



Internationalisation of the RMB and Hong Kong's Role as an Offshore Center

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Internationalisation of the RMB and Hong Kong's Role

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Why does China want to internationalise the RMB?

2

Why is Hong Kong the Offshore RMB Centre?

3

What are the three critical steps?

4

How big is the opportunity?

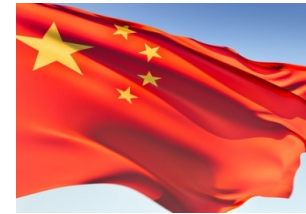
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What does it mean for HKEX?

1. RMB Internationalisation – Perspective and Feasibility

Long-term Perspective

- Preserve the value of China's foreign exchange reserves
- Balance China's growth, especially relating to the trade balance
- Increase China's influence in geopolitical/economic affairs



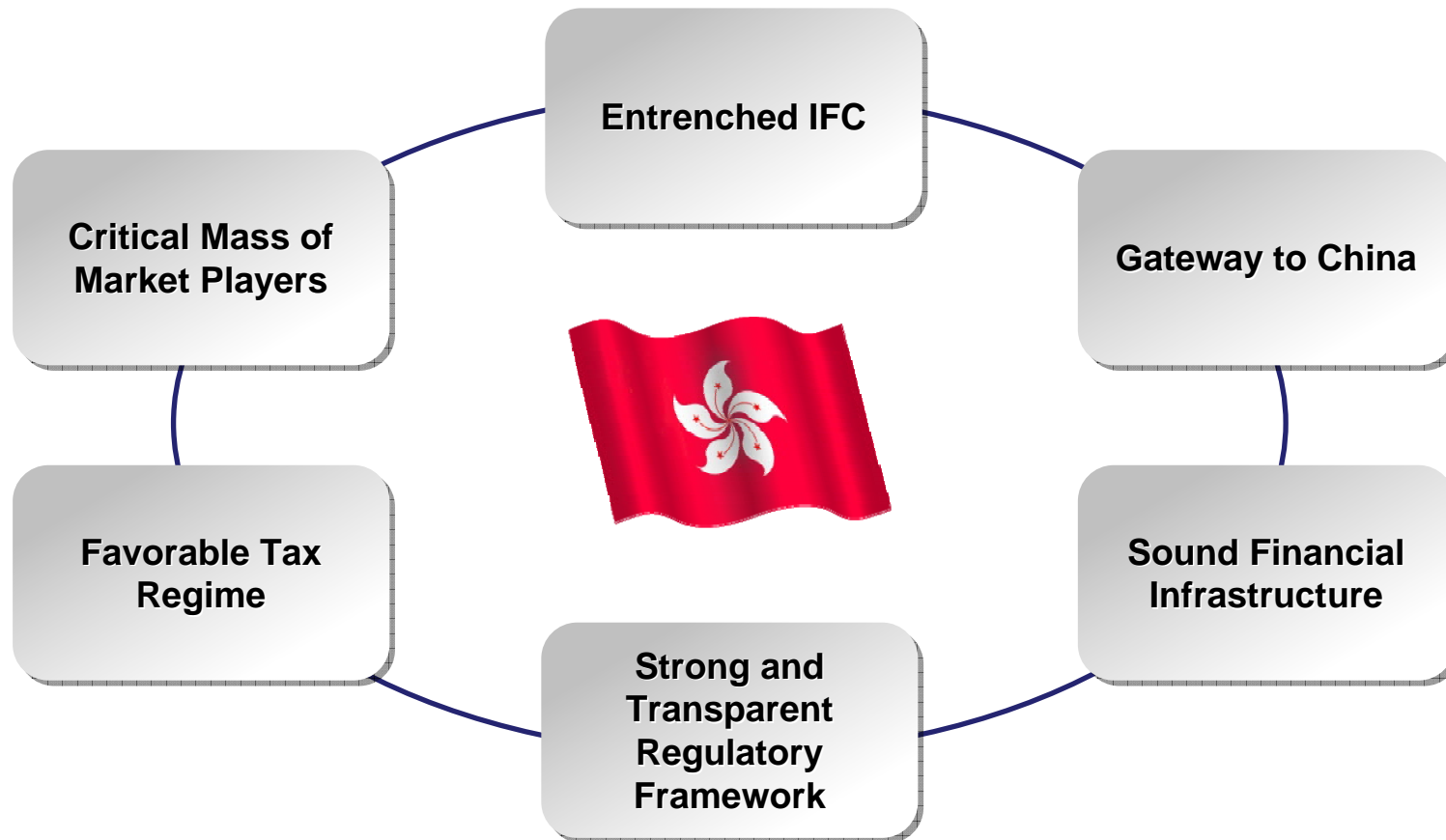
RMB to become a global settlement, investment and reserve currency

