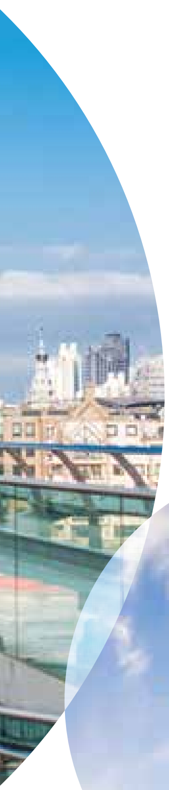

London RMB Business Quarterly

Issue 6
January 2020

DOMINE DIRIGE NOS
CITY OF LONDON

THE PEOPLE'S BANK OF CHINA
REPRESENTATIVE OFFICE FOR EUROPE

With thanks to

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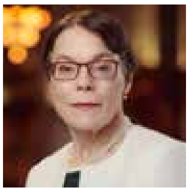
- London Stock Exchange Group
- National Association of Financial Market Institutional Investors (NAFMII)
- R5FX
- Refinitv
- Standard Chartered Bank
- SWIFT
- Shanghai Clearing House
- The People's Bank of China (PBoC) Representative Office for Europe

Foreword

The City of London Corporation is pleased to be working in partnership with the People's Bank of China Representative Office for Europe to present the London RMB Business Quarterly. The UK is the leading offshore RMB trading hub outside of Asia, and this report aims to help us maintain this position, providing an overview of the market for Chinese currency in the City.



Catherine McGuinness
Chair of Policy and Resources
City of London Corporation

We are very proud of the partnership between the City of London Corporation and the People's Bank of China Representative Office for Europe on the London RMB Business Quarterly report. It highlights London's influence as a leader in the RMB internationalisation market outside of Asia and the PBoC's efforts to develop and sustain the RMB market at home and abroad.

The City of London is home to over 30 Chinese financial and professional services firms which joined the London market to build their international presence. The RMB is an important global currency and it is natural, as home to the world's largest FX market, that London monitors its use and innovations closely.

With access to onshore RMB investments in China rapidly increasing, opportunities for new products and ways to manage currency exposure are also growing. This makes for exciting times for the City of London and international investors. The sixth issue of the London RMB Business Quarterly discusses exciting opportunities for international investors in China's equity and bond markets and explores onshore hedging tools and products available to international investors.

The London RMB Business Quarterly report serves to contribute to the understanding of the London offshore RMB market, providing most recent data, policies and commentaries from market participants. As well as, promote the healthy and sustainable development of the London offshore RMB market by monitoring and providing feedback to regulatory bodies in both countries for policies improvement.

We would like to thank all our valued partners who have contributed to the sixth issue of the London RMB Business Quarterly report. Your contributions play a major part in the success of this quarterly report.

Giles French
External Relations Director,
City of London Corporation

Jin Mei
Chief Representative, Representative Office for Europe, The People's Bank of China

Market Overview

Since the October report, London RMB offshore market has continued steady development, there was rapid growth of RMB cross-border settlement and RMB43.7 billion net inflow to the UK.

London RMB Foreign Exchange Market

About 34% of all CNH spot trading on EBS took place during EMEA trading hours in November, up 0.2% from August. The daily CNH FX trading volume in London averaged GBP82.8 billion in Q3 2019, down 2.64% QoQ and up 4.29% YoY.

London RMB Bond Market

Between September and November, 13 Dim Sum bonds were newly listed on the London Stock Exchange. At the end of November, there were 109 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB34.59 billion, and an average coupon rate of 4.25%.

London RMB Credit Market

By the end of Q3 2019, the amount of RMB deposits remained at RMB60. 4 billion, down 0.15% QoQ and up 8.28% YoY, and the outstanding amount of RMB loans in London was RMB48.84 billion, down 17.68% QoQ and 12.93 % YoY.

London RMB Clearing

Between September and November, the total cumulative volume of RMB clearing bank's volume in the UK was RMB2.99 trillion, up 6.4% from the last report. The average daily RMB clearing volume stood at RMB48.99 billion. By the end of November 2019, the accumulative total RMB clearing volume climbed to RMB40.99 trillion.

RMB Cross-Border Settlement between China and UK

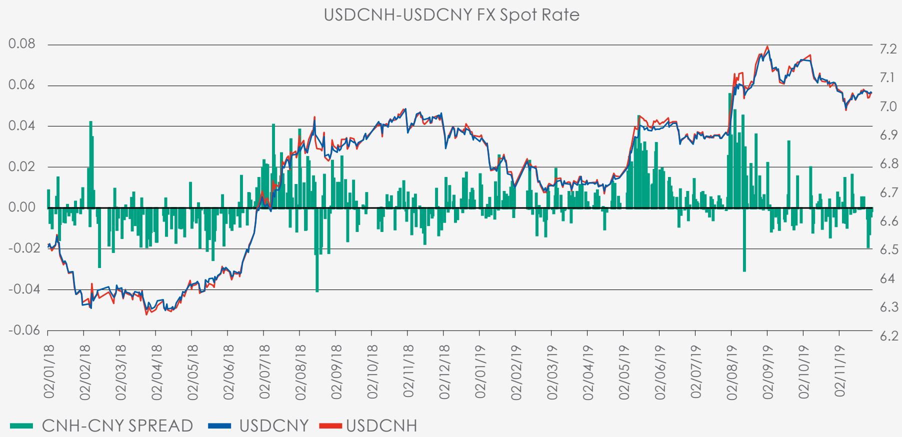
From January to November 2019, the accumulative of total RMB cross-border settlement between China and the UK gained a positive momentum of 66% YoY to RMB589.3 billion, hitting historical records. Among them, cross-border RMB receipts was about RMB272.8 billion while payments reached RMB316.5 billion. Thus achieving a net inflow of RMB43.7 billion into the UK.

UK's Rank as Offshore RMB Centre

The UK remained the largest RMB payments center outside of greater China. In November, offshore RMB foreign exchange transactions in the UK accounted for 43.4% of the total, slightly lower than that in August.

RMB Exchange Rate

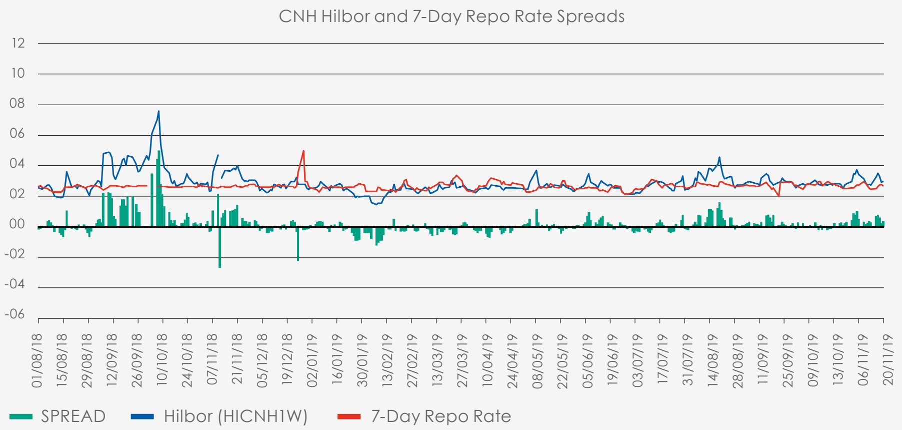
The Onshore-Offshore Exchange Rate Differential



Source: Bloomberg, ABC

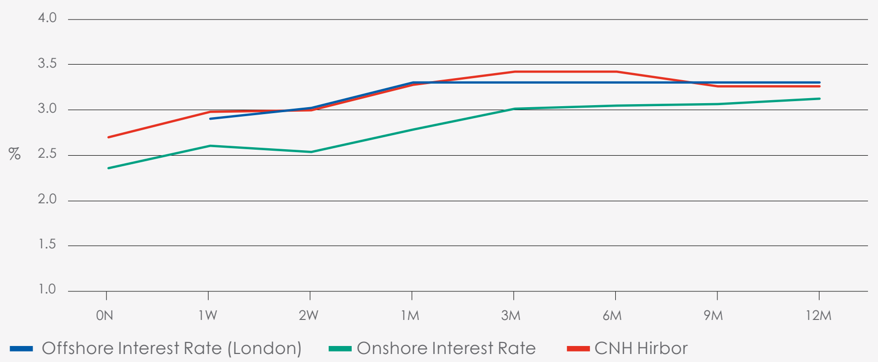
RMB Interest Rate

The Onshore-Offshore Interest Rate Spreads



Source: Bloomberg, CCB

Term Structure of RMB-Offshore Interest Rate Spreads



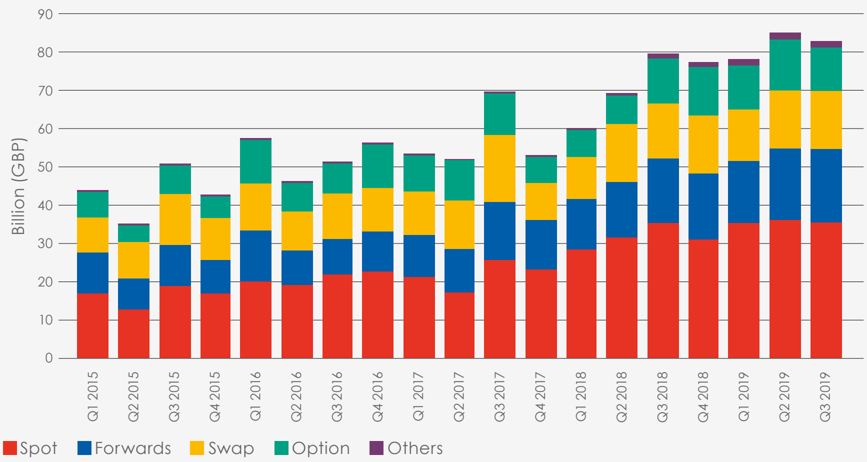
Source: CCB

From 1st September 2019 to 30th November 2019, the average FX spot rate of USD/CNH in the offshore market was 7.0720, with the USD/CNY onshore rate 7.0729. The average spread between offshore and onshore narrowed to -9 basis points in the three months, while the average spread of our last report was +102 basis points. From September to November, China and US were negotiating the phase one of trade deal, which was almost done. Then RMB was appreciating against USD to 7.0000 level and the spread between CNH and CNY was diminishing.

