Speech
Speech by SFST at ASIFMA's 5th Offshore RMB Markets Conference (English only)

Tuesday, April 28, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the ASIFMA's 5th Offshore RMB Markets Conference today (April 28):

Mark (Austen), distinguished guests, ladies and gentlemen,

Good morning. It is indeed my great pleasure to join you all today. Thanks to ASIFMA for organising this and a warm welcome to everyone, particularly those who are making a trip here to join us today.

How times have changed. When I last spoke to ASIFMA in 2013, the Shanghai-Hong Kong Stock Connect was literally still a "secret". Even if we go back to November last year when the scheme was launched, as you know, it didn't start off with a big bang so we don't have the same kind of fervour that fills our city today.

In fact, for all the people who have been involved in it, the Stock Connect programme was quite an experience, learning how to put together a very complicated infrastructure, working out all the details, launching it and seeing how it actually works. Because we couldn't experiment with it, we just had to launch it and see how it works. It turned out the market didn't behave like what we wanted it to. It took a while for the market and investors to really get used to the idea and that applied to both international investors and the domestic Mainland China investors. Both sides started getting familiar with it and using it and so in terms of the traffic and volume, we saw an increase since last month or so. I expect that the increased usage of it is coming, both from the international side and the domestic side.

In Hong Kong, people are talking about a "new normal" or a "new great time" when talking about the stock market turnover as well as the activities we see in the stock market. With turnover exceeding $200 billion for some six trading days in a row, we can certainly see why the market is so excited.

I mentioned the Shanghai-Hong Kong Stock Connect programme at the outset of this RMB conference talk. It is because when we studied and tried to implement the programme, we saw this as a very significant breakthrough in our RMB market development. In fact, in the early days when we looked at RMB development, we were concentrating on the banking side, the currency side and then the influence of the RMB as a trading currency. We were always looking for an investment asset that investors could actually buy using RMB. Developing a linkage to the equity market in the Mainland was seen by us as a significant milestone in opening up the investment opportunities to people who wished to hold RMB. That's why this is very significant, both to the stock market in Hong Kong and I believe to the development of our offshore RMB market.

With Stock Connect, liquidity pooling is happening in the Hong Kong and Shanghai exchanges. Mainland investors are trading directly in our market, alongside international investors. I think that is very exciting and it's a development that we all want to study, how that pooling of liquidity will change the market other than increase in trading volume. I believe that in both the short and long run, increased liquidity is good to our market as it improves efficiency and valuation.

The Stock Connect with Shanghai is only the beginning. As you already know, our stock exchange in Hong Kong has been working closely with their Shenzhen counterparts on the launch of a similar scheme later this year. This will further open the Mainland's capital market to offshore investors, who will then be able to access not only blue-chip companies but also faster growing small companies.

That's the stock market side. The recent developments in China also include the Free Trade Zone (FTZ). It is another front in China's march towards opening its market. Launched first in Shanghai in 2013, additional zones were set up in Guangdong, Fujian and Tianjin just this month. With more flexible rules and regulations, these zones serve as a platform in liberalising the Mainland's service economy and expanding the use of RMB offshore. Banks increasingly find the FTZ helps them manage their liquidity. We actually see a very good linkage between the Hong Kong market and the FTZ with the pooling of funds in FTZ and they can access the offshore market in Hong Kong.

As you can see, successive measures to promote the international use of the RMB are becoming bolder in terms of both pace and magnitude. The roadmap has been drawn up and actions are getting stronger and more effective.

If you trace to the origin, the offshore RMB market was born here in Hong Kong some 10 years ago. Our growth into the largest offshore RMB centre has been achieved in tandem with successive opening measures from the Central Government.

At the beginning, we started off as a banking centre offering traditional banking services to local residents in RMB. In 2007, the first offshore RMB bond, dubbed the "dim sum" bond, was issued. By March 2015, a total number of 498 dim sum bonds were issued and no less than RMB 613 billion was raised.

