Hello and welcome to today’s master class on the internationalisation of the Chinese currency, the renminbi. My name is Brian Caplen, editor of The Banker; I’m here with Alexandra Gropp, who is regional head of Renminbi Solutions Europe for Standard Chartered. Alexandra, let’s talk now about the dim sum market. First of all, tell me what a dim sum market is. It’s not something to eat, is it? [Laughs]

No, the dim sum bond market – unfortunately not. The dim sum bond market is basically the CNH, so the offshore market, bond market, for corporates and financial institutions to raise CNH funds in. So, the investors participating in those issues are outside of China, so mainly Hong Kong, Singapore, and increasingly also we’re seeing investors in Europe and other regions participating. So, it’s an offshore market that’s been created to give, you know, to basically spur the usage of the RMB and give the liquidity that is created offshore, it’s for increasing usage of the RMB as trade currency and investment currency, to really facilitate that by also having investment products offshore.

Okay, and what sorts of issuers have we seen in the dim sum market so far?

The dim sum bond market has developed quite significantly. We’ve seen issuances from corporate to financial institutions, to development organisations, to governments. So it’s really quite a broad range of issuers in the market. All of them have slightly different motivations of tapping that market. For corporates, in particular the multinational corporates, they tend to tap these markets to really fund operations onshore. So, most of those funds are then, with approval, remitted to onshore China to fund expansion there.

Yeah. And you have to get approval, it’s not automatic.

No, it’s not automatic. It’s subject to what we call the foreign debt quota, so there will be a limit on what you can remit into China, and that’s still tightly controlled.

Okay. And that was for the corporates; what about other issuers like multilaterals and sort of, you know, quasi sovereign issuers; I mean, what’s their motivation?

Clearly the sovereigns, when we, for example, look at the China Ministry of Finance, who are sort of regularly in that market as well; they are clearly, you know, very keen to support the development of the market, also when it comes to the maturities available across the curve. So we’ve seen them issuing as long as 30 years in that market, to really create a liquid credit curve and a benchmark. Those issues obviously create good benchmarks for other credits coming to the market, so…

…So they can price off them, yeah.

Correct. So, you know, also to spur liquidity and support liquidity in that market, those issues are very important.

Okay, and what sort of size of market do we have now? Is it still relatively small, I presume, in terms of international terms?

Yes, in terms of international terms, clearly it is very small, but it is developing as one of sort of the biggest Asian local currency markets today. By the end of 2013, we saw roughly 570 billion CNH outstanding in the dim sum bond market, and we expect that to increase in 2014 to 750 billion RMB. So, quite significant. We see the issuance, the primary issuance, very well supported also by the increasing deposit base and liquidity that we are seeing offshore. And that, in turn, obviously increases-

You’ve got to find a home for the deposits.

Exactly. And that in turn, obviously, also increases, and is supported by, you know, the increasing usage of the RMB as payments currency. So, you know, when we are looking at sort of how cash is recycled, we are sort of coming to a bit of a circle in terms of,
you know, clearly cash moving onshore, and moving from onshore to offshore; so getting those channels right and allowing for a very balanced opening up is going to be very important for the internationalisation as well.

B. C. And what about the documentation, because sometimes that’s a bit of a challenge with operations in China, isn’t it? Does it work okay in the dim sum bond market?

A. G. Absolutely. I think all issuers are very, very comfortable with it, mainly because the issuers can actually use their medium-term note program to tap those markets, so in many ways it’s like issuing in any currency, but just tapping a different investor base. So, from a documentation point of view, it is a very simple and straightforward process. Most of these issues to date have been issued in what we call a Reg-S format, which means that US investors, for example, cannot participate directly in the primary market, which is something that potentially develops over time as transactions, you know, grow bigger and also develop in terms of maturity. That’s certainly something that would be good to see also, to help, you know, spur that liquidity.

B. C. And on liquidity, I mean, is that one of the challenges that the market faces? That it doesn’t have sufficient liquidity at the moment?

A. G. I think it is. And I think it’s a challenge for some of the investors that would clearly like to participate in those issues, but a lot of the issues that are coming to market are — in particular sort of the higherrated names — are snapped up quite quickly, and order books are very well subscribed, so a lot of the investors still view this very much as a buy-and-hoard product.

B. C. So they’re not trading it, yeah.

A. G. So, we don’t see the two-way flow and the active trading as we would see in the Eurobond or the US bond markets.

B. C. Okay. Thank you.