CNH depreciated amid slower GDP growth forecast and downside risk on trade war, but CNH HIBOR stayed in the high-level during September - making 1week HIBOR rate was higher than 7Day Repo rate by 26.9 basis points in average. Since October, China and US have made some constructive progresses on the partial trade deal. It was positive for offshore CNH market, making 1week HIBOR closer to the onshore rate, only higher than 7Day Repo by 2.7 basis points. However, stepping in November, offshore RMB market were affected by the uncertainty on Sino-US trade agreement. On 26th November offshore RMB 1week HIBOR climbed to 3.49283% as the highest level in the last three months. In average, 1week HIBOR crossed over 1week 7Day Repo rate by 39.8 basis points during November of 2019.

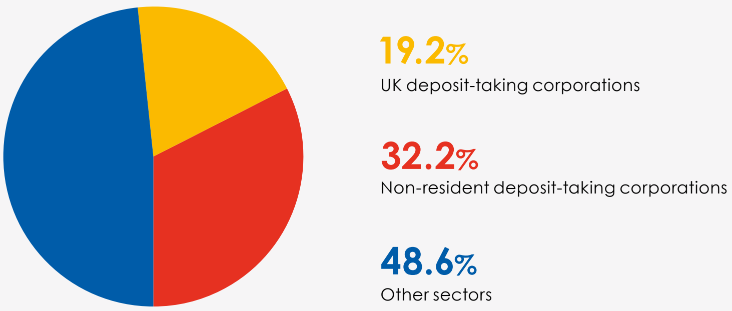
London RMB Foreign Exchange Market

Average Daily Turnover of RMB FX in London



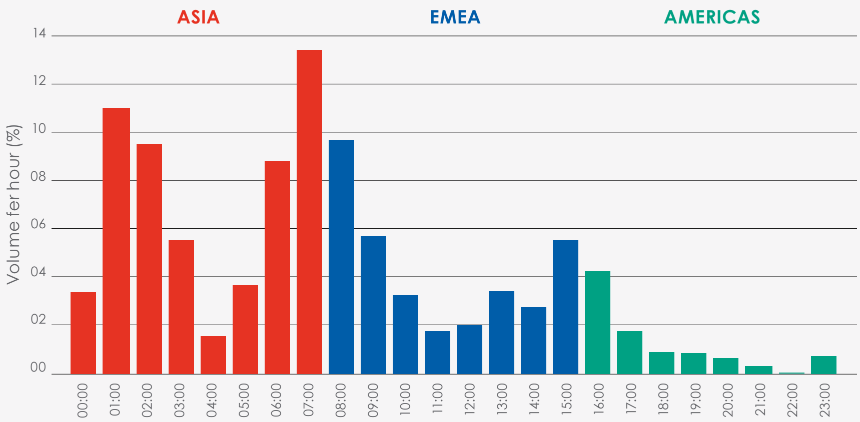
Source: Bank of England (BoE)

RMB FX Turnover by Counterpart Sector



Source: Bank of England (BoE)

Spot CNH Volume Distribution by Hour on EBS



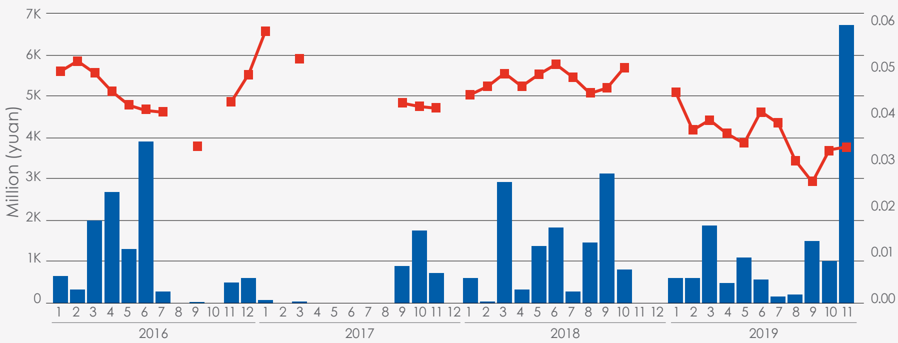
Source: EBS

Average daily trading volume of London's offshore RMB hit GBP82.8 billion in Q3, down 2.64% from the previous quarter and up 4.29% YoY. From the perspective of counterparty distribution, the average daily trading volume of UK deposit-taking corporations was GBP16 billion, accounting for 19.2%; the average daily trading volume of non-resident deposit taking corporations was GBP27 billion, accounting for 32.2%; other financial institutions traded GBP40 billion, accounting for 48.6%.

In November, the proportion of the offshore RMB FX trading in London market increased slightly from last report. Trading data from EBS revealed that the proportion of spot CNH trading volume in EMEA trading hours was 34% in November, 0.2% up from August. Specifically, in November, Asia, EMEA and Americas trading hours registered 57%, 34% and 9% of total CNH spot trading volumes, compared with a distribution of 57.3%, 33.8% and 8.9% in August, and 57% 34% and 9% a year ago.

London RMB Bond Market

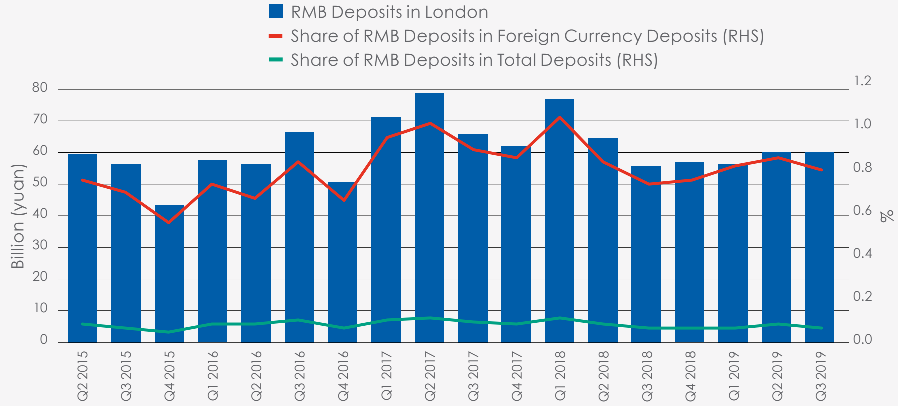
Dim Sum Bond Issuance and Coupon Rate



Source: LSE

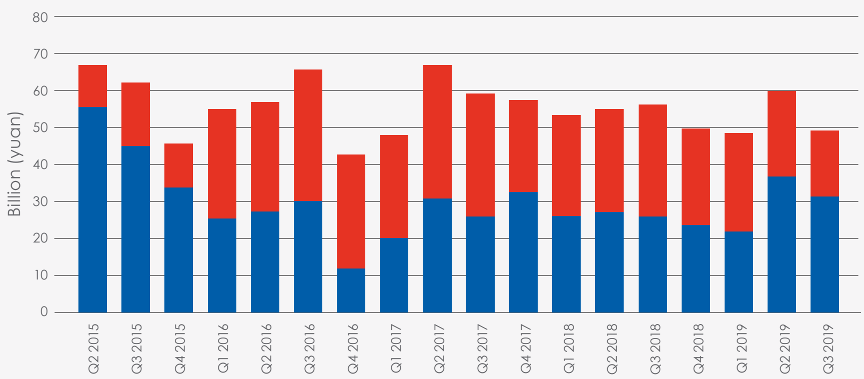
London RMB Credit Market

RMB Deposits in London



Source: Bank of England (BoE)

RMB Lending in London



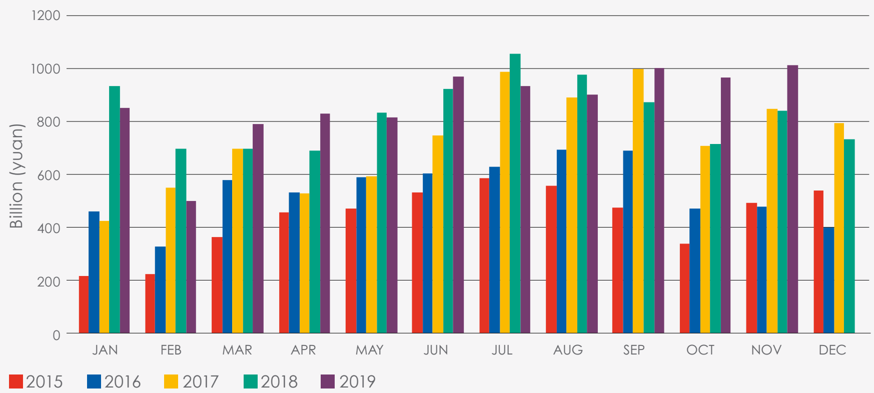
Source: Bank of England (BoE)

Between September and November, 13 Dim Sum bonds were newly listed on the London Stock Exchange, with a total issuance size of RMB8.38 billion and weighted average coupon rate of 3.2%. At the end of November, there were 109 Dim Sum bonds listed on the London Stock Exchange with an outstanding value of RMB34.59 billion, and weighted average coupon rate of 4.25%. There was one more Dim Sum bond issued in the first eleven months of this year than last year. The value of new Dim Sum bonds issued from January to November 2019 increased by RMB2 billion from the same period of 2018, an increase of 15.5%.