The pace of reform sped up after the global financial crisis in 2008 when China became determined to internationalise the RMB. The RMB trade settlement pilot scheme was launched in 2009 and it quickly expanded to the rest of the country. Last year, RMB-denominated trades worth RMB 6.2 trillion were settled by Hong Kong banks, growing by 63 per cent year-on-year. Today the RMB is the seventh most used payment currency in the world according to SWIFT, with a share of 1.81 per cent.

Then we had the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme in 2011 that opened the onshore capital market to offshore RMB. By last November, we had 84 RQFII funds managing RMB 72 billion. Along with the dim sum bonds, these funds are accessible to investors from all over the world. It is fair to say that the RMB is now firmly established as an international investment currency.

By the end of February 2014, the aggregate amount of deposits and certificates of deposit in Hong Kong reached RMB 1.1 trillion, forming the largest pool of offshore RMB liquidity in the world. Tools to manage the associated exchange and interest rate risks arose to meet market demands. As early as 1996, offshore non-deliverable forwards 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. In 2013, the Treasury Markets Association of Hong Kong started publishing the Hong Kong Interbank Offered Rate, or HIBOR fixing. As the first offshore RMB interest rate benchmark, it has been playing a key role in the development of the offshore RMB loan and interest rate derivatives market. Through this process the RMB was established as a funding currency in the offshore market where interest rates are determined entirely by market forces.

These are all the facts and figures that we have seen in the recent years. Looking ahead, further financial reforms are happening and they are crucial to China's policy of increasing the share of consumption in its GDP.

The Central Government renewed its policy commitment when it set out the national reform blueprint for the next decade during the Third Plenum in 2013. The meeting called for an orderly and risk-managed opening of the RMB capital account, along with further liberalisation of exchange and interest rate mechanisms.

The development of the RMB as an international reserve is therefore the next natural step. This year the International Monetary Fund will be conducting its first review of the currency basket backing the Special Drawing Rights since 2010. The potential inclusion of the RMB in the basket is expected to generate a lively discussion.

And there is the "One Belt, One Road" vision. Pronounced as OBOR and first advocated in 2013, it is a development strategy to more fully integrate China into the world economy. "One Belt" refers to the New Silk Road Economic Belt, which will link China with Europe through central and western Asia. "One Road", on the other hand, refers to the 21st Century Maritime Silk Road, which will connect China with southeast Asian countries, Africa and Europe.

These economic co-operation corridors, spanning different regions in Asia, Europe and Africa, will promote co-development among countries and foster co-operation in the political, economic and social areas. The OBOR initiatives feature "five links" in the areas of policy, infrastructure, trade, capital and culture.

Many countries along the "One Belt, One Road" have great development potential. The increased regional co-operation will increase the investment and trade flows in the region. Infrastructure investment will be facilitated by private as well as public initiatives such as the Asian Infrastructure Investment Bank (AIIB). Financial co-operation will enhance market stability and strengthen market linkages, facilitating the greater use of local currencies and the RMB.

As you know infrastructure projects generally involve huge capital commitments and long implementation and payback periods. To get things going the AIIB will need expertise in project financing, investment, financial management and foreign exchange management. Hong Kong's professional and financial services industries stand ready to contribute to the AIIB efforts.

With the increasing trade and investment flows, and the increasing use of the RMB as a result of the OBOR initiatives, Hong Kong also has an important role to play. As Mainland companies "go global", they will seek international investment, cross-border trade settlement, RMB bond issuance and asset and risk management services offshore in RMB.

Talking about the future initiatives, of course the OBOR and the AIIB initiatives are long term projects. They outline a vision and a roadmap for China to see more use of the RMB overseas, to see more capital going overseas, and to see increasing integration in this region.

Ladies and gentlemen, we have seen how China's opening up has provided new opportunities to the financial market. More will come as China continues to push its own policy boundary and map out its long term strategy. So my advice is, let's buckle up, tighten our seat belts and get ready for a much more dynamic and competitive era for the RMB. Thank you.

Ends