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## Three major mainland regulators support Hong Kong as an international financial center. Hong Kong government has issued a policy statement on the development of virtual assets

In November, due to the lower dollar index and the mainland's improved Covid measures, the offshore RMB exchange rate stabilized, rising nearly 2,900 basis points from the low of 7.3317 at the beginning of the month to the mid-month level of 7.04. In October, indicators of offshore RMB business performed well, with Bond Connect monthly trading volume hitting another record high. The three major mainland regulators support the development of Hong Kong as an international financial centre, such as including international companies listed in Hong Kong in the Shanghai-Shenzhen-Hong Kong Stock Connect scheme; Relaunching the government bond futures market; And introducing RMB counter under the Shanghai-Hong Kong Stock Connect to further promote the development of offshore RMB market. The Hong Kong Government has issued a policy statement on the development of virtual assets in Hong Kong, which sets out the Government's policy goal and guidance for the development of a vibrant virtual asset industry and ecosystem in Hong Kong.

### I. The offshore RMB stabilized in November

In November, the offshore RMB traded in two-way directions between 7.04 and 7.34. In the beginning of the month, the offshore RMB traded in a tight range at the 7.30 level. The dollar index retreated after dovish comments from Fed officials. The U.S. consumer price index (CPI) rose 7.7% in October YoY, beat expectations of 7.9% and down 0.5 percentage points from 8.2% in September. The market predicted that US inflation will start to fall, making the US Fed to slow the

pace of interest rate hikes. As a result, the dollar index has fallen sharply, from the 111 level at the start of the month to 106. In addition, China issued "the Notice on Further Optimizing the Prevention and Control Measures of COVID-19 in a Scientific and Precise manner", introducing 20 new regulations on Covid measures and improved the existing prevention and control measures, which has a positive impact on China's economic recovery. With US dollar's decline and higher expectations of domestic economic recovery, the RMB exchange rate rebounded sharply.

The offshore RMB rate rose nearly 2,900 basis points from its low of 7.3317 at the start of the month to the mid-month level of 7.04. It later steadied at levels between 7.12 and 7.24. On November 30, the CNH closed at 7.0457, up 3.96% MoM and down 10.51% YTD; the CNY closed at 7.0924, up 2.91% MoM and down 11.45% YTD; the central parity rate of RMB against US dollar published by CFETS was 7.1769, near the same level as last month and down 12.53% YTD.

Since the beginning of the year, the RMB has benefited from the long-term improvement of the Chinese economy and remained relatively stable against a basket of currencies. Although it has depreciated against the dollar, it has risen against other major currencies. After the correction of the US dollar and the improvement of China's economic expectations, the short-term depreciation pressure on the RMB exchange rate has significantly decreased. In the long run, RMB value has strong support. On the one hand, policy support has gradually improved China's economic fundamentals and managed market expectations. The resilience of manufacturing and industrial sectors is also expected to support the RMB stability. On the other hand, the steady progress of high-quality development and opening-up has built a solid foundation for the internationalization of RMB.

Regarding offshore RMB liquidity, as of November 30, the overnight and 1-week CNH HIBOR rates were 0.90939% and 1.19212% respectively; the 1-month CNH HIBOR rate stood at 1.61136%; and the 3-month CNH HIBOR rate was 2.525%.

## II. Review of major offshore RMB business indicators

Offshore RMB business was performing well in October 2022. According to HKMA, as of the end of October 2022, Hong Kong's RMB deposits amounted to RMB 885.79 billion, up 3.2% MoM. HK RMB loans stood at RMB 181.95 billion, up 2.3% MoM. The total remittance of RMB for cross-border trade settlement amounted to RMB 7.51 trillion in the first 10 months of 2022, up 28.5% YoY.

According to HKICL, RMB RTGS turnover was RMB 35.06 trillion in November 2022, accumulated 352.6 trillion in the first 11 months, up 10% 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 2.37%, lower than last month at 2.13% due to the national holiday, behind USD (41.38%), EUR (36.12%), GBP (7.09%), and JPY (2.54%).

The latest report from Bond Connect showed the monthly trading volume reached record high in November, accounting for RMB 823.9 billion.

Average daily turnover stood at RMB 37.5 billion. Chinese Government Bonds (CGBs) and Policy Financial Bonds (PFBs) were the most actively traded products, accounting for 49% and 41% of the monthly turnover.