In Q3 2019, RMB deposits and loans in the London offshore were at different levels. At the end of the Q3 2019, the balance of RMB deposits stood at RMB60.4 billion, close to last quarter of RMB60.5 billion, up 8.28% YoY, while the balance of RMB loans was RMB48.84 billion, down 17.68% QoQ and 12.93% YoY.

London RMB Clearing

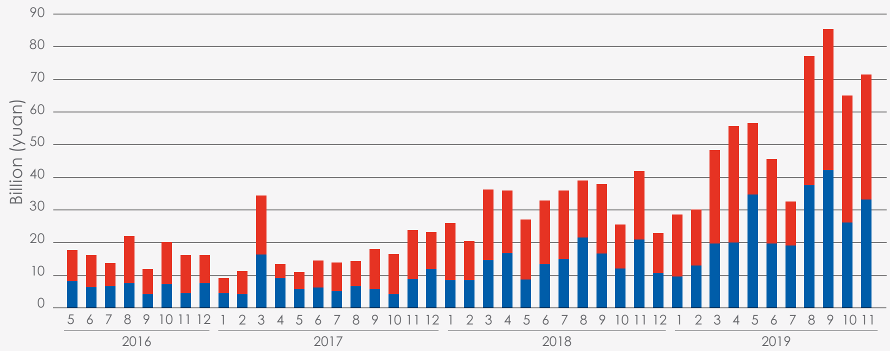
Clearing Volume of UK Clearing Bank



Source: CCB London Branch

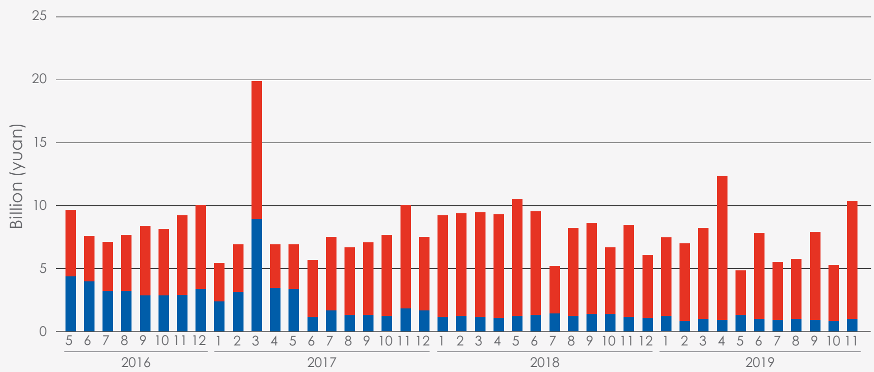
China - UK RMB Cross-Border Settlement

China-UK Cross-Border RMB Payment and Receipt



Source: PBoC

China-UK Cross-Border RMB Payment and Receipt Under Merchandise Trade



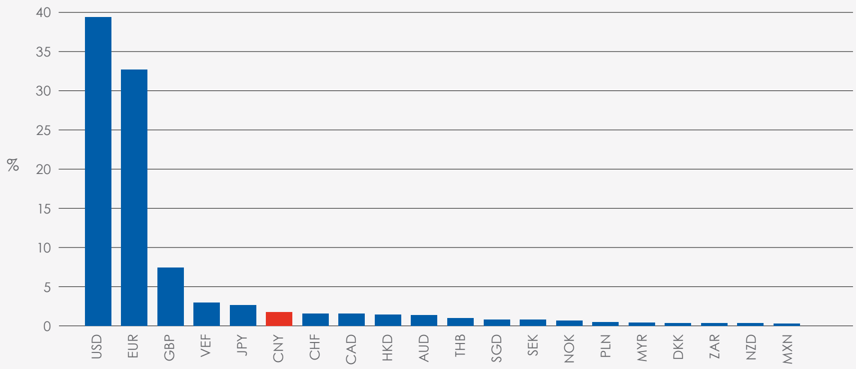
Source: PBoC

Between September and November, total clearing volume of the RMB clearing bank in the UK was RMB2.99 trillion, up 6.4% from our last report, with daily average clearing volume RMB48.99 billion. Accumulated transaction count stood at 34,434. By the end of November 2019, the accumulative of total RMB clearing volume hit RMB40.99 trillion since China Construction Bank(CCB) London Branch obtained its authorisation to become the RMB clearing bank in the UK in June 2014 and the Bank stays as the largest clearing bank outside Asia with 74 financial institutions around the world as the bank's clearing counterparties.

From January to November 2019, the total amount of cross-border RMB transactions between China and the UK witnessed a significant rise of 66% over the same period of last year and reached RMB589.3 billion, surpassing the total volume of RMB377 billion in 2018. Among them, cross-border RMB receipts was about RMB272.8 billion while payments reached RMB316.5 billion. The RMB payments were higher than receipts, thus achieving a net inflow of RMB43.7 billion into the UK. Cross-border RMB receipts and payments of Sino-British bilateral goods trade was about RMB82.3 billion, composing 14% of the total amount of receipts and payments during the same period.

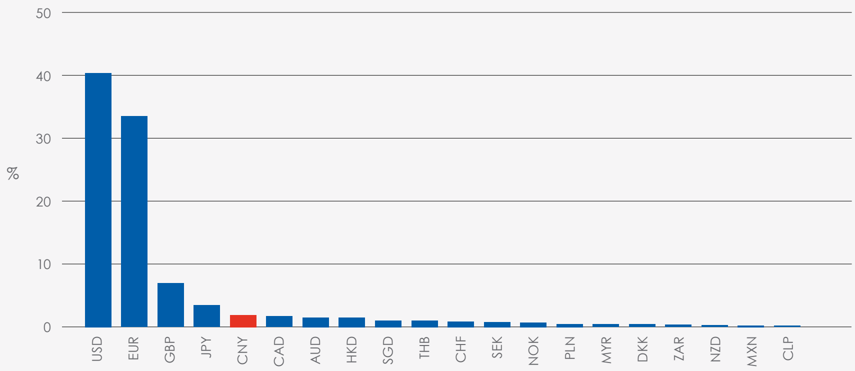
The International Status of the London Offshore RMB Market

RMB's share as a global payments currency
November 2017



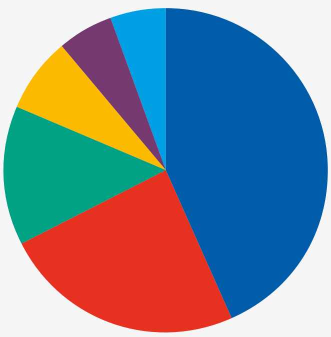
Source: Watch – Powered by SWIFT BI

RMB's share as a global payments currency
November 2019



Source: Watch – Powered by SWIFT BI

Top Countries (Regions) FX Transaction in RMB (RMB Tracker November 2019)



43.35% United Kingdom

24.35% Hong Kong

13.82% Others

7.39% United States

5.70% Singapore

5.39% France

Source: Watch – Powered by SWIFT BI

According to SWIFT, RMB's share as a domestic and international payments currency (customer initiated and institutional payments) in November 2019 was 1.93%, down 0.29% from August. The RMB ranked as the fifth biggest global payment currency, and the UK retained its position of having the largest share of RMB payments outside greater China. The top three countries or regions doing FX transactions in RMB in November 2019 were the United Kingdom, Hong Kong and the United States. The United Kingdom accounted for 43.4% of the total, slightly down from August (43.9%).

Industry Update

2019 – The Year in Review for London RMB Business Monitoring Group

Catherine McGuinness, City of London Corporation

London, as a leading international financial centre, is also the top offshore RMB clearing hub outside Asia.

RMB internationalisation had long been on the agenda in the UK and was given a significant boost when the City of London RMB Initiative was launched in 2012 - the purpose being to establish London as a major offshore centre for RMB.

In 2016, the UK emerged as the leading RMB clearing hub outside Asia, and it has retained this position since. In the years following 2016, the City of London Corporation has seen a strong interest among financial institutions in exploring opportunities to grow RMB internationalisation activities in London. The enthusiasm from industry brought about the launch of a London RMB Business Monitoring Group in 2018 with representatives from key financial institutions in the UK, which we co-chair in partnership with the People's Bank of China (PBOC) Representative Office for Europe.

We are delighted to say that 2019 has been a year of success for the London RMB Business Monitoring Group. Since its establishment in 2018, the Group has held five quarterly meetings and published five issues of the London RMB Business Quarterly Report, with contributions from Group members on a wide range of topics concerning the development of RMB internationalisation - including the Belt and Road Initiative (BRI), the China bond market, the diversification of RMB products, and key trends on RMB internalisation. All the reports have been well-received and referenced by many stakeholders in the UK and in China when discussing RMB internationalisation. These reports received support from both UK and Chinese government as well as financial market infrastructure such as HM Treasury, Bank of England, China Foreign Exchange Trade System (CFETS), China Central Depository & Clearing (CCDC), National Association of Financial Market Institutional Investors (NAFMII) and others, who provided relevant information and data for the publication.

In June 2019, during the UK-China Economic and Financial Dialogue (EFD), the London RMB Business Monitoring Group co-hosted the RMB Global Cities Dialogues for the first time, working in collaboration with the Sydney for RMB Committee and the Working Group on US RMB Trading and Clearing. The forum brought together financial institutions and global practitioners to discuss the trends of RMB internationalisation in key financial centres to showcase the UK's role as a leading RMB clearing centre outside of Asia. The Group's work was also acknowledged in the discussion of the UK-China EFD, where the initiatives delivered by the Group were recognised by both the UK and China government, as stated in the policy outcome paper from the EFD.

