

Press Release

LCQ7: Offshore renminbi business in Hong Kong

Wednesday, May 31, 2017

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 31):

Question:

The Financial Secretary has indicated in his Budget Speech this year that "as revealed by the Bank for International Settlements' survey findings published last September, Hong Kong continued to rank top globally in terms of the volume of RMB (renminbi) foreign exchange transactions. These are testimonies to Hong Kong's status as the global offshore RMB business hub." However, the Society for Worldwide Interbank Financial Telecommunication announced in its special edition of The RMB Tracker published in April this year that London had become the largest offshore RMB foreign exchange (FX) transaction centre globally. According to the data shown in that special edition, in the first quarter of this year, around 36.3% of the world's offshore RMB FX transactions were conducted with the United Kingdom, while Hong Kong was second with a 29.3% share. In this connection, will the Government inform this Council:

- (1) whether it has studied why Hong Kong's global ranking, in terms of the volume of offshore RMB FX transactions, has dropped from the top ranking in the fourth quarter of last year to the second in the first quarter of this year;
- (2) of the measures adopted by the Government since the fourth quarter of last year to consolidate Hong Kong's top ranking; and
- (3) of the new measures it will adopt in the coming few months (including the third and the fourth quarters of this year) to enable Hong Kong to recapture the top ranking?

Reply:

President,

My reply to the three parts of the question is as follows:

(1) The Bank for International Settlements (BIS) conducts a survey on global foreign exchange market activities triennially. A total of 52 central banks and monetary authorities (including the Hong Kong Monetary Authority (HKMA)) have participated in the survey, which aims to collect comprehensive and internationally consistent information on the size and structure of the global foreign exchange and over-the-counter interest rate derivatives markets. The result of the survey published by the BIS last September shows that as at April 2016, Hong Kong had the highest turnover of Renminbi (RMB) foreign exchange and derivatives trade among offshore markets, averaging US\$77 billion equivalent per day. Singapore came second, with average daily turnover of US\$43 billion equivalent. The United Kingdom (including London) ranked third, with a corresponding figure of US\$39 billion. The statistics of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) quoted in the question was published in a special report by SWIFT in April this year. According to our understanding, the statistics was compiled based on the value of RMB foreign exchange and derivatives trade confirmed by means of SWIFT protocol in March this year, as well as the geographical location of the SWIFT users involved.

Since the methodologies used and the nature of trading activities covered by the BIS and SWIFT figures are different, the two cannot be compared directly. However, it is worth noting that when the International Monetary Fund assessed whether the RMB should be included in the Special Drawing Right currency basket in 2015, it made reference to the BIS's triennial survey data in evaluating RMB's turnover in the global foreign exchange markets, which was one of the factors considered.

In fact, Hong Kong excels in many areas of offshore RMB business. Despite foreign exchange market volatilities, Hong Kong maintained the world's largest offshore RMB liquidity pool, exceeding RMB580 billion as at end-March this year. Hong Kong also has the world's largest offshore RMB bond market. As at end-March this year, the outstanding amount of RMB bonds totalled over RMB280 billion. Meanwhile, the outstanding amount of Hong Kong banks' RMB loans also stood at some RMB260 billion during the same period. Hong Kong's RMB Real Time Gross Settlement system continued to

record a high level of turnover, averaging some RMB900 billion per day. As the global offshore RMB business hub, Hong Kong serves as a RMB platform supporting various offshore RMB financial activities, including foreign exchange transactions, in different parts of the world.

(2) and (3) The National 13th Five-Year Plan pledges support for Hong Kong to consolidate and enhance its position as an international financial centre and global offshore RMB business hub. A wide range of RMB business activities are covered in this respect, including RMB foreign exchange trade, settlement, financing and asset management, etc.

To facilitate the comprehensive and diversified development of our offshore RMB business, the Government continues to closely engage the industry and relevant Mainland authorities to seek more policy headroom with a view to expanding the channels for two-way cross-border RMB fund flows and strengthening financial co-operation with the Mainland, including further refinement and expansion of cross-border investment schemes. To support a large volume of increasingly complex offshore RMB financial transactions, we will keep up the efforts to enhance market infrastructure and cross-border connectivity of financial infrastructures. The Bond Connect recently announced by the HKMA and the People's Bank of China is an example which, through the connection between the financial infrastructure institutions of the Hong Kong and Mainland bond markets, facilitates efficient trading by overseas investors investing in the Mainland bond market using Hong Kong's platform.

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