According to PBOC, by the end of November 2022, foreign institutions held RMB 3.33 trillion worth of inter-bank bonds, accounted for 2.7% of the total (vs RMB 3.38 trillion in October). In terms of bond type, foreign institutions held RMB 2.27 trillion in government bonds (vs RMB 2.28 trillion in October), and RMB 0.75 trillion in policy bonds (vs RMB 0.77 trillion in October), respectively accounted for 68.2% and 22.6% of the total. Meanwhile, 8 more foreign institutions entered the interbank bond market in November, bringing the total number of foreign institutions to 1,071 by the end of November. Among them, 526 entered the market through the direct investment channel, 782 through the bond connect and 237 through the above two channels simultaneously.

### **III. Three major regulators support the development of Hong Kong as an international financial centre**

In November, the Global Financial Leaders' Investment Summit was held smoothly in Hong Kong. Three major mainland regulators, including Yi Gang, the Governor of the People's Bank of China, Xiao Yuanqi, the vice chairman of the Bank of China Insurance Regulatory Commission, and Fang

Xinghai, the vice chairman of the China Securities Regulatory Commission, made statements in supporting Hong Kong's status as an international financial centre. They pointed out that economic development has always been China's focus and priority. Opening up the capital market is essential for the mainland, and China needs high-quality institutions and international companies to participate. China's economic growth remains a strong driving force for the world economic growth. As a well-developed financial centre, Hong Kong's connection to the mainland and overseas markets is crucial to the Mainland's economic development. The central government will continue to support Hong Kong as a financial centre. Fang Xinghai mentioned the mainland's policies to support Hong Kong's development, such as including international companies listed in Hong Kong in the Shanghai-Shenzhen-Hong Kong Stock Connect; Relaunching the government bond futures market; And introducing RMB counter under the Shanghai-Hong Kong Stock Connect. These measures can increase RMB usage, providing more access to capital for investors holding yuan, enriching risk management tools, refining the yield curve, and promoting the offshore RMB market.

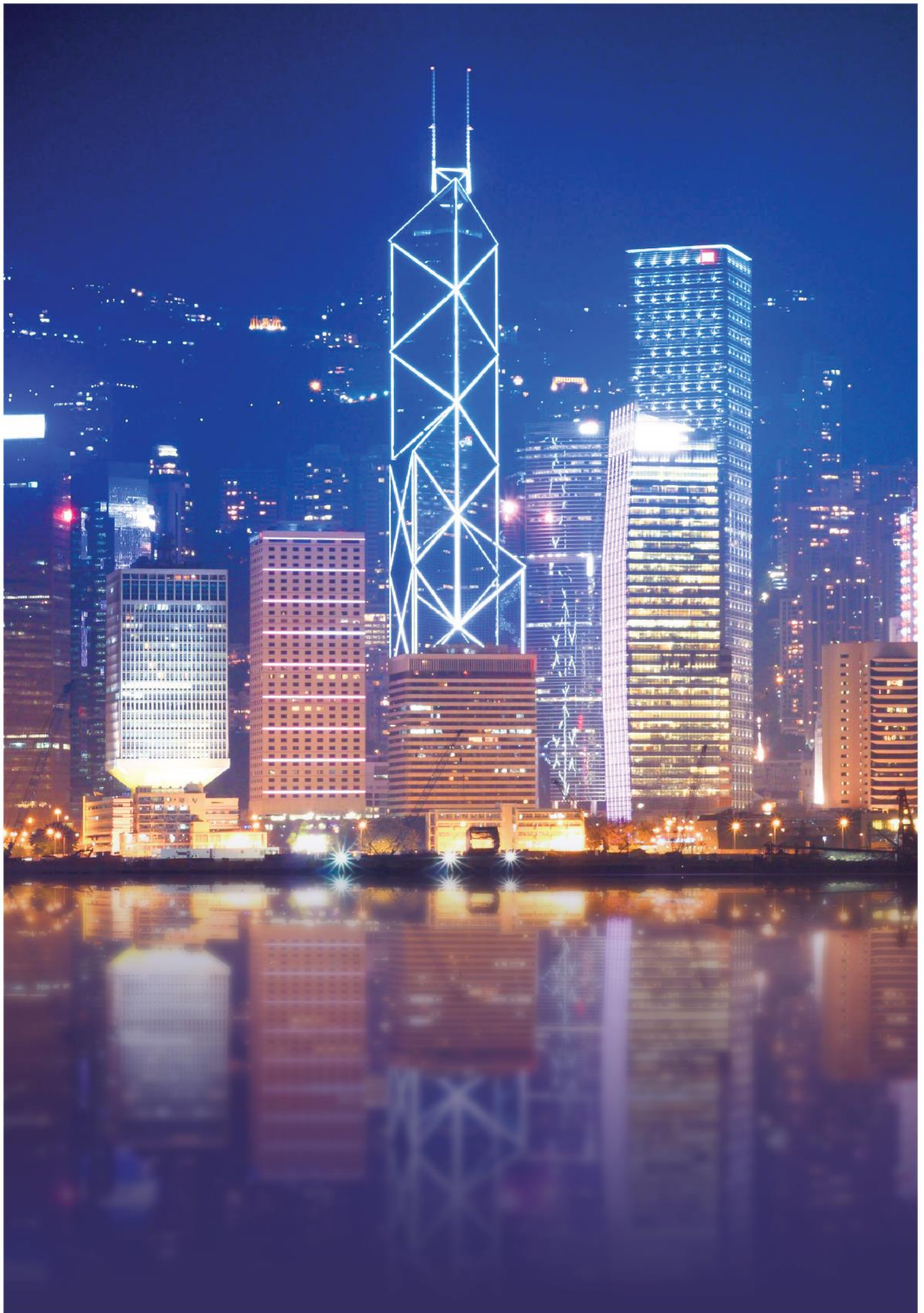
In the future, Hong Kong will play an important role in promoting two-way connection between China and the world. As an international financial centre, Hong Kong has the most internationalised financial market in the Greater Bay Area,