In September, the London RMB Business Monitoring Group met with senior representatives from China's Cross-Border Inter-Bank Payments System (CIPS) at a roundtable in London to engage directly with CIPS and discuss trends and the development for RMB trading in further detail. In addition, the Group has also engaged with CFETS to help clarifying and addressing some operational considerations for transaction for China bond market. This invaluable platform has allowed the Group members to receive first-hand information on the future of RMB internationalisation as well as channelling their feedback to the relevant stakeholders.

The London RMB Business Monitoring Group plays a significant role in promoting the RMB internationalisation initiative in the UK. This is evident through an increase of new members joining the Group. In 2019, the Secretariat for the Group welcomed four new members representing a diverse range of financial services firms to the Group. We have seen RMB products and services volumes in the UK grow steadily over recent years, and over RMB40 trillion has now been cleared by the China Construction Bank London Branch, the UK's designated RMB clearing bank. We are delighted to see that the total RMB cross-border settlement between China and the UK hit historical record at the end of November 2019. From January to November 2019, the total amount of cross-border RMB transactions between China and the UK witnessed a significant rise of 66% over the same period of last year and reached RMB589.3 billion, surpassing the total volume of RMB377 billion in 2018.

Looking ahead, the London RMB Business Monitoring Group aims to achieve three core objectives through its initiatives. First, the publication of the London RMB Business Quarterly report will continue to serve as a source of information for the financial services industry in obtaining the latest market trends and policy updates in relation to RMB business. Secondly, the Group will act as a strong voice for the financial services industry in the UK in supporting and promoting the expansion of offshore RMB business and investment into RMB denominated assets (onshore and offshore). Lastly, the engagement of the Group with both the UK and Chinese regulators and stakeholders is further enhanced, serves as a key platform for the industry to share information and discuss market opportunities and challenges.

Finally, we would like to take this opportunity to thank each member of the London RMB Business Monitoring Group for their support and contribution to the achievements delivered under this initiative. It is the contribution made by our members that leads to the success of this Group and we look forward to continuing to work closely with all our members in the new year.

Exciting Opportunities Arise for International Investors in China's Equity and Onshore Bond Market

Matthew Blackshaw, Investment Operations Manager, Investec and Refintiv

China's emergence as the world's second largest economy together with the opening up of its domestic capital market has created a strategic investment opportunity for global investors. This will have significant implications for global asset allocation.

Rising Opportunities in China's Equity Market

The landmark inclusion of Mainland China A shares in the MSCI Emerging Markets index that began in 2018 has kickstarted this process. The Chinese equity market is the second largest in the world by market capitalisation and is without doubt under-represented in global market indices. Investors should consider a dedicated allocation to China based on its size, growth trajectory, unique characteristics and the potential for outperformance in a relatively inefficient market. Due to onshore Chinese equities (low) correlation profile – blending a dedicated China allocation can be complementary to both developed and emerging market investments.

On a medium-term view - the fundamentals in this market are strong with the world's best consumer story unfolding as the spending power of the Chinese consumer rises with increasing wealth. By 2030, the middle class is expected to represent 75% of China's population and have equivalent spending power to the US middle class. In addition to the economy having restructured away from exports, manufacturing and heavy industry to a services-led economy.

China has made great strides in innovation and becoming a knowledge-based economy. The country has gained global leadership in the digital ecosystem as well as built intellectual property (IP) in transformational technologies like artificial intelligence (AI), 5G, robotics and electric vehicles. As a consequence of this restructuring of the economy, the breadth of opportunities in high growth sectors linked to the Chinese consumer and technology has expanded – be it in insurance, staples, travel and tourism, education, healthcare, appliances, real estate and renewables/electric vehicle supply chains. Companies in China score very well on quality and growth metrics, while valuations remain reasonable relative to history and at a significant discount to global averages.

The deep liquidity and diversity of the market are added advantages for active stock pickers. To some degree, allocation to domestic China equities has become a popular asset class allocation strategy increasing overall risk-weighted returns on portfolio level. This has brought great opportunities and challenges at the same time to the execution desks of asset managers due to the complexity of access channels.

Previously restricted to cumbersome QFII/RQFII quotas and repatriation restrictions– the launch of the Stock Connect schemes in the last three to four years has expanded the access points to China's domestic markets. The Stock Connect programs have gone through various development stages, including introduction of special segregated accounts in 2015, aggregate quota abolishment in 2016, Real-time delivery versus payment (DvP) enhancement in 2017 and Broker-to-Client assigned number (BCANs) in 2018.

For instance, Investec Asset Management have been engaged with Hong Kong Stock Exchange from a very early stage providing constructive operational feedback which have been adopted to the current operational framework. Investors now have gained comfort as the connect schemes have been in place for four years with no operational hurdles. More and more investors are expected to find a pathway to the mainland markets over the next decade. This is an exciting opportunity as it is still in very early stages of international investor involvement in this market. We believe local presence and an active approach are the two key pre-requisites to mine the alpha potential in this vast and diverse opportunity set.

Development in China's Bond Market

China's bond market is now worth USD13 trillion, the second largest in the world. In 2018, China issued USD1.22 trillion bonds, accounting for 62.1% of the total issuance of Asian bonds.

A number of recently issued Chinese bonds have received high market attention. For example, an RMB50 billion convertible bond issued by Shanghai Pudong Development Bank received RMB7.8 trillion subscription, oversubscribed more than 300 times. It is the largest convertible bond issued in China's history, with the relevant subscription frozen funds amounting to USD1.1 trillion, almost equivalent to four times of ICBC's market capitalisation or the size of Indonesia's GDP.

China's bond market is developing rapidly, driven by a number of policies and market factors. At the policy level, the Chinese government has promoted a number of measures conducive to the development of the Chinese bond market, such as granting foreign institutional investors access to the inter-bank bond market, eligible foreign banks being able to obtain a class A main underwriting license for the interbank bond market, and the State Administration of Foreign Exchange removing restrictions on investment quotas for qualified foreign institutional investors (QFII) and qualified foreign institutional investors (RQFII) in the RMB.

At the market level, in April 2019, RMB-denominated Chinese government bonds and policy bank bonds were included in the Bloomberg Barclays Global Composite Index, helping to enhance the international standing of Chinese bonds. In order to expand funding channels, Chinese companies, especially real estate companies, have been actively using bond issuance in recent years to raise funds. In addition to issuing bonds in China, a number of companies issued offshore RMB bonds through Hong Kong to bring new investment options to the market. It can be foreseen that there will be more opportunities and developments in the Chinese bond market in the future.

In order to facilitate the participation of international investors and meet market demand, the Ministry of Finance of China successfully issued USD6 billion of unrated sovereign bonds in Hong Kong in November 2019. The largest single issue of US dollar sovereign bonds drew final orders of more than USD16.5 billion. The types of investors include central banks and monetary authorities, sovereign wealth funds, large international commercial banks, investment banks, insurance companies, pension funds, asset management companies, etc. In addition, the Ministry of Finance reopened two tranches of its offshore RMB bonds in Hong Kong of RMB5 billion, with the whole batch of RMB government bonds nearly three times oversubscribed, bringing this year's total issuance of RMB bonds in Hong Kong to RMB15 billion. This has reflected the strong demand and confidence among investors towards China's bond market.

In addition, this batch of US dollar sovereign bonds has four different periods. Of these, three-year USD1.5 billion with a yield of 1.929%, five-year USD2 billion with a yield of 1.996%, and 10-year USD2 billion with a yield of 2.238%, 20-year USD500 million with a yield of 2.881%. It is believed that the size and maturity of the US dollar sovereign bond issue is reasonably distributed and strategic. In particular, the 20-year variety can fill the gap between its 2018 issue of 10-year and 30-year US dollar bonds, helping to further refine the yield curve for US dollar sovereign bonds outside China and to guide the pricing of Chinese bond issuers, as the interest rates on bonds issued by general issuers are based on reference to the relevant treasury bond yield plus a certain risk premium.

It is worth noting that China has stopped issuing foreign currency sovereign bonds for more than a decade and resumed issuing USD2 billion of bonds in 2017. Five-year, 10-year, and 30-year treasury bonds worth USD3 billion were issued last year. In addition to US dollar sovereign bonds, the Chinese Ministry of Finance successfully issued EUR4 billion of sovereign bonds in Paris, France, in early November, the first time in 15 years that China has issued Eurobonds. The bond instalment includes seven-year bonds for EUR2 billion, a yield of 0.197%; 12-year bonds for EUR1 billion with a yield of 0.618%, and 20-year bonds for EUR1 billion with a yield of 1.078 percent. The last time China issued Eurobonds was in 2004, when it issued EUR1 billion in sovereign bonds.

