South China Morning Post

3 October 2016

Yuan globalisation draws foreign service providers

Reporter: Alun John

As the yuan becomes more internationalised and integrated into global markets, it has become necessary for foreign players offering services for traders to extend these services to those trading or settling in the Chinese currency.

One company taking this approach is British firm ICAP, which provides services and platforms for foreign exchange and fixed income trading.

In June ICAP was chosen by the China Foreign Exchange Trade System (CFETS), the country's official interbank market trading platform and infrastructure provider, to deliver the underlying technology for fixed income and foreign exchange electronic execution services on the mainland.

Speaking to the South China Morning Post last week, ICAP chief executive Michael Spencer, on his way to a further meeting with CFETS, described the deal as "very exciting".

ICAP first started working with CFETS 10 years ago, setting up a joint venture in Shanghai, and even back then it seemed necessary to be in China.

"As the world's leading interdealer broker, it would have been a major strategic fault not to set up an operation in China," Spencer said.

Since then the role of the yuan in foreign exchange markets and global trade has grown significantly. According to the Bank of International Settlement's triennial survey published earlier this month, as of April 2016 the yuan had overtaken the Mexican peso to become the most traded emerging market currency. In that month, the yuan's average daily turnover stood at US$202 billion, up from just US$34 billion in 2010; making it the eighth most traded currency in the world.

The competition to provide the platforms on which this trade takes place, and provide services to the traders is fierce, in Hong Kong, as well as in major currency trading centres around the world.

ICAP is changing too, and by the end of this year will have transformed into primarily a financial technology company under the name of NEX Group.

In August this year, the yuan regained its position as the fifth most used currency for payment from the Canadian dollar, according to Swift data.

At one point - in August 2015 - the yuan had overtaken the Japanese yen to be the fourth most used currency for payment, but it has since slipped back, partly due to its sudden devaluation last summer.

Nonetheless, Spencer is optimistic that the yuan will continue to internationalise.

"I think there are strong structural growth prospects for the yuan's internationalisation, even though the pace is slowing at the moment. I expect that in the future the yuan will be one of two global reserve currencies."

On October 1 the yuan took an important symbolic step towards this reserve currency status by being included in the IMF's special drawing rights basket.

Commenting on the move, Standard Chartered's regional chief executive, greater China and north Asia, Benjamin Hung said: "We are confident China will continue liberalising the currency at an appropriate pace and that the yuan will become the third major currency in the world by 2020."

Should this prediction prove to be correct, there will be much more yuan trading, requiring a greater number of companies both in China and around the world to service this trade.

CURRENCIES

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Brexit leaves HK firms on edge

Reporter: Alun John

Britain's vote to leave the European Union also seen as long-term gain as separation may drive business from both economies eastward, experts say

Saturday marked 100 days since Britons voted to leave the European Union, but the continued uncertainty surrounding when, and on what terms, Britain will depart from the European Union has been making life difficult for companies doing business in Hong Kong.

However, some Asian analysts are optimistic that in the longer term a divorce between the EU and its second largest economy might drive businesses from both eastwards, with Hong Kong well placed to benefit.

"Brexit means Brexit" has been the mantra of Britain's new prime minister Theresa May, and while this is hard to disagree with on grounds of logic, it is less than informative about what Britain's relationship with the EU will be like after it leaves.

"In the longer term, the uncertainly as to Britain's relationship with EU will cause problems for Hong Kong companies invested in the UK," said David Poon, the Hong Kong Trade Development Council's principal economist for global research.

"A number of Hong Kong companies have already indicated they would move some of their investments out of the UK if it were not to have good access to the EU [after Britain leaves]."

Not only might these companies' new destinations be less attractive, the move would entail significant costs.

From a human resources standpoint the vote is already having an effect. "There is a lot of uncertainty among companies I talk to who do business in Hong Kong specifically, and Asia-Pacific - both those headquartered in Europe and in the region. Many are putting their recruitment on hold until the situation becomes a little clearer," said Nick Marsh, Asia-Pacific managing director for executive search at Harvey Nash.

At present, Britain remains a member of the European Union and formal negotiations on its relationship with the EU will begin after the country invokes article 50 of the European Union, which, according to a statement from the president of the European Council, Donald Tusk, is likely to occur in early 2017.

It is also uncertain at this stage whether this will take the form of a "soft-Brexit" in which Britain retains some access to the EU's single market or customs union, or a "hard Brexit", where it does not.

"I don't think anyone, not even the UK negotiators, knows at the moment what sort of arrangement we will finish up with," said Paul Irwin-Crookes, a lecturer in international China relations at the University of Oxford.

While Britain remains in the EU any impact on companies is more a result of market sentiment, and that is especially true in the currency markets where the pound has dropped 12.6 per cent against the Hong Kong dollar since the referendum.

However, despite Hong Kong imports to Britain now being more expensive, 83 per cent of exporters said they had not felt any impact of Britain's vote to leave the EU, according to a poll by the Trade Development Council.

So far, Britain's economic figures have held up better than predicted. Part of the reason is because the government has taken action to stimulate the economy by cutting interest rates, and last week launched a programme to buy corporate bonds from a list of companies that "make a material contribution to the UK economy". The list includes Hong Kong's Hutchison Whampoa.

One area where there is particular uncertainty is in the financial services sector, a key contributor to British gross domestic product. Under the current so-called passporting system, British banks, or international banks with their regional headquarters in Britain, have access to the EU's single market. It is unlikely that this would remain the case in a "hard Brexit".

"I think the UK will have to manage things carefully to make sure that the financial services industry emerges from Brexit without significant damage," said ICAP chief executive Michael Spencer.

However, Spencer believes that even if London should lose out, Hong Kong is unlikely to pick up much of the lost work.

"There is a logic to having financial hubs in different time zones, so post-Brexit, London is unlikely to lose ground to Hong Kong," he said.

As for talent, Hong Kong may be benefiting from the uncertainty in Europe and Britain following the referendum.

"We are seeing large numbers of Europeans looking for work in Hong Kong, and Asia more broadly," said Nash. "The rate picked up this spring, when the uncertainty with Brexit started, so there could be a relationship." The same is likely to apply to companies.

"After the UK leaves the EU, we can expect to see more British and even European companies looking to Asia. Hong Kong is well placed to play a large role in this," Poon said.

However, the politics of British companies looking abroad may not be easy to handle.

"The UK will look to build on its economic relationships with new friends, like China, and also old friends like the United States," said Irwin-Crookes. "If the situation in the South or East China Sea were to deteriorate, that could leave the UK caught in the headlights."

TRADE

BREXIT LEAVES HK FIRMS ON EDGE

Britain's vote to leave the European Union also seen as long-term gain as separation may drive business from both economies eastward, experts say

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Future of over Britain's position with EU may affect Hong Kong.

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