it can provide a stable and mature financial environment for global investors and issuers, and has a sound legal system, financial infrastructure, regulatory system and tax system. For mainland investors and companies, Hong Kong has international connectivity. In the latest policy address, Hong Kong Chief Executive John Lee Ka-chiu mentioned to strengthen connectivity and prepare for the Northbound Swap Connect between Mainland's and Hong Kong's interest rate swap markets. Hong Kong government will also optimise the Southbound Bond Connect to facilitate more diversified issuance and trading of dim sum bonds, and continue to expand connectivity options with the Mainland. The continuous improvement on connectivity between the two places has provided a convenient way for international funds to come into the mainland and for domestic funds to come out.

#### **IV. Hong Kong Government issued a policy statement on the development of virtual assets in Hong Kong**

The Hong Kong Government has issued a policy statement on the development of virtual assets in Hong Kong, which sets out the Government's policy guidance for the development of a vibrant virtual asset industry and ecosystem in Hong Kong. The

statement covered different aspects. In terms of vision and policy, the Hong Kong Government is working with financial regulators to create an enabling environment to facilitate the sustainable and responsible development of the virtual asset industry in Hong Kong, to mitigate actual and potential risks in accordance with international standards, and to enable virtual asset innovation to develop in a sustainable manner in Hong Kong; On the regulatory part, Hong Kong is preparing for a new licensing system for virtual asset service providers, and connecting with the global virtual asset industry and invite relevant exchanges to explore business opportunities in Hong Kong; The Hong Kong Government is looking into launching a pilot scheme to test the technical benefits of virtual assets and to further apply the technology to financial markets, such as NFT, green bond tokenisation and digital Hong Kong dollar. In recent years, virtual assets have developed rapidly, yet the market hasn't been developed maturely. Cryptocurrency, NFT and other are becoming increasingly popular investment products around the world. Hong Kong's financial market has always been dominated by equities and related derivatives. The development of a virtual asset market will help diversify Hong Kong's financial products.



### **PAKISTAN: MOU Signed with China to Establish Yuan Clearance Arrangements**

The Bank of Pakistan (SBP) and the People's Bank of China (PBOC) signed a memorandum of understanding (MOU) on 1 November to set up Chinese yuan clearing arrangements in Pakistan. According to the SBP, the setup of RMB clearing arrangements in Pakistan will further improve the use of the Chinese currency for cross-border transactions between Pakistani and Chinese businesses and financial institutions. PBOC authorized the ICBC Karachi Branch to act as the RMB clearing bank in Pakistan.

### **PBOC cuts required reserves to bolster economy**

The PBOC announced on 25 November that it will cut the reserve requirement ratio for financial institutions by 0.25 percentage points on December 5. The cut will release about 500 billion yuan into the market and will be eligible for all financial institutions except those already adopting an RRR of 5 percent. The PBOC said the cut is aimed at maintaining liquidity, helping the economy achieve reasonable growth while lifting development quality and increasing long-term funding sources of financial institutions so they can better support industries and smaller businesses severely affected by COVID-19. Bringing the weighted average RRR down to about 7.8 percent, the move will save about 5.6 billion yuan in annual funding costs for financial institutions, which can translate into lower financing costs of the real economy.

