainland and Hong Kong have launched relevant cross-border payment tests to explore the connectivity between the digital yuan system and Hong Kong's FPS system, in order to support the Hong Kong dollar settlement needs of local residents and merchants.

Recently, the Innovation Centre of the Bank for International Settlements (Hong Kong), the Hong Kong Monetary Authority, the Central Bank of Thailand, the Central Bank of the United Arab Emirates and the Digital Currency Institute of the People's Bank of China (PBOC) jointly announced that the first transaction pilot test was completed on the mBridge platform. The test was completed

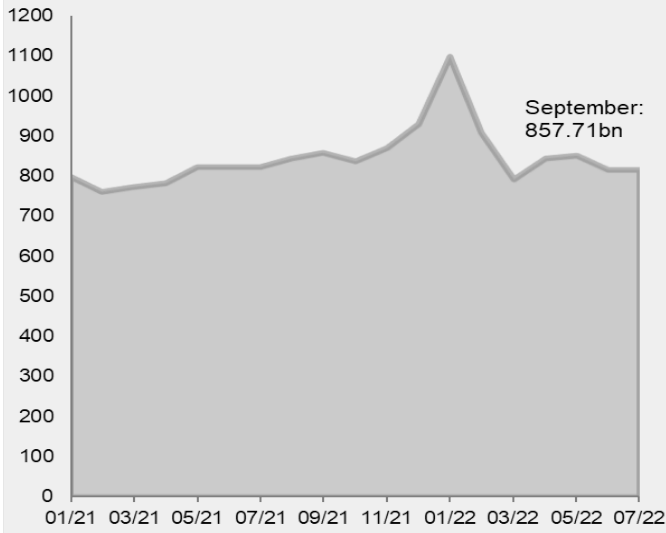
with the digital currency of the 4 regional central banks between August 15 and September 23, with 20 commercial banks from the four places, including Bank of China, to meet the payment and settlement needs on cross-border trade.

In the pilot test, more than 160 cross-border payment and foreign exchange transactions were conducted simultaneously, with the settlement amount equivalent to more than RMB 150 million. In October, the latest report on progress of mBridge was released, covering the technical design, legal, policy, regulatory framework and future blueprint.

The mBridge project will further promote the application of digital currency in cross-border payments, enhance the technology of offshore RMB business in Hong Kong, and promote the development of Hong Kong as a central bank digital currency hub.

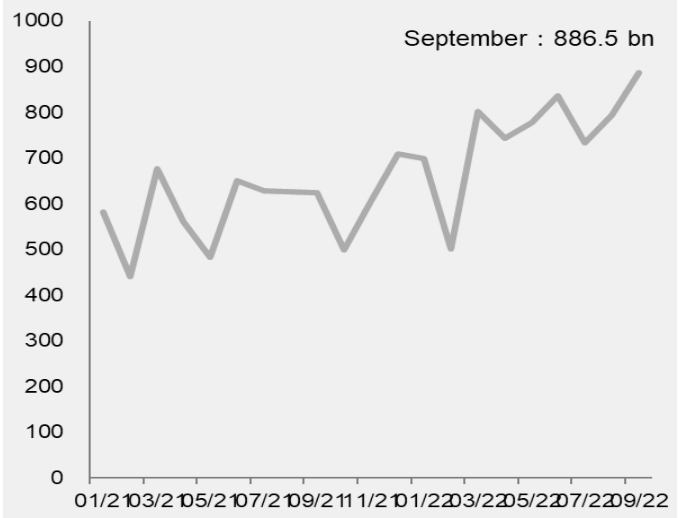
Market Indicators

Hong Kong RMB Deposits (RMB bn)