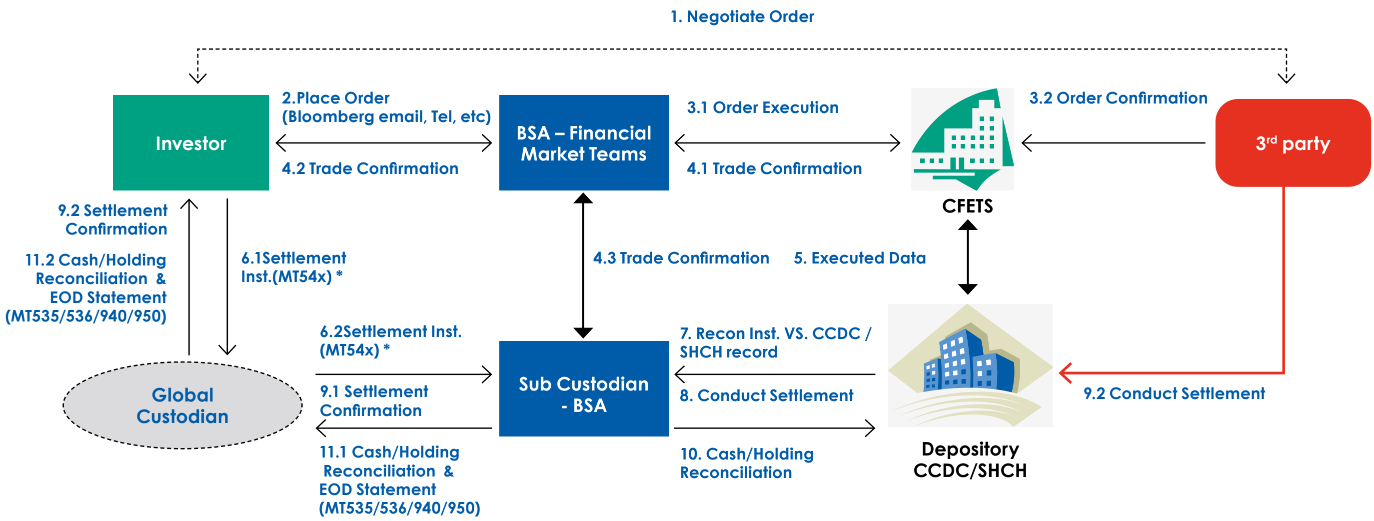
In recent days, there have been clear signs of a shift in China's more active issuance of offshore non-RMB sovereign bonds, which will create and encourage more offshore bond issuance and create huge investment opportunities.

Unlocking Potential in China's Bond Market by Addressing Operational Considerations

Similar to the early stage of the Stock Connect programs, there are a series of unique operational processes that sit around the China post trade processes that foreign investors may not be exposed to in other traditional developed markets. This leads to a set of considerations around the setup and ongoing operational framework required to support trading in this market.

Firstly, in this market CFETS play the role of the golden source of agreed trade data through both entities (buy and sale side) inputting/affirming the trade on the CFETS platform. The majority of overseas investors investing in the China onshore bond market rely on a third party (settlement agent or trading platform) to capture the transaction on CFETS on their behalf. And therefore, the standard trade confirmation process taking place between the buy and sale through an electronic trade confirmation platform is not available to these investors. If the manager is looking to receive details of the trade captured in CFETS for downstream middle office confirmation purposes they would need to work with their Bond Settlement Agent (BSA) broker or platform to see what can be obtained. This does raise concern to many overseas investors as trade confirmation is not available on a timely manner.

Detailed below is a visual representation of a typical CIBM direct operationally flow.



As a manager looking to trade both through the CIBM Direct onshore route and Bond connect channel we are looking at how we support these processes from an execution and post trade processing perspective. One point we have come up against is security identifiers. In the equity world the China A share or Hong Kong Stock Connect respective security both have unique trade identifiers (SEDOLS). This enables the manager to clearly identity what security is being purchased/held through which channel and assist with the settlement and security valuation process. In the bond space no such unique security identifier is in existence. Therefore, both the Onshore Bond and Bond Connect Bond share the same security identifier (ISIN). This makes it difficult for the asset manager to identity the offshore versus onshore security from a trading and pricing perspective. We are therefore having to create in-house classifications to clearly identify the bond held through the different channels. One development that would be welcomed would be if the Bond Connect security had a unique security identifier (much like the HKS Connect equity does) to differentiate it from the onshore bond.

Another consideration operationally for this market is how to represent the onshore versus offshore securities and currency in your systems. We identify onshore RMB as CNY and offshore as CNH. This allows us to clearly identify and price the security and currency in the correct way. However, there is only the single currency code of CNY in the market right now. CNH is not an officially recognised ISO currency code and therefore all instructions to and from the market must take place in CNY. It would be beneficial and allow for smoother front to back operational processes if CNH could also be used throughout the trade lifecycle from execution to settlement and pricing.

A final area which would benefit overseas investors is clarification on the use of CNY forward exchange contracts for hedging purposes across the various access channels. The State Administration of Foreign Exchange (SAFE) and the People's Bank of China (PBOC) have issued circulars describing that the use of such contracts is to be limited to where there was a "genuine need" so at to prevent investors taking active currency positions. To avoid misinterpretation amongst overseas investors it would be useful to define specific thresholds to which hedging must relate to the corresponding bond exposure. Such criteria would allow investors to hedge effectively whilst making allowances for market depreciation and still adhering with the intention of the regulation. In 13 January 2020, SAFE announced that now the principle of a "genuine need" is no longer applicable but instead a "hedging need" principle will be applied. No further details on how this will be implemented and when the implementation will begin.

As China's domestic equity and bond markets continue to grow with diversification benefits and alpha opportunities, we do see there are significant potential for foreign investors to access the market to deploy asset allocation strategy. And we believe it is a high time for access channels to cultivate the potential of operational efficiency to support the investment strategy in a scalable, sustainable and effective way.

Industry Update

The Introduction and Prospect of China's Interbank Market Hedging Tools

Shanghai Clearing House

In recent years, overseas institutional investors have been entering China's financial market through various channels, increasing the need for risk management.

Meanwhile, China's interbank derivatives market is booming. FX and interest rate derivatives have become increasingly diversified, to provide instruments for hedging the risks of exchange rate and interest rate. As China market continues to open up to more foreign institutional investors, it is important that they are aware of the tools accessible for them to use for RMB derivatives hedging.

The Development of China's Interbank Market RMB Hedging Tools

China's interbank derivatives market has been innovating constantly, with its main focus on interest rate derivatives and FX derivatives. At present, overseas institutional investors can trade RMB interest rate[1] and FX derivatives[2] for hedging purposes through clearing agents under the CIBM[3], and trade FX derivatives[4] under Bond Connect.

1. RMB Interest Rate Derivatives

RMB interest rate derivatives mainly include interest rate swaps and standard bond forwards. In 2019, the trading volume of these two products was RMB18.60 trillion (see Figure 1). RMB interest rate swaps, with reference to Shibor (the Shanghai Interbank Offered Rate), FR (the CNY Fixed Repo Rate) and LPR (the CNY Loan Prime Rate), have the largest market share and the best liquidity, with the greatest number of participants. In 2019, the trading volume of RMB interest rate swaps was RMB18.16 trillion, of which tenors of 1Year and below accounted for 61% (see Figure 2). Standard bond forwards are highly standardized bond forward contracts and the underlying assets are virtual bonds issued by China Development Bank with annual coupon rate of 3% (see Figure 3).

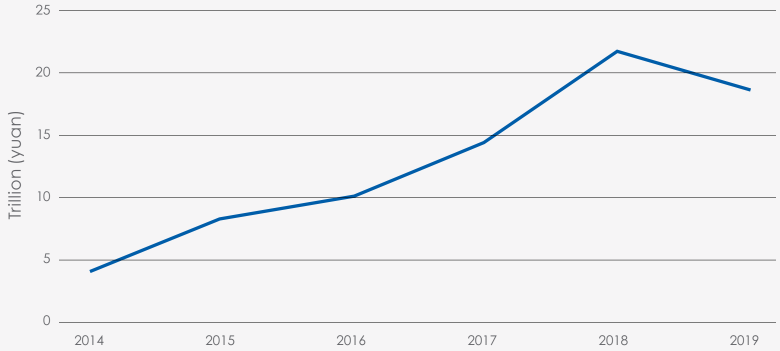
[1] Announcement No.3 [2016] of the People's Bank of China: www.pbc.gov.cn/goutongjiaoliu/113456/113469/3021203/index.html

[2] Announcement No.5 [2017] of State Administration of Foreign Exchange: www.safe.gov.cn/safe/2017/0227/5735.html

[3] The China Inter-Bank Bond Market scheme.

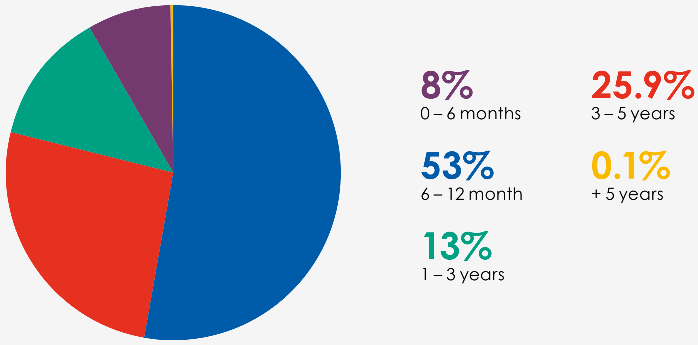
[4] Order No.1 [2017] of the People's Bank of China: www.gov.cn/gongbao/content/2017/content_5234532.html

Figure 1: The trading volume of RMB interest rate swap and standard bond forward



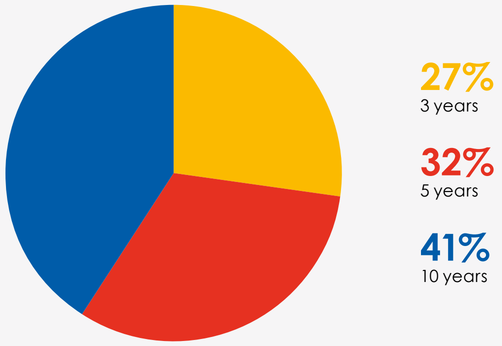
Source: National Interbank Funding Center, Shanghai Clearing House

Figure 2: The interest rate swap tenor structure (by trading volume, 2019)



Source: Shanghai Clearing House

Figure 3: The standard bond forward tenor structure (by trading volume, 2019)



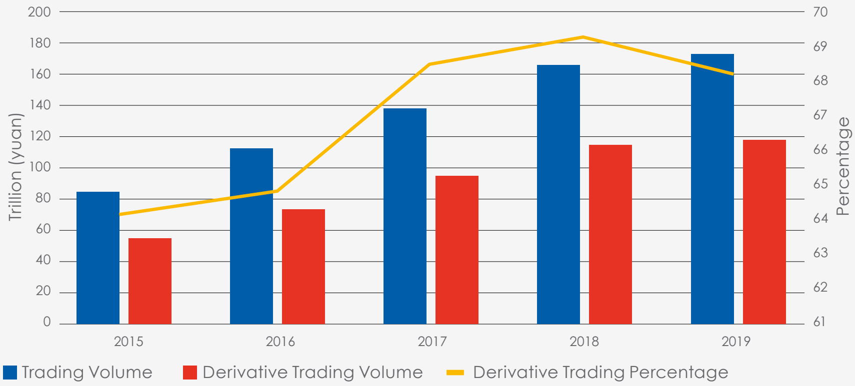
Source: Shanghai Clearing House

2. FX Derivatives

China's interbank FX market covers derivatives such as currency swap, FX swap, FX forward and FX option. The trading volume of China's interbank FX market has been rising steadily year by year, reaching RMB172.2 trillion in 2019, of which the market share of derivatives has stabilized at around 68% over the past three years (see Figure 4).