### **Uralchem starts selling fertilizers in yuan**

Uralchem (One of the world's largest producers of mineral fertilizers and fertilizers) has started sales of fertilizers to Brazil for Chinese yuan, with developing countries in general ready to pay in the Chinese currency, co-owner of the company, Head of the RSPP (Russian Union of Industrialists and Entrepreneurs) Commission on Mineral Fertilizers Production and Trading Dmitry Mazepin said at a meeting with Russian President Vladimir Putin on Wednesday. "As the yuan is the most liquid currency today, developing countries are ready to pay in yuan", he explained.





# Important Period of opportunities for RMB

Ying Jian, Principal Strategist

To summarize the development of RMB business in Hong Kong in 2022, the market mechanism has been improved, RMB products have been further enriched, all important RMB business indicators have continued to grow steadily, and the position of offshore RMB business hub has been strengthened and enhanced.

First, the RMB clearing business in Hong Kong has maintained steady growth. In the first 10 months of 2022, the RMB RTGS turnover in Hong Kong accumulated RMB 318 trillion, with a YoY growth of 9%, the sixth consecutive year of positive growth. RMB RTGS is one of the four major RTGS payment systems in Hong Kong (the other three are Hong Kong dollar, US dollar and Euro RTGS). Hong Kong RMB Clearing Bank is the largest offshore RMB clearing bank and acts as the offshore RMB clearing hub. According to SWIFT, the RMB payments in Hong Kong continued to grow YoY in the first three quarters, accounting for 72% of the global RMB payments. In the first 10 months, the RMB trade settlement handled by Hong Kong banks reached RMB 7.51 trillion, up 30% YoY.

Second, Hong Kong's RMB capital pool ranks first in the world. RMB deposits in Hong Kong increased gradually, with the balance of RMB deposits at RMB 884.8 billion in October 2022, up 6% YoY. RMB deposits topped the trillion-yuan in January but fell back in the first quarter due to seasonal factors and have rebounded since April. In September, the balance of RMB certificates of deposit increased to RMB 151.2 billion. Together with RMB deposits, the RMB capital pool in Hong Kong once again exceeded RMB one trillion, providing solid financial fundamental for the development of other RMB businesses.

Third, RMB foreign exchange trading has become more active. According to the Bank for International Settlements, in April 2022, the average daily amount of RMB foreign exchange turnover was USD 526.4 billion, accounting for 7% of the global total foreign exchange turnover, and ranking from the eighth to the fifth among major currencies. Among them, the daily trading volume of RMB in Hong Kong is USD 191.2 billion, surpassing London and Singapore and continuing to rank first in the world.

Fourth, the RMB dim sum bond market continues to recover. Driven by the regular issuance of RMB central bills and government bonds, Hong Kong dim sum bond market has seen an active participation in both issuance and trading. By the end of November, RMB central bank bills issuance accounts for RMB 115 billion, with annual issuance expected to be the same as last year; RMB government bonds issuance accounts for RMB 18 billion, with annual issuance expected to be RMB 23 billion, exceeding last year. The issuance of offshore dim sum bonds in the first 10 months reached RMB 883.5 billion, up 1.06 times YoY. In the first 11 months of 2022, the amount of RMB dim sum bond turnover managed by Hong Kong's Central Money Markets Unit (CMU) increased 2.3 times YoY, according to the Hong Kong Monetary Authority.

In 2022, the mainland emphasizes the importance to the development of Hong Kong's offshore RMB market, and strives to strengthen Hong Kong's position as a global offshore RMB business hub, an international asset management centre and a risk management centre. The People's Bank of China signed a swap agreement with the Hong Kong Monetary Authority. The two places have also launched new connectivity mechanisms such as Swap Connect and ETF Connect. The mainland will pilot more cross-border RMB business and capital account opening projects in Hong Kong,

which will surely promote the orderly progress of RMB internationalization.

Looking ahead to 2023, there will be some new changes in the internal and external factors affecting RMB internationalization which will be very conducive to RMB usage in the global market. First, the US Federal Reserve has raised interest rates sharply and started to shrink its balance sheet. As the US interest rate keeps rising, USD is no longer a low-cost funding currency, and the USD liquidity will continue to tighten. Secondly, sanctions and counter-sanctions will continue to happen after the conflict between Russia and Ukraine. The weaponization of SWIFT and the US dollar by Europe and the US made all countries wary of the US dollar and tried to reduce their dependence on the USD. Moreover, the mainland has continued to make effort on economic. Global confidence in China's economy has risen, with more willingness globally to use the RMB.

