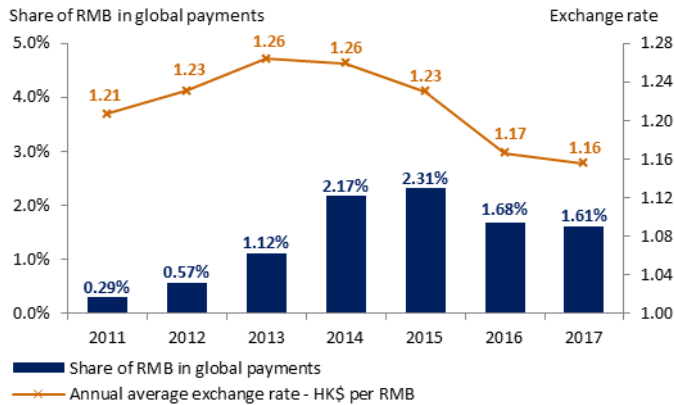




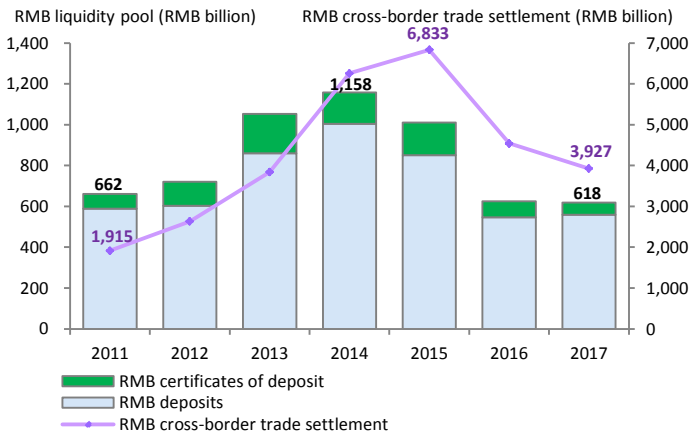
Offshore Renminbi Business in Hong Kong

Figure 1 – Exchange rate of RMB and share of RMB in global payments



Note: Share of RMB in global payments as at end of the year.

Figure 2 – RMB liquidity pool and cross-border trade settlement in Hong Kong



Note: RMB certificates of deposit and deposits as at end of the year.

Figure 3 – Outstanding amount of RMB loans and bonds in Hong Kong

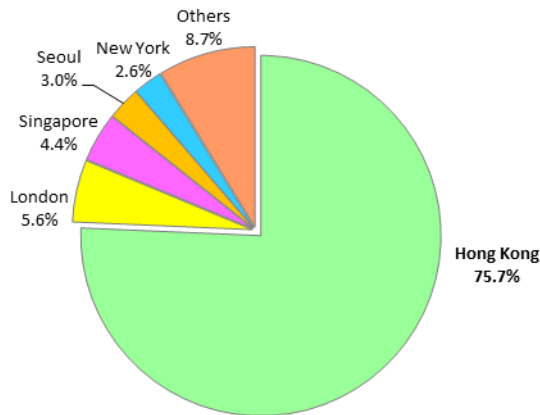
	(RMB billion)	
	Outstanding RMB loans	Outstanding RMB bonds
2011	31	147
2012	79	237
2013	116	310
2014	188	381
2015	297	368
2016	295	319
2017	145	212

Note: Figures as at end of the year.

Highlights

- Ever since the initiation of cross-border trade settlement in renminbi ("RMB") at mid-2009, Hong Kong has become a leading global hub in offshore RMB business. However, offshore RMB business across the globe has slackened visibly in recent years, affected by increased volatility of the exchange rate of RMB due to the global strength of the US dollar.
- Reflecting this trend, the exchange rate of RMB against the HK dollar has depreciated by a total of 8% over the past three years on an annual average basis, despite a rebound in the second half of 2017. RMB as a global payment currency has thus declined in importance, with its share in total value of international payments falling noticeably from 2.3% at end-2015 to 1.6% at end-2017 (Figure 1).
- Hong Kong could not be immune from this global slackening in offshore RMB activity. On **RMB liquidity pool** (sum of deposits and certificates of deposit), it has contracted by 47% in three years to RMB 618 billion (HK\$733 billion) at end-2017. **RMB trade settlement** likewise weakened, with its annual value falling by 43% in two years to RMB 3,927 billion (HK\$4,536 billion) in 2017 (Figure 2).
- On **offshore RMB financing**, the outstanding balance of RMB loans had experienced exponential growth to hit a high of RMB 297 billion (HK\$354 billion) at end-2015, before halving by 51% to RMB 145 billion (HK\$171 billion) at end-2017. By a similar token, outstanding balance of RMB bonds also fell by 42% over the same period (Figure 3).