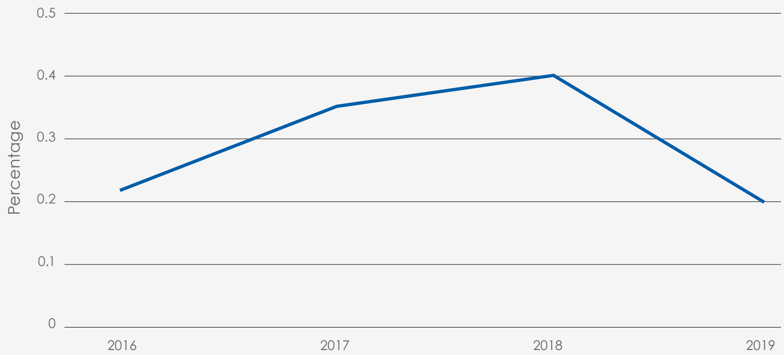
In particular, the trading volume of currency swaps accounted for less than 1% of FX swaps (see Figure 5). At present, currency swaps include six currency pairs: USD/CNY, HKD/CNY, JPY/CNY, EUR/CNY, GBP/CNY, AUD/CNY. The principal sum is usually exchanged in one of the following manners: (i) at the beginning (ii) combination of the beginning and the end (iii) in the end (iv) neither. In addition, currency swaps based on above-5-year CNY LPR are expected to be developed.

Figure 4: Interbank FX market trading volume



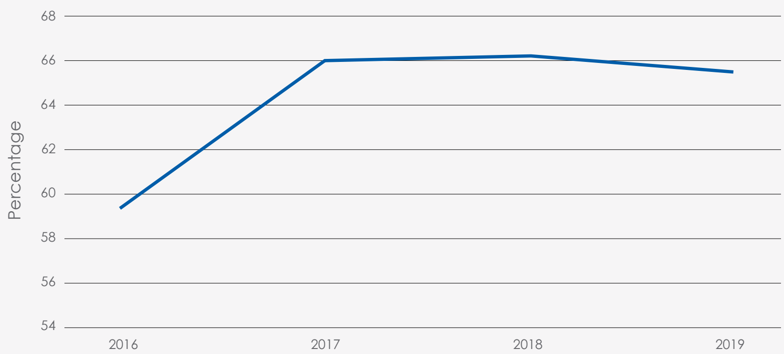
Source: SAFE[5], CFETS[6]

Figure 5: The percentage of currency swaps trading volume compared with FX swaps



Source: SAFE, CFETS

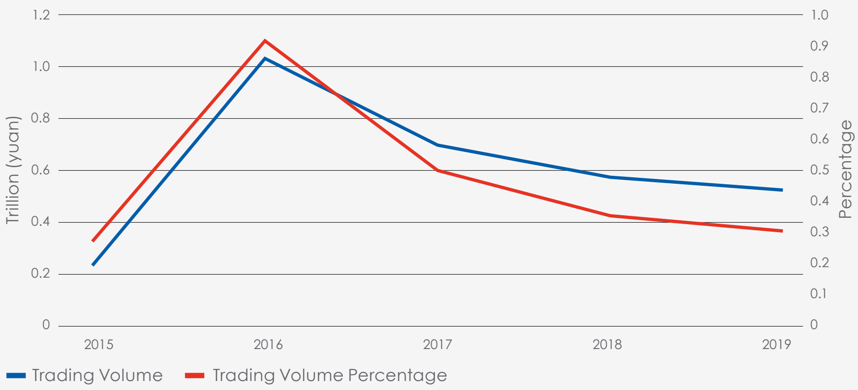
Figure 6: FX swap trading volume percentage



Source: SAFE, CFETS

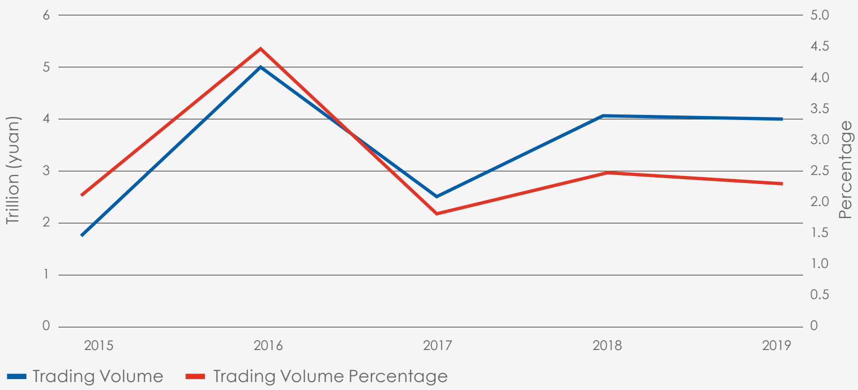
[5] SAFE - State Administration of Foreign Exchange.
[6] CFETS - China Foreign Exchange Trade System.

Figure 7: FX forward trading volume percentage



Source: SAFE, CFETS

Figure 8: FX option trading volume percentage



Source: SAFE, CFETS

FX swaps include overnight, spot/forward and forward/forward tenor types and have relatively high liquidity and market depth. Over the past three years, the market share has remained stable at around 66% (see Figure 6). The total volume of FX swaps in the interbank market was RMB112.8 trillion in 2019, increased by 3.3% year-on-year. Specifically, USD/CNY swaps volume accounted for 99.8%, and the overnight FX swaps volume took up the largest proportion, at 57.9%.

FX forward tenors range from 1Day to 5Year. The trading volume was RMB0.5 trillion in 2019 (see Figure 7). Specifically, USD/CNY forwards accounted for 92.5%.

The flexible application as well as possibility of volatility trading make FX options attractive instruments in FX market. FX options in the interbank market mainly include European vanilla options and option strategies. Tenors range from 1Day to 3Year. The trading volume was RMB4 trillion in 2019 (see Figure 8).

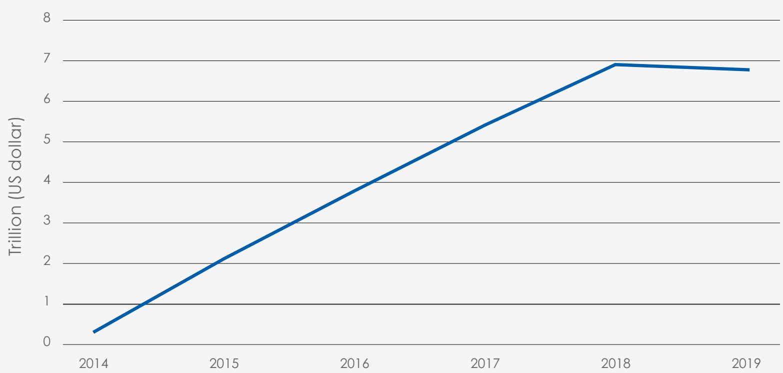
Development of RMB Derivatives
CCP Clearing Service

Following the 2008 financial crisis, Shanghai Clearing House launched the CCP clearing service for RMB interest rate swaps, making China the third country in the world to implement mandatory centralised clearing of OTC financial derivatives. Currently, Shanghai Clearing House provides various centralised clearing services for RMB interest rate and FX derivatives, covering mainstream reference rates and maturities. In terms of regulatory recognition, Shanghai Clearing House has been recognized as a Qualified Central Counterparty (QCCP) by People's Bank of China and received the "No-Action Relief" issued by the Commodity Futures Trading Commission (CFTC), and is now in the process of applying cross-border regulatory recognition of "Third Country Central Counterparty" (TC-CCP) from the EU.

Interest rate derivatives centralised clearing mainly covers RMB interest rate swaps and standard bond forwards. The centralised clearing of interest rate swaps accounted for 98.52% of the interest rate swaps market share in 2019. Overseas participants contribute 15% of the trading volume.

The centralised clearing of FX derivatives mainly includes FX forward, swap and option. The centralised clearing volume of FX derivatives was USD6.81 trillion in 2019 (see Figure 9). Foreign banks accounted for 27% of the FX derivatives centralised clearing participants.

Figure 9: FX derivatives centralised clearing volume



Source: Shanghai Clearing House

The Broad Prospects for RMB Hedging Tools Development

Since the reform and opening up, China's bond market has developed rapidly, and the depth and breadth of the market have continued to expand. Looking ahead, China's bond market is expected to increase its opening up efforts in policy formulation, product innovation and market environment to provide more convenience for overseas investors.