The 20th national congress report clearly put forward the idea of "promoting RMB internationalization in an orderly manner", which sent out an important signal of accelerating the internationalization of RMB and also pointed out the construction of Hong Kong's global offshore RMB business hub. With the important opportunity period of RMB internationalization, Hong Kong global offshore RMB business hub will play a bigger role in 2023:

First, in line with the Mainland's economic opening-up and RMB internationalization strategy, Hong Kong will play a role in connecting mainland and international markets, further improve Hong Kong's offshore RMB market mechanism, maintain RMB clearing infrastructure and enhance RMB trading, investment and financing functions, and support more cross-border use of RMB by “going-out” Chinese corporates and “going-in” multinational corporations and institutional investors.

Second, RMB financing and risk management centre should be built along the Belt and Road initiative, supporting the RMB settlement for infrastructure construction project and production capacity transfer projects along the Belt and Road, particularly on key areas such as project contracting, overseas industrial parks and commodities. Together with the RCEP, which bring opportunities for regional economic integration and higher opening up of member countries' financial sectors, it can further promote the RMB internationalization in the region.

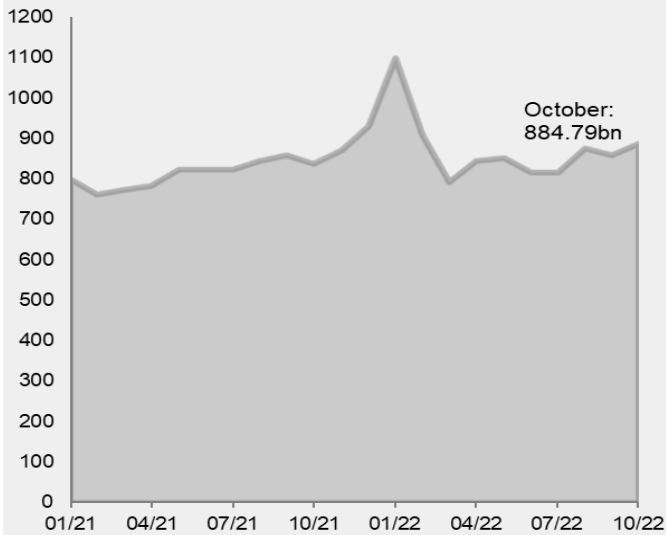
Third, the use of cross-border RMB in the Guangdong-Hong Kong-Macao Greater Bay Area should be promoted, in order to

improve Cross-border Wealth Management Connect, cross-border account opening and other services. Qianhai and Nansha insurance after-sales service centre should be implemented; we should attract more cities in the Greater Bay Area to issue RMB bonds in Hong Kong, and continue to facilitate cross-border RMB channels such as cross-border RMB loans, cross-border capital pools, cross-border asset transfers and cross-border equity investment. We will consolidate the position of the RMB as the largest cross-border settlement currency in the region.

Fourth, Hong Kong should jointly build a global RMB asset management platform with Shanghai, by improving the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect (southbound and northbound) and Swap Connect, introducing RMB denominated stocks, developing RMB financial management products, insurance products and venture capital funds in Hong Kong. To meet foreign investors' demand to increase their holdings of RMB assets, we should carefully build the RMB dim sum bond market in Hong Kong, and cultivate the RMB bond repurchase market.

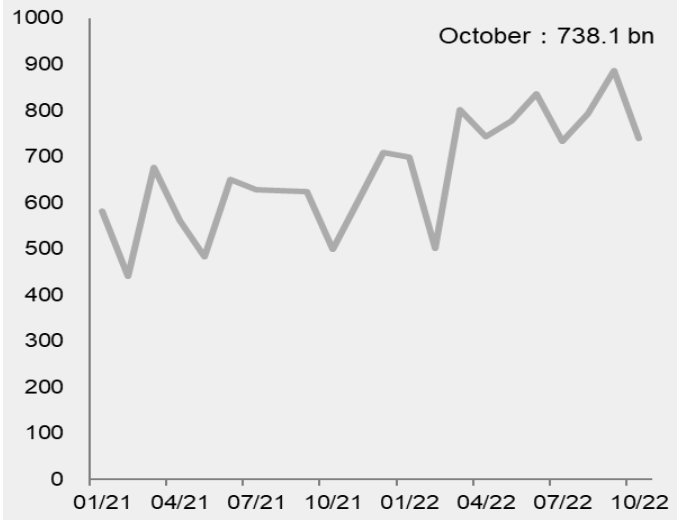
# Market Indicators

Hong Kong RMB Deposits (RMB bn)



