

Speech
Opening address by SFST at LME Week Asia 2013
(English only)

Tuesday, June 25, 2013

Following is the opening address by the Secretary for Financial Services and the Treasury, Professor K C Chan, at LME Week Asia 2013 today (June 25):

Charles (Li) (Chief Executive of Hong Kong Exchanges and Clearing Limited (HKEx)), Sir Brian (Bender) (Chairman of London Metal Exchange (LME)), distinguished guests, ladies and gentlemen,

It is a real pleasure to speak to you today at the first LME Week Asia to be held in Hong Kong. I would like to congratulate Charles and his team on bringing this landmark event of the global metals industry to Hong Kong for the first time.

In fact, I would have expected the event to come to Asia sooner. According to the UN, metal ores and industrial minerals consumption in the Asia Pacific region has grown more than eight times in the past four decades. Asia's share of the world's imported refined metals was 44 per cent of the total in 2012. In the same year, China alone accounted for 45 per cent of the world's refined metal consumption, up from just five per cent two decades ago. The region thus has great interest in an efficient price discovery process in international metal markets. Economically, and in the case of commodities trading in particular, Asia is no longer a backwater that can be passed over.

The level of sophistication of market participants in the Asian time zone has been growing, along with the demand for liquid instruments to risk-manage their exposures. As local markets grow they become more integrated with the international markets. We endeavour to make sure that Hong Kong plays a useful role in this process.

Geographically located in the centre of Asia, Hong Kong has a strong track record in helping regional market participants reach out to the rest of the world. For example, companies with diverse backgrounds have taken advantage of the open, competitive and well-regulated stock market in Hong Kong to tap into international liquidity pools. The free flow of funds in and out of Hong Kong means that information affecting asset prices is immediately reflected in the Hong Kong markets.

Thanks to its continued growth in economic weight, price-sensitive news increasingly has Asian origins. Regional metal traders cannot afford not to take prompt action. Similarly, Asian companies exposed to the commodities market need to be able to manage their exposure in the same time zone. All of this increases the need for a pricing centre in this part of the world.

As the most competitive financial centre in the region, Hong Kong stands ready to assume this role. Last year, the Chinese Central Government announced plans to deepen co-operation between the commodity futures markets in Hong Kong and the Mainland. The purchase of the LME by HKEx last July was another step in this direction. With its Asian service platforms and pricing benchmarks ready, and with clearing services and RMB products in the pipeline, the LME's Asian expansion is well underway.

As the leading centre for offshore RMB (Renminbi) business, Hong Kong is well prepared to support the trading of metal contracts denominated in RMB. There has been an active interbank market for RMB in Hong Kong since 2010, with average daily spot and forward turnover reaching some RMB60 billion this year. The daily volume of RMB settled through the Real Time Gross Settlement system in Hong Kong totalled RMB390 billion, surpassing the amount settled in HKD for the first time. The aggregate volume of RMB deposits and certificates of deposit in Hong Kong grew by 24 per cent year-on-year from April 2012 to April this year. Standing at RMB837 billion at the end of April 2013, it is the largest offshore pool of RMB liquidity in the world.

Hong Kong has also played a pioneering role in RMB product innovation. The first offshore RMB bond in Hong Kong, dubbed the "dim sum" bond, was offered in 2007. By the end of May 2013, 276 dim sum bonds had been issued, with an outstanding amount of RMB278 billion. Since 2010, we have witnessed the introduction of a great variety of products, including funds investing in offshore bonds, Real Estate Investment Trusts (REITs), gold Exchange-Traded Funds (ETFs), company shares and listed warrants, all denominated in the RMB.

In 2011, the means for offshore RMB to circulate back onshore was introduced in the form of the RMB Qualified Foreign Institutional Investors scheme, or RQFII in short. The investment quota has since been increased to RMB270 billion, and listed and unlisted funds investing in onshore bonds and stock markets proliferated under the scheme. The regulations were further relaxed in March this year, with the first RQFII qualification granted to a Hong Kong incorporated financial institution earlier

this month. The list of products continues to grow, the latest addition being a bond ETF, also listed this month.

The picture is not complete without highlighting Hong Kong's role in the development of financial derivatives denominated in RMB. Since 1996, offshore non-deliverable forwards (NDFs) linked to the RMB have been traded over-the-counter between institutions in Hong Kong. In 2005, these contracts were offered to local retail customers for the first time. A liquid market for options and cross-currency swaps has also evolved. Just yesterday, the Treasury Markets Association of Hong Kong started publishing the Hong Kong Interbank Offered Rate, or HIBOR fixing, for offshore RMB. As the first offshore RMB interest rate benchmark, it is expected to play a key role in the development of a liquid interest rate derivatives market for offshore RMB.

The growth of RMB-denominated metal contracts, once they are launched, will only be as fast as the growth of RMB as an international investment, settlement and reserve currency. Therefore, it is important that RMB products offered in Hong Kong are accessible to RMB market participants globally. We are off to a good start. By the end of April 2013, the number of participants in our RMB settlement platform reached 209, and of these 185 are subsidiaries of foreign and Mainland banking institutions.

Over the years we have also forged close relationships with countries where RMB products are in strong demand. Last year, the Hong Kong Monetary Authority extended the operating hours of the RMB Real Time Gross Settlement system from 6.30pm to 11.30pm to provide European institutions with an extended window to settle offshore RMB payments. In 2012, the private sector-led London–Hong Kong Forum on RMB was launched to facilitate co-operation between financial institutions in these two financial centres. This was followed by the annual Australia-Hong Kong RMB Trade and Investment Dialogue, convened by the Australian Treasury, the Hong Kong Monetary Authority and the Reserve Bank of Australia, in April 2013. We have also been conducting roadshows to assist and facilitate financial institutions and corporates around the world to make use of Hong Kong's RMB infrastructure.

I trust that the LME Week Asia 2013 Hong Kong is only the first of many more to come. I hear that the event is hugely over-subscribed, suggesting that LME Week Asia may well develop into a great new tradition. For those representatives coming from overseas, I hope you find time to take a look around Asia's world city. I wish you all a memorable stay in Hong Kong!

Thank you.

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