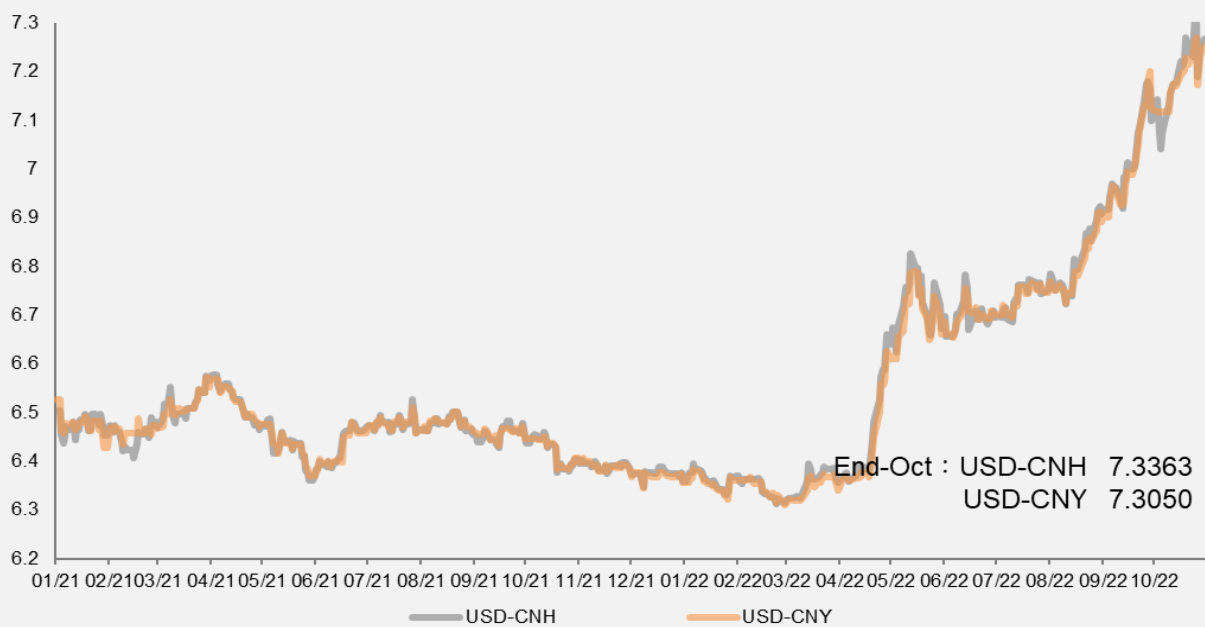
Source: HKMA

Hong Kong RMB Cross-border Trade Settlement (RMB bn)