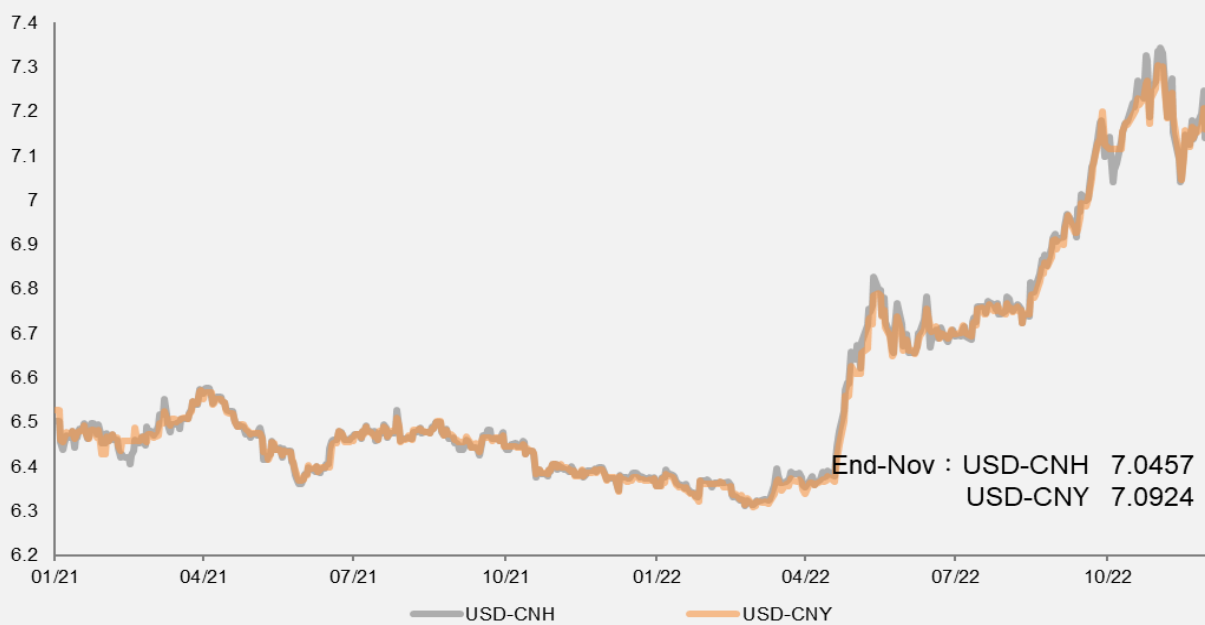
Source: HKMA

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

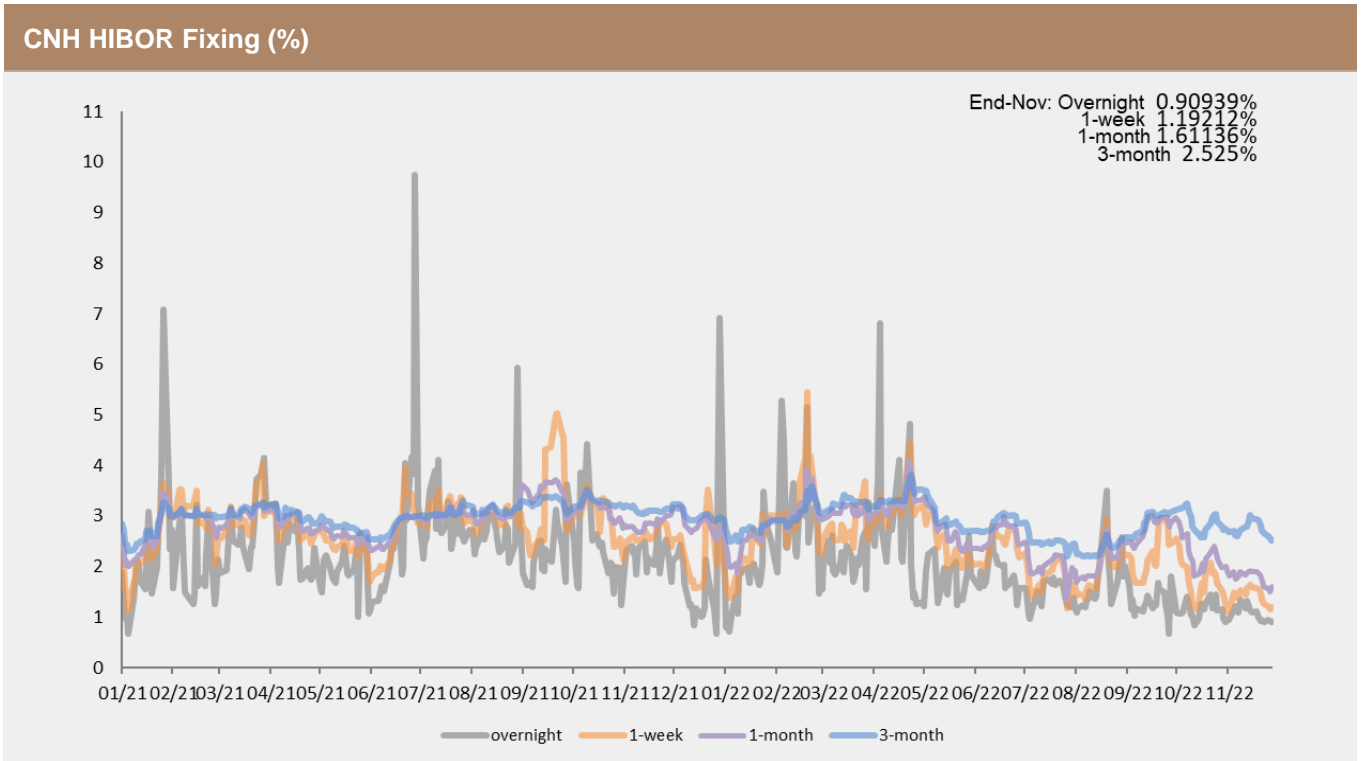


Source: HKMA

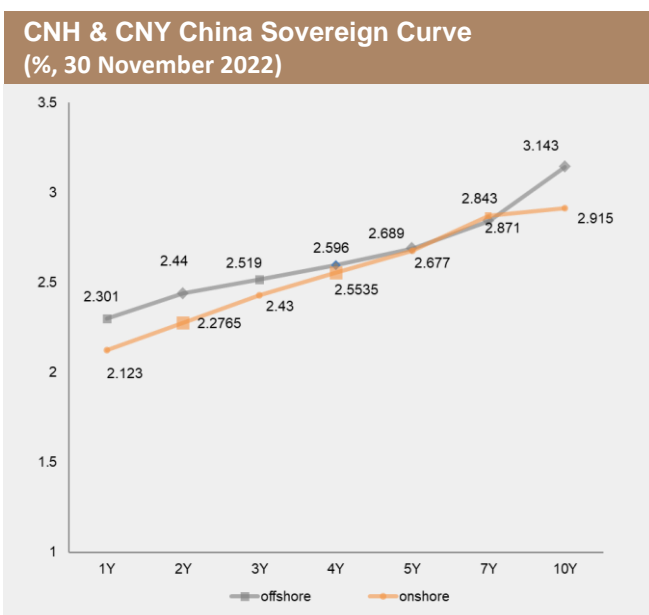
