

## China: CIPS Propels Further RMB Internationalization

### Cross-Border Interbank Payment System Kicking Off

China announced this morning (Thur 8 Oct) another step forward in RMB internationalization, with the launch of first phase of the Cross-Border Interbank Payment System (CIPS) in Shanghai. The CIPS aims to facilitate cross-border capital settlement and clearing services transactions for financial institutions onshore China and abroad. This new system would promote cross-border flows of RMB, enhance efficiency, and thus increase global use of the RMB by reducing costs and processing times, in internationally accepted message format. This is in contrast to the previous methods of either through one of the offshore RMB clearing banks (e.g. in Singapore), or else with the help of a corresponding bank in China, via the China National Advanced Payment System (CNAPS), the domestic funds transfer system that supports messages in Chinese only. However, as international payments use the English-language Swift messaging system, and more offshore RMB centers are established globally, manual translation can be involved and increasingly cumbersome, and adds to costs.

The CIPS, developed and administered by the PBoC since 2012, enables market participants outside China to clear RMB transactions with their Chinese counterparts directly from 9 am to 8 pm (Beijing time) during any working day, thus covering the major time zones, and under a coding format in line with international practice (ISO20022). This will speed up the process and reduce costs in doing so, which will have positive impact on the adoption and use of RMB internationally. A total of 19 onshore mainland and foreign banks will be direct participants in the first phase, along with 38 domestic banks and 138 foreign banks based in Asia, Europe, and Africa as indirect participants.

The implementation of CIPS is in line with China's Premier Li Keqiang's call at the World Economic Forum in Dalian in Sep that the launch will take place by end of 2015, as the usage and prominence of RMB increases globally. SWIFT reported recently that the RMB has overtaken the Japanese yen and moved into fourth place with a 2.9% share as payments currency, and that over the last three years the RMB has jumped past seven currencies, from Aug 2012 when it was ranked 12th with a share of just 0.84%.

### Risks of Large Scale RMB Depreciation Remain Low

Putting into context, the 11 Aug RMB central parity reform/devaluation – which touched off a storm in global financial markets – was not to start a “currency war” or depreciate out of the current slowdown. The move was clearly aimed at the Special Drawing Rights (SDR) review decision later this year. IMF and World Bank begin their annual meetings in Lima, Peru later this week (9-11 Oct).

Along with the above and other initiatives (e.g. allowing foreign central bank-type institutions to participate in onshore FX markets, reporting of reserves data to IMF, adopting of IMF's SDDS data dissemination standards, among others), the CIPS is yet another platform for market reform and to connect with the global system to increase the usage of the RMB. As such we still see a fairly low probability for a large scale or prolonged depreciation of the RMB, at least not in the next few months. However, as the RMB becomes more market-determined and flexible, we should expect more two way fluctuations of the RMB as it responds to market developments and news, and therefore the increased importance to manage FX and market risks.

As the SDR decision draws near, we should anticipate further market/capital account opening measures, such as RMB band widening, to surface in the weeks ahead. An SDR decision in favour of China should be positive for the RMB, and we are still pegging such probability at 60%. We maintain our end-2015 RMB forecast at 6.50/USD, and at 6.56/USD for end-2016, as the uncertainty over US Fed rate “liftoff” could keep the USD supported.

### Links

人民币跨境支付系统（一期）成功上线运行 Implementation of CIPS (Phase 1), 8 Oct 2015

<http://bit.ly/pbc-CIPS-20151008>

人民币跨境支付系统（一期）答记者问 CIPS (Phase 1) Q&A, 8 Oct 2015

<http://bit.ly/pbc-CIPS-QA-20151008>

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