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# Flash Notes

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## China: Direct Trading of RMB with SGD To Start

Monetary Authority of Singapore (MAS) announced today (Tue 22 Oct 2013) a number of initiatives to strengthen cooperation with China. The most relevant to RMB internationalization are as follows:

1. China to extend Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore with a quota of RMB50bn, allowing Singapore-based investors to invest in China's securities markets using offshore RMB;
2. China to consider Singapore as one of the investment destinations under the Renminbi Qualified Domestic Institutional Investor (RQDII) scheme, allowing Chinese institutional investors to use RMB to invest in Singapore;
3. Direct trading of CNY and SGD will commence (details to be announced separately);
4. Studying of measures to allow cross-border flows of RMB between Singapore and Suzhou Industrial Park (SIP) as well as Tianjin Eco-City (TEC).

### Implications

**The above announcements suggest that, under the new government led by Xi Jinping and Li Keqiang, the pace of China's financial sector reforms, including RMB internationalization, is continuing unabated.** This also came close on the heels of recent announcements of the Shanghai Free Trade Zone, signing of currency swap agreement with the ECB, and extending the RQFII program to British-based investors.

**At the same time, this development also reaffirms and strengthens Singapore's position as an offshore RMB center,** as investment backflow channel (RQFII) has been opened up (Singapore to China), and investment flow from China to Singapore (RQDII) is now being considered, and that cross-border flows of RMB between Singapore and China (via Suzhou Industrial Park and Tianjin Eco-City) are also in the works. Singapore's position within ASEAN also allows the capturing of RMB flows as China and ASEAN intensifies trade and investment relations.

**In addition, joining the likes of USD, JPY, and AUD, direct trading between CNY and SGD is now confirmed. This will further facilitate the use of RMB** – whether for trade or investments – within the ASEAN region as the central parity for CNYSGD will be calculated from the direct quotes offered by market-makers, instead of deriving from the cross rates between the central parity of USD/CNY the exchange rate of USD/SGD. This will help price discovery and transparency, and lower costs of conversion. While the direct CNYSGD trading may not have significant impact in the short term from the end-user's point of view, it will help to push forward internationalization of the RMB and also the use of the currency in bilateral trade and investment. Going by the experience of Australian dollar, direct trading with CNY commenced days after the then-Australian PM Julia Gillard's official announcement on 8 April 2013 in China.

**The announcement is also consistent with China's initiatives recently to strengthen economic ties with ASEAN** during the APEC and ASEAN summits in early October by China's leaders Xi Jinping and Li Keqiang. This means that the use of RMB within ASEAN, both for trade and investment (inbound and outbound direct investment, and also portfolio investments) is expected to accelerate with Singapore playing an important role as an offshore RMB center.

For example, China-ASEAN two-way trade is expected to more than double to US\$1 trillion by 2020 from around US\$400 billion in 2012, while cumulative two-way China-ASEAN investments could top US\$150 billion by 2020, from the cumulative US\$100.7 billion at end-2012 (of which investment from China accounted for 23.4% and the rest from ASEAN at 76.6%).

In 2012, China's investment in ASEAN was US\$4.42 billion, up 52% from 2011, and accounting for 38.5% share of the bilateral China-ASEAN investment flow of US\$11.49 billion.

From 2002 to 2012, China-ASEAN bilateral trade climbed a compounded 22% rate annually, from US\$55bn in 2002 to US\$400 billion in 2012. China is the largest trade partner for ASEAN, and ASEAN is China's third-largest trade partner.

*More details on the MAS news release: "New Initiatives to Strengthen China-Singapore Financial Cooperation" dated 22 Oct 2013*

<http://www.mas.gov.sg/news-and-publications/press-releases/2013/new-initiatives-to-strengthen-china-singapore-financial-cooperation.aspx>

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