USD-CNH and USD-CNY Exchange Rates



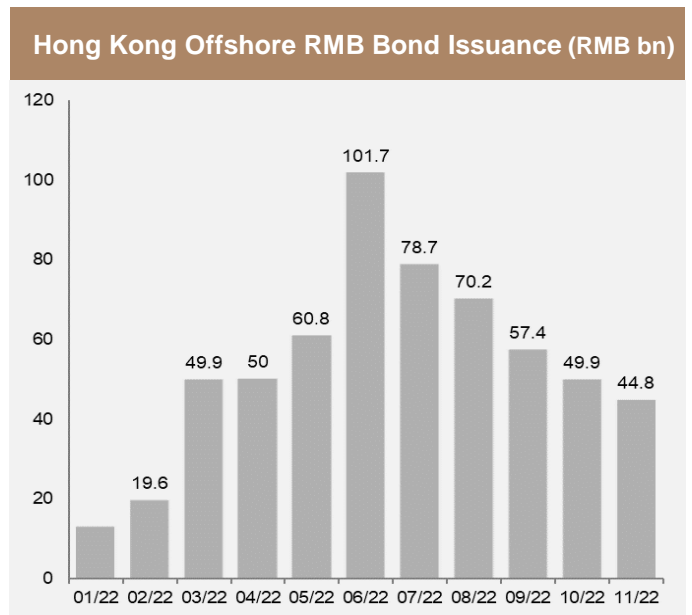
Source: Bloomberg



Source: Bloomberg

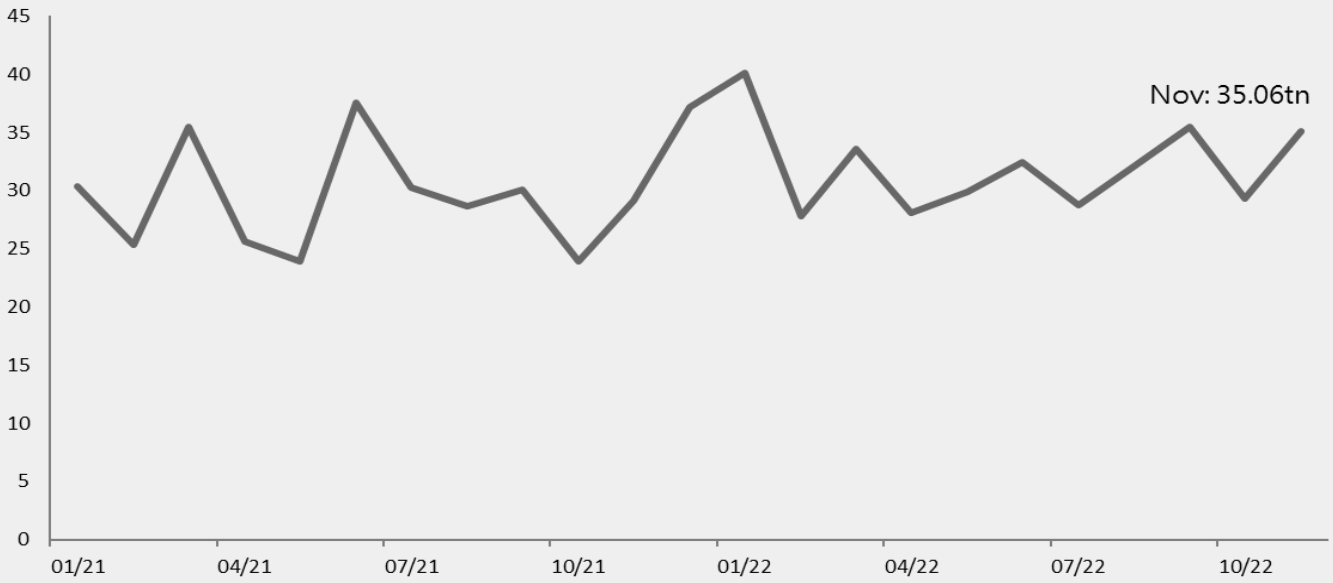


Source: Bloomberg



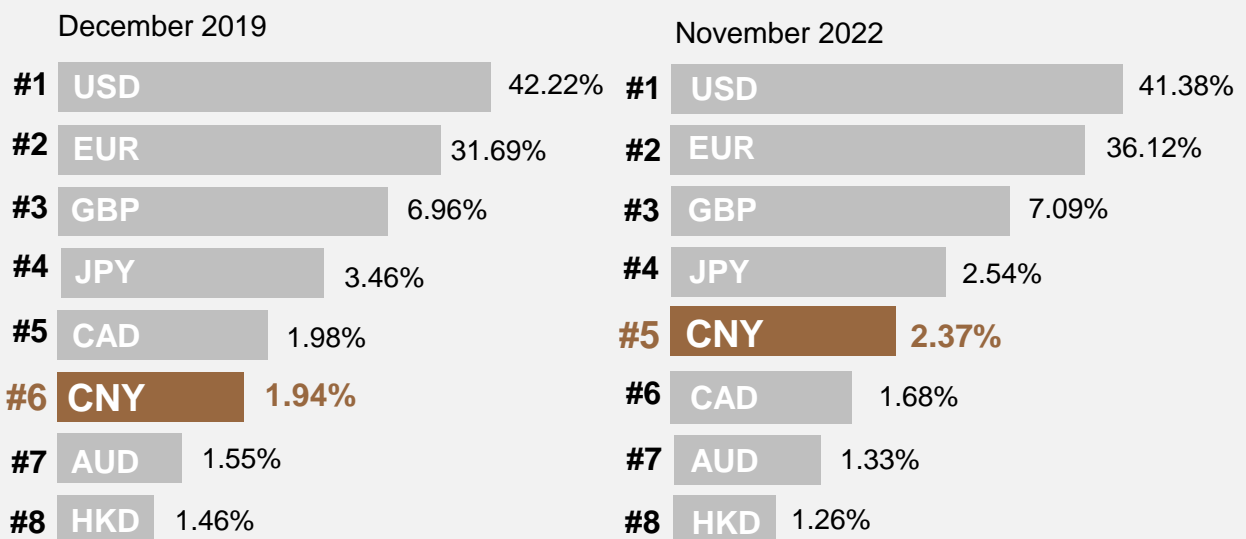
Source: BOCHK Global Market estimate

RMB Clearing Transaction Value (RMB tn)



Source: HKICL

SWIFT World payments currency ranking & market share



Source: SWIFT

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