

Press Release

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Renminbi at a glance

Philippine enterprises should start rethinking the way they do business with Chinese customers given the recent mandate by the Bangko Sentral ng Pilipinas for banks to develop a peso-renminbi spot market.

The wave of tourists from the Mainland, which grew by 52.65 percent in the first four months of 2018 according to the Department of Tourism (DOT), is already bringing plenty of money to the country. Being able to accept Chinese currency as payment may further encourage their patronage and drive higher sales across the islands.

In the meantime, the majority of transactions with foreign customers are done using U.S. dollars. The renminbi will be new territory for most Filipinos who are used to the USD. In anticipation of the spot market, here are a few key details and facts about the up-and-coming currency.

Renminbi in a nutshell

Renminbi is the official name of the currency of the People's Republic of China. The name literally translates to "the people's currency" in Mandarin. The international abbreviation is RMB while the symbol is ¥, similar to the Japanese yen.

Internationally, the term "Chinese yuan" (CNY or yuan) is used interchangeably with "renminbi." Strictly speaking, yuan refers to the basic unit of RMB. This means that the currency is denominated in one yuan, two yuan, and so on. Thus, commodities cost "10 yuan" or "100 yuan," but not "10 renminbi" or "100 renminbi."

Why RMB has two names isn't unique to China. This is similar to the official currency of the United Kingdom—the pound sterling, which is denominated in pounds, not sterling. On the other hand, the Philippines and the U.S. only have one name for their respective currencies: peso and dollar.

Peso-RMB Exchange over the Years

The peso-RMB exchange rate has remained relatively stable in the last five years. The lowest was in August 2016 at 6.95 pesos to 1 yuan, while the highest was in May 2018 at 8.31 pesos to one yuan.

From January to the start of September, the average rate is 8.082 pesos to one yuan. In contrast, the average rate from peso to USD is 52.31 pesos to one dollar—significantly higher than with RMB.

Internationalization of RMB

The RMB recently joined the U