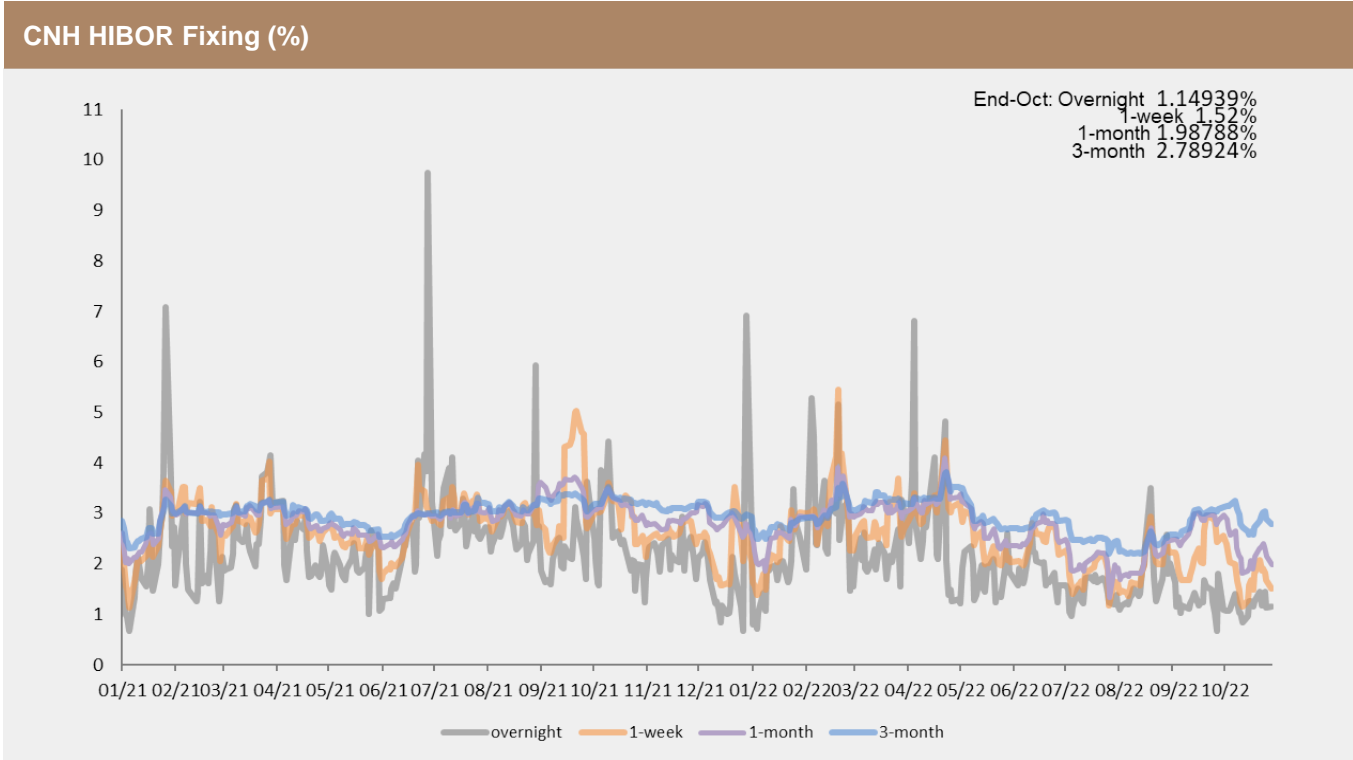


Source: HKMA

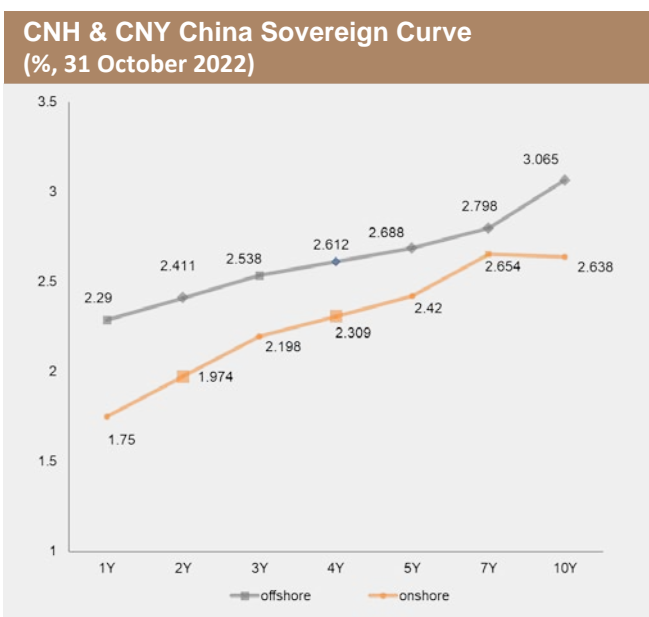
USD-CNH and USD-CNY Exchange Rates



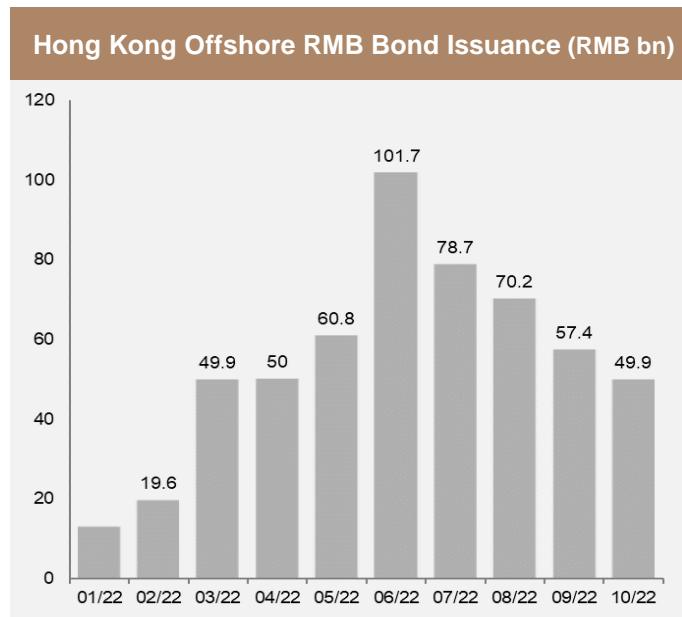
Source: Bloomberg



Source: Bloomberg

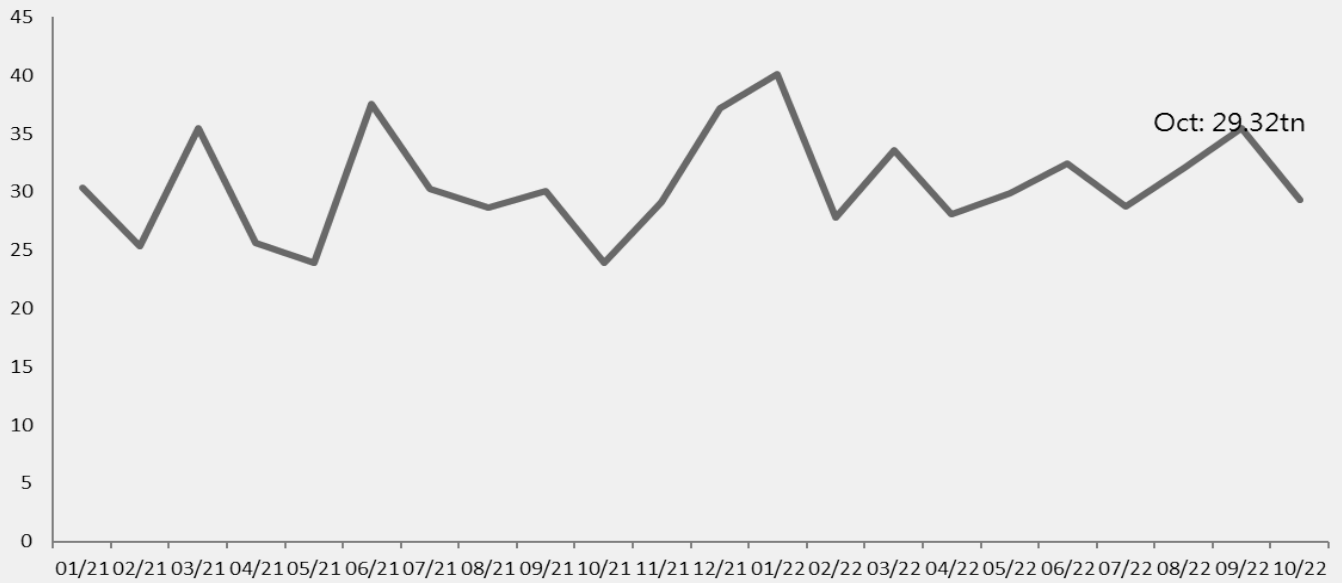


Source: Bloomberg