In terms of opening up policy, China's bond market has continued to open up to the rest of the world. There are also improvements in the derivatives sector. Firstly, FX derivatives market services are becoming more convenient. Foreign investors are allowed to select banks other than clearing agents to handle FX derivative transactions and the requirements for hedging by foreign institutional investors are simplified. Secondly, the clearing agents model is about to be introduced to open up the interest rate derivatives market. Some foreign institutions are actively negotiating with their clearing agents, general clearing members and counterparties, and are expected to conclude the first centralised cleared RMB interest rate swap transactions within the year.

In terms of product innovation, there is still room for the expansion of RMB derivatives. The first goal is to diversify underlying rates of interest rate derivatives, and enrich the risk management tools for foreign investors. The second goal is to increase the types of credit derivatives. Learning from the experience of the international market, China will conduct research on credit default swap index to better meet foreign investors' hedging needs.

For market condition, China will keep on improving the policies for derivatives market. Firstly, the legal framework is expected to improve. China's regulators have been giving a great amount of attention to the issue of close out netting. The relevant legislation and regulations are expected to clarify that the counterparties of domestic financial institutions can implement close out netting in accordance with the relevant provisions of the effective contract, which are not affected by bankruptcy filing. Secondly, accounting rules for hedging is expected to be applied. Domestic accounting firms are actively promoting the application of hedge accounting by financial institutions, thus facilitating the linkage between hedging instruments and hedged positions, promoting the application of derivatives in risk management.

Currently, RMB has become the fifth largest international payment currency in the world, with more than 60 foreign central banks or monetary authorities including RMB in their official foreign exchange reserves, providing overseas investors with diversified RMB-denominated financial assets. Enriching RMB investment channels has become the focus of development in the next stage. Looking ahead, China's financial market will keep increasing its opening up efforts.

Latest Policies and Major Events

On 16th October, the People's Bank of China (PBoC) and the State Administration of Foreign Exchange (SAFE) further facilitate investment by overseas institutional investors in the interbank bond market, by implementing requirements for high quality opening up. The initiative allows an overseas entity to conduct non-transactional transfers of its bond holdings between its bond account under the QFII/RQFII item and its bond account under the item of direct investment, and to transfer funds directly between its fund accounts. Moreover, an overseas entity who invests in the interbank bond market through the above-mentioned channels shall need to file with relevant authorities only once.

On 17th October, Governor of the PBoC Yi Gang had a bilateral meeting with UK Chancellor of the Exchequer Sajid Javid. They exchanged views on China and UK economic and financial developments, bilateral financial cooperation, China's financial reform and opening-up as well as other related issues.

On 18th October, Governor of the PBoC Yi Gang had a meeting with his UK counterpart, Governor of the Bank of England Mark Carney. The meeting covered discussions on global economic developments, Brexit, deepening China-UK financial cooperation, digital currency and other related issues.

On 25th October, with the approval of the State Council, the PBoC and the European Central Bank (ECB) extended a bilateral currency swap agreement in the amount of RMB350 billion, or EUR45 billion. The agreement will be valid for a three-year period and can be extended on mutual consent.

On 7th November, the PBoC successfully issued two sets of RMB-denominated central bank bills in Hong Kong, including RMB20 billion of three-month bills and RMB10 billion of one-year bills, with the bid-winning interest rate at 2.90% for both.

On 29th November, the China Banking and Insurance Regulatory Commission (CBIRC) released the newly revised Regulations on Foreign-funded Insurance Companies (hereinafter referred to as the "Implementation Rules"). The revised Implementation Rules relaxes the restrictions on foreign ownership of joint-venture life insurance companies and lifts the foreign ownership up to 51%. It also reserves regulation space for the complete removal of the restrictions on foreign ownership in due course in 2020. The Implementation Rules relaxes the market entry requirements for foreign-funded insurance companies and removes entry requirements such as "30 years of operation" and "setting up representative offices as precondition." The revised Implementation Rules also requires foreign-funded insurance companies to have at least one normal-operating insurance company as the main share holder, and further clarifies the responsibilities and obligations of the main shareholders. In terms of unifying the regulatory standards for domestic and foreign-funded companies, the Implementation Rules removes provisions on the management of branches of foreign-funded insurance companies. Policies on foreign-funded insurance companies in setting up branch offices are in line with those on Chinese insurance companies.

On 5th December , with the approval of the State Council, the PBoC signed a bilateral local currency swap agreement with the Monetary Authority of Macao for the purpose of safeguarding financial stability and supporting economic and financial development in both economies. The size of the swap facility is RMB30 billion/MOP35 billion. The agreement is valid for three years and can be extended upon mutual consent.

On 8th-10th December, the PBoC and the World Bank co-hosted the Global Summit on Reserves Management in Beijing. More than 100 senior representatives from over 40 central banks, international organisations, academia and financial institutions joined the event, and discussed topics such as global financial market, RMB internationalisation, FinTech and public asset management. The Governor of the PBoC Yi Gang and Deputy Governor Pan Gongsheng attended the summit.

Appendix I List of Dim Sum Bond (RMB Bond) Issuance in London

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
First Abu Dhabi Bank PJSC	240000000	3.5	29/11/2019	29/11/2024
Australia & New Zealand Banking Group Ltd	200000000	3.21	21/11/2019	21/11/2024
First Abu Dhabi Bank PJSC	458000000	3.42	20/11/2019	20/11/2024
Qnb Finance Limited	140000000	3.57	13/11/2019	13/11/2021
Agricultural Development Bank Of China	3000000000	3.4	07/11/2019	06/11/2024
Agricultural Development Bank Of China	2500000000	3.18	07/11/2019	06/11/2022
Natwest Markets PLC	200000000	3.69	05/11/2019	05/11/2024
First Abu Dhabi Bank PJSC	845000000	3.22	23/10/2019	23/10/2024
Qnb Finance Limited	165000000	3.6	22/10/2019	22/10/2024
European Bank For Reconstruction & Development	490000000	2.44	19/09/2019	19/09/2022
First Abu Dhabi Bank PJSC	140000000	3.44	19/09/2019	19/09/2024
European Bank For Reconstruction & Development	700000000	2.315	03/09/2019	03/09/2022
Lloyds Bank PLC	200000000	3.31	03/09/2019	03/09/2024
Commonwealth Bank Of Australia	200000000	3.05	01/08/2019	01/08/2022
Qnb Finance Limited	155000000	3.815	03/07/2019	03/07/2024
Qnb Finance Limited	140000000	4.3	20/06/2019	20/06/2024
Lloyds Bank PLC	70000000	3.45	19/06/2019	19/06/2022
Westpac Banking Corporation	140000000	3.6	18/06/2019	18/06/2026
Natwest Markets PLC	108000000	4.35	10/06/2019	10/06/2024
Natwest Markets PLC	105000000	4.39	10/06/2019	10/06/2024
Agricultural Development Bank Of China	1000000000	3.23	30/05/2019	29/05/2022
Hitachi Capital (UK) PLC	100000000	3.65	08/05/2019	08/05/2023
Qnb Finance Limited	200000000	3.8	25/04/2019	25/04/2022
Australia & New Zealand Banking Group Ltd	150000000	3.535	24/04/2019	24/04/2023
Australia & New Zealand Banking Group Ltd	140000000	3.47	23/04/2019	23/04/2022
Qnb Finance Limited	100000000	4.18	29/03/2019	28/03/2024
Westpac Banking Corporation	150000000	3.68	27/03/2019	27/03/2024
First Abu Dhabi Bank PJSC	140000000	3.955	26/03/2019	26/03/2024
Australia & New Zealand Banking Group Ltd	135000000	3.675	25/03/2019	25/03/2024
Westpac Banking Corporation	150000000	3.67	22/03/2019	22/03/2024
Natwest Markets PLC	40000000	4.62	20/03/2019	20/03/2024
First Abu Dhabi Bank PJSC	300000000	4	19/03/2019	19/03/2024
Australia & New Zealand Banking Group Ltd	300000000	3.7	18/03/2019	18/03/2024
Commonwealth Bank Of Australia	250000000	3.805	11/03/2019	11/03/2024
Commonwealth Bank Of Australia	150000000	3.805	05/03/2019	05/03/2024
Westpac Banking Corporation	150000000	3.76	04/03/2019	04/03/2024
European Bank For Reconstruction & Development	300000000	2.6	28/02/2019	28/02/2020
Qnb Finance Limited	135000000	3.925	28/02/2019	28/02/2021
First Abu Dhabi Bank PJSC	200000000	4.12	11/02/2019	11/02/2024
Qnb Finance Limited	500000000	4.35	29/01/2019	29/01/2022
Qnb Finance Limited	135000000	4.6	23/01/2019	23/01/2024
Hitachi Capital (UK) PLC	200000000	4.75	29/10/2018	29/04/2022

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
Westpac Banking Corporation	200000000	4.7	12/10/2018	12/10/2022
Hitachi Capital (UK) PLC	**600000000**	**4.6**	**27/09/2018**	**27/09/2021**
Royal Bank Of Canada	140000000	4.3	20/09/2018	20/09/2020
Bank Of Montreal	200000000	4.53	19/09/2018	19/09/2021
Bank Of Montreal	155000000	4.72	19/09/2018	19/09/2023
Australia & New Zealand Banking Group Ltd	270000000	4.795	14/09/2018	14/09/2023
Australia & New Zealand Banking Group Ltd	140000000	4.61	13/09/2018	13/09/2023
Australia & New Zealand Banking Group Ltd	145000000	4.62	11/09/2018	11/09/2023
Australia & New Zealand Banking Group Ltd	137000000	4.6	11/09/2018	11/09/2023
First Abu Dhabi Bank PJSC	650000000	4.5	10/09/2018	10/09/2021
Royal Bank Of Canada	160000000	4.48	07/09/2018	07/09/2023
Westpac Banking Corporation	190000000	4.6	07/09/2018	07/09/2023
Westpac Banking Corporation	160000000	4.621	07/09/2018	07/09/2023
Commonwealth Bank Of Australia	80000000	4.52	07/09/2018	07/09/2023
Australia & New Zealand Banking Group Ltd	140000000	4.6	04/09/2018	04/09/2023
Australia & New Zealand Banking Group Ltd	140000000	4.3	24/08/2018	24/08/2021
Australia & New Zealand Banking Group Ltd	138000000	4.63	24/08/2018	24/08/2023
Westpac Banking Corporation	270000000	4.65	23/08/2018	23/08/2023
Westpac Banking Corporation	140000000	4.35	15/08/2018	15/08/2023
Westpac Banking Corporation	627000000	4.42	14/08/2018	14/08/2023
Westpac Banking Corporation	140000000	4.51	01/08/2018	01/08/2028
Royal Bank Of Canada	135000000	4.3	17/07/2018	17/07/2023
Qnb Finance Limited	142000000	5.32	05/07/2018	06/07/2021
Qnb Finance Limited	1250000000	5.25	21/06/2018	21/06/2021
Qnb Finance Limited	600000000	5.2	07/06/2018	07/06/2021
First Abu Dhabi Bank PJSC	1100000000	4.8	01/06/2018	01/06/2021
Westpac Banking Corporation	200000000	4.77	30/05/2018	30/05/2023
Credit Agricole Corp & Inv Bank	200000000	4.72	29/05/2018	29/05/2023
Qnb Finance Limited	1000000000	5.1	14/05/2018	14/05/2021
Commonwealth Bank Of Australia	340000000	4.615	26/04/2018	26/04/2023
First Abu Dhabi Bank PJSC	900000000	4.8	29/03/2018	29/03/2021
Qnb Finance Limited	200000000	5.5	20/03/2018	20/03/2021
Hitachi Capital (UK) PLC	80000000	4.78	16/03/2018	16/04/2021
Qnb Finance Limited	130000000	5.465	09/03/2018	09/03/2020
Qnb Finance Limited	750000000	5.1	09/03/2018	08/03/2021
Hitachi Capital (UK) PLC	50000000	4.6	27/02/2018	22/02/2022
Commonwealth Bank Of Australia	64000000	4.39	30/01/2018	30/01/2021
Credit Agricole Corp & Inv Bank	50000000	4.55	29/01/2018	29/01/2021
Westpac Banking Corporation	500000000	4.35	19/01/2018	19/01/2021
First Abu Dhabi Bank PJSC	110000000	4.6	30/11/2017	30/11/2020
International Finance Corporation	19000000	3.9	13/11/2017	13/11/2020
Hitachi Capital (UK) PLC	500000000	4.5	09/11/2017	09/10/2020
Commonwealth Bank Of Australia	1500000000	4.2	26/10/2017	26/10/2020
Hitachi Capital (UK) PLC	184000000	4.4	13/10/2017	13/10/2020

Issuer	Amount Issued (Rmb)	Coupon (%)	Issue Date	Maturity
International Finance Corporation	75000000	3.91	11/10/2017	11/10/2022
Royal Bank Of Canada	900000000	4.25	29/09/2017	29/09/2020
Lloyds Bank PLC	30000000	5.23	31/03/2017	31/03/2022
Commonwealth Bank Of Australia	70000000	5.81	18/01/2017	18/01/2022
Hitachi Capital (UK) PLC	300000000	4.67	19/12/2016	19/12/2019
Qnb Finance Limited	130000000	5.33	15/12/2016	15/12/2019
Westpac Banking Corporation	65000000	4.8	15/12/2016	15/05/2020
Commonwealth Bank Of Australia	120000000	4.65	07/12/2016	07/12/2021
Australia & New Zealand Banking Group Ltd	130000000	4.35	23/11/2016	23/11/2021
Commonwealth Bank Of Australia	90000000	4.06	02/11/2016	02/11/2021
Commonwealth Bank Of Australia	100000000	3.85	27/07/2016	27/07/2020
Westpac Banking Corporation	130000000	4.19	12/05/2016	12/05/2021
Westpac Banking Corporation	190000000	4.39	20/04/2016	20/04/2020
Commonwealth Bank Of Australia	180000000	5.07	07/03/2016	07/03/2021
Credit Agricole Corp & Inv Bank	125000000	4.1	05/08/2015	23/07/2020
Credit Agricole Corp & Inv Bank	50000000	4.2	05/08/2015	05/08/2020
Australia & New Zealand Banking Group Ltd	405000000	4	28/07/2015	28/07/2020
Lloyds Bank PLC	100000000	4.4	24/07/2015	24/07/2020
Lloyds Bank PLC	54000000	4.53	24/07/2015	24/07/2025
First Abu Dhabi Bank PJSC	200000000	4.79	17/03/2015	17/03/2020
China Development Bank	900000000	4.35	10/10/2014	19/09/2024
Lloyds Bank PLC	200000000	4.62	17/01/2014	17/01/2024
Lloyds Bank PLC	100000000	4.61	24/09/2012	24/09/2022

Source: London Stock Exchange

Appendix II Summary of Bond Issuance by Oversea Issuers in China Interbank Bond Market

Type of issuer		Registration Amount (bn)	Issued Amount (bn)	Outstanding Amount (bn)	Issue Number
International Development Organization	ADB	2	2	1	2
	IFC	2	2	0	2
	NDB	13	6	6	3
Governments	ROK	3	3	0	1
	BC, Canada	6	4	1	2
	Poland	6	3	0	1
	Hungary	3	3	3	2
	UAE	3	2	2	1
	Saxony Germany	6	-	0	0
	Philippine	7.46	3.96	3.96	2
	Portugal	5	2	2	1
	Austria	7	-	-	
Financial Institutions	HSBC HK	1	1	0	1
	BOC HK	10	10	0	2
	Standard Chartered HK	2	1	1	1
	Chong Hing Bank	3	1.5	0	1
	National Bank of Canada	5	3.5	0	1
	Citic Bank International	3	3	3	1
	Bank of Malaya	6	3	3	3
	Mizuho Bank	0.5	0.5	0.5	1
	Bank of Tokyo-Mitsubisi UFJ	3	1	1	1
	ABC International	3	3	3	1
	CCB Asia	6	-	-	-
	Wing Lung Bank	10	-	-	-
	ICBC Asia	3	-	-	-
	United Overseas Bank	2	2	2	1
	Cassa Depositi e Prestiti S.p.A	5	1	1	1
	Crédit Agricole	5	-	-	-

Type of issuer		**Registration Amount (bn)**	**Issued Amount (bn)**	**Outstanding Amount (bn)**	**Issue Number**
Non-financial Institutions	Daimler	95	57	28	24
	China Merchants HK	3	0.5	0	1
	China Resources Land	30	20	18	7
	SMIC	14	8.6	5	6
	Veolia Environment	15	2	0	2
	China Resources Cement	13.5	3.5	3	2
	Hengan International	5	2	0	1
	SINOTEC	12	6.5	4.5	4
	Wharf	20	6	2	2
	CNTHM	9.5	7.3	4.8	3
	China Merchant Port	10	4	2.5	2
	GLP	10	7.6	7.6	6
	Joy City	10	1	1	1
	CPCED	5	0.8	0.8	1
	China Jinmao	16	8	8	3
	China Gas	9.6	4.8	4.8	3
	Huarong International	3	3	3	1
	COSCO	10	10	10	4
	BOC Group Investment	8	3.5	3.5	2
	Kunlun Energy	10	-	0	0
	Shimao Properties	8	-	0	0
	Longfor Properties	8	2	2	2
	Sun Hung Kai Properties	10	1.2	1.2	1
	Country Garden	9.5	-	0	0
	China Mengniu	15	3	3	3
	China Orient International Asset Management Limited	2.8	-	0	0
	China Water Affairs Group Limited	3	0.2	0.2	1
	Hang Lung Properties	10	1	1	1
	Air Liquide S.A	10	2.2	2.2	2
	Yuexiu Tranport	2	-	0	0
	Trafigura Group	2.35	2.24	2.24	4
	BEWG	8	8	8	6
	Want Want China	8	0.5	0	1
	BMW	20	9.5	9.5	3
Total (RMB Bond)		556.21	247.4	169.3	131
International Bank for Reconstruction and Development (IBRD)		18.63	4.65	4.65	1
		(2 bn SDR)	(0.5 bn SDR)	(0.5 bn SDR)	
Standard Chartered HK		0.93	0.93	0	1
		(100 M SDR)	(100 M SDR)	(100 M SDR)	
Total (RMB Equivalent)		**575.77**	**252.98**	**169.3**	**133**

Source: National Association of Financial Market Institutional Investors

Appendix III Currency swap between China and the UK

In June 2013, the PBoC and BoE signed a bilateral currency swap agreement of RMB200 billion/GBP20 billion. In October 2015, the PBoC and BoE renewed the swap agreement and increased the size to RMB350 billion/GBP35 billion, effective for three years. In November 2018, the PBoC and BoE renewed the swap agreement again and the scale remained unchanged, effective for three years.

Clearing bank

In March 2014, the PBoC and BoE signed a Memorandum of Understanding to establish RMB clearing arrangements in London. In June 2014, the PBoC authorized China Construction Bank (London) to serve as the RMB clearing bank in London. In July 2016, the PBoC approved the transfer of clearing functions from China Construction Bank (London) to China Construction Bank, London Branch. By the end of November 2019, Cross-Border Inter-Bank Payments System (CIPS) had 1050 indirect participating banks, adding 39 since our last report. Among them, 15 participating banks were from the UK, accounting for 1.43% of the total.

RQFII

In October 2013 China announced the RQFII program for UK with a quota of RMB80 billion. In a bit to deepen the reform and opening up of the financial market, China removed the investment quota limits under the RMB qualified foreign institutional investors (RQFII) on 10th September 2019.