Short-term Feasibility

- Trade settlement in RMB already open
- Pre-requisite – No whole-sale opening of the Capital Account
- Controlled and managed process experimenting in an offshore market is highly likely to succeed



2. Rationale for Hong Kong's Role



China has designated Hong Kong as the official offshore RMB Centre

3. Three Critical Steps

Step 1

RMB flows out of the Mainland

Step 2

RMB circulates offshore

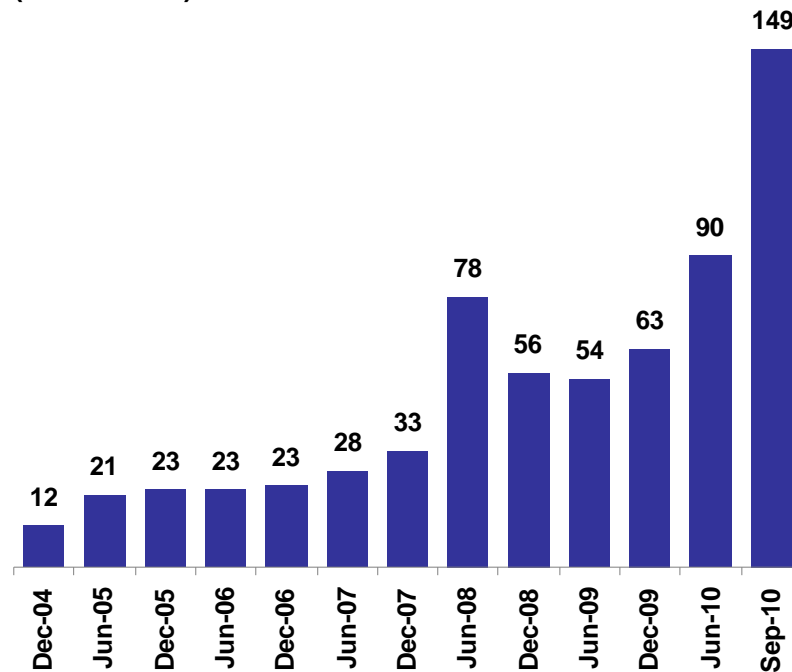
Step 3

RMB flows back onshore

3. Offshore RMB Liquidity Gaining Momentum

RMB Deposits

(RMB billion)