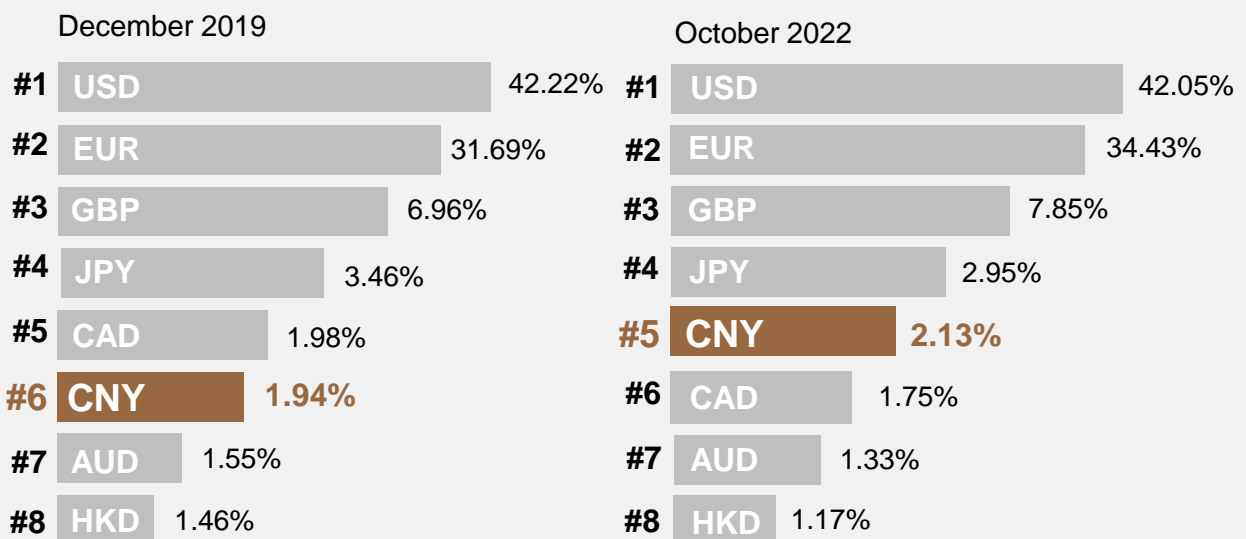
Source: BOCHK Global Market estimate

RMB Clearing Transaction Value (RMB tn)



Source: HKICL

SWIFT World payments currency ranking & market share



Source: SWIFT

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