Figure 4 – Global share of RMB payments in 2017



Highlights

- There are concerns whether Hong Kong could sustain its competitive edge in face of intensified competition from other global financial centres like London and Singapore. According to the recent statistics, Hong Kong still managed to account for a lion share of 76% in overall **cross-border RMB payments** all over the world in 2017, far ahead that of 6% in London and 4% in Singapore, mainly leveraging on its close economic ties with the Mainland (**Figure 4**).
- Contrary to the overall weakness in offshore RMB activity, **cross-border investment flows** staged a robust growth in 2017 through Shanghai-Hong Kong Stock Connect launched in November 2014 and Shenzhen-Hong Kong Stock Connect in December 2016. For the southbound investment flow, the daily turnover surged by 138% to hit a record high of HK\$4.9 billion in 2017, lifting its share in the daily turnover of the local stock market from 4.5% in 2016 to 7.5% in 2017 (**Figure 5**). According to some market analyses, sustained buying sprees from the Mainland have contributed in part to the 36% surge in the Hang Seng Index during 2017.
- As regards the northbound investment flow, there was likewise a buoyant increase of 103% in the average daily turnover in 2017, reaching a high of RMB 4.8 billion (HK\$5.6 billion). The share of northbound investment flow in the daily turnover of the two stock markets in the Mainland has thus doubled to 1% in 2017 (**Figure 6**).
- Most recently in July 2017, northbound trading of Bond Connect was launched, allowing overseas investors to invest in the Mainland interbank bond market. Continuous launch of new initiatives is expected to help entrench the leadership of Hong Kong in offshore RMB business.

Figure 5 – Average daily turnover in southbound trading of Stock Connect

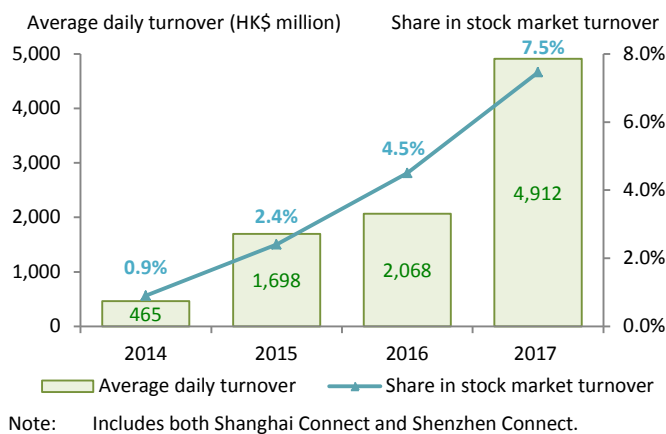
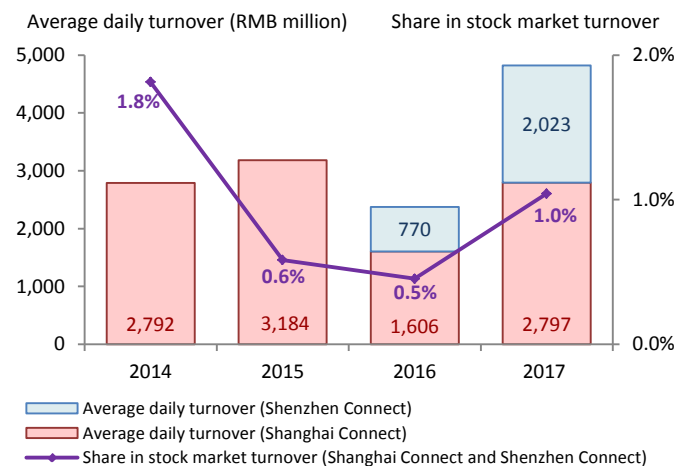


Figure 6 – Average daily turnover in northbound trading of Stock Connect



Data sources: Latest figures from the Hong Kong Monetary Authority, Census and Statistics Department, Society for Worldwide Interbank Financial Telecommunication, and Hong Kong Exchanges and Clearing Limited.

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