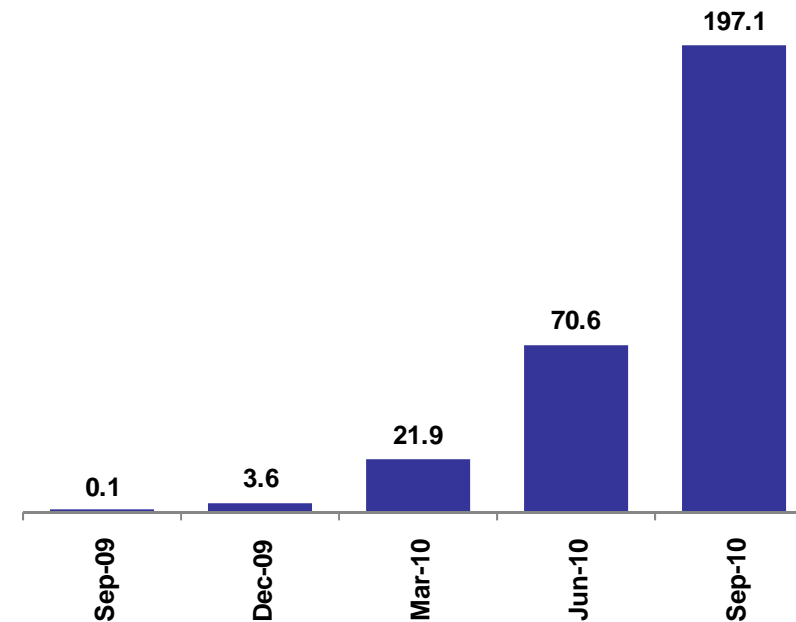


Source: HKMA

...yet less than 3% of total Hong Kong deposits

Cumulative RMB Trade Settlement

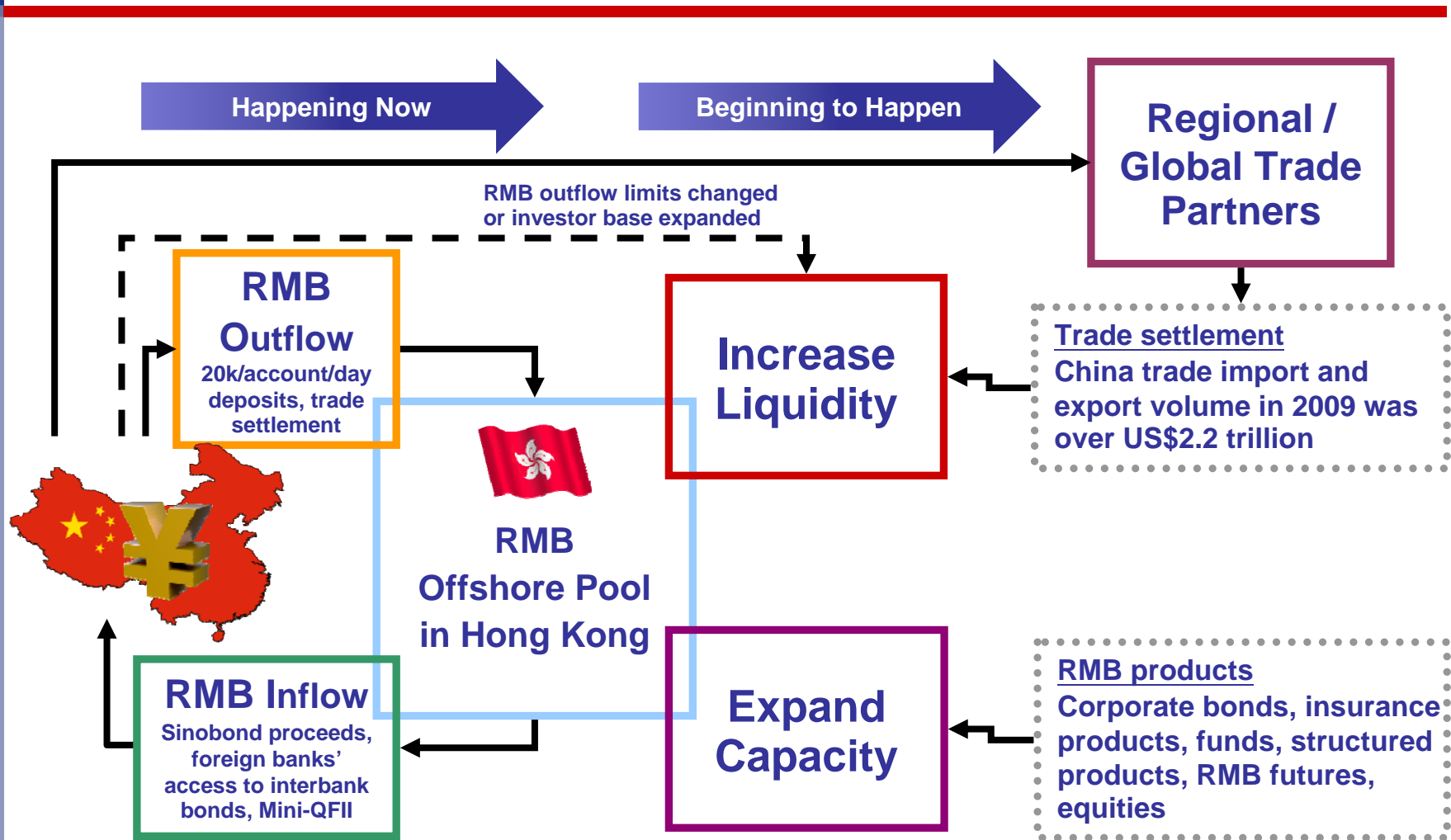
(RMB billion)



Source: PBOC Monetary Policy Execution Reports (2009Q3 - 2010Q3) (non-quarter-end figures are not available)

...and less than 1% of China's total trade

3. Three Critical Steps – A Circular Loop



4. Potential Size of the Opportunity

Phase 1:
Redenomination
of Hong Kong
Capital and
Trade Flow

Phase 2:
Attract regional and
global trade flows into
Hong Kong RMB market

Phase 3:
Mainland investors permitted to
send RMB offshore

5. HKEx RMB Strategy

HKEx is laying the foundation to capture a second transformational opportunity



Lobby for policy change

Set up RMB infrastructure

Expand Mainland Market Data

Develop RMB Products

Facilitate Mainland Connectivity

Pursue OTC Clearing

Additional Questions to Consider

6

How important is the pace of currency convertibility?

7

What is the impact of expectations of an appreciating currency?

8

What are the risks of a controlled internationalisation to China?

9

What might be the impact on Hong Kong's monetary policy?

10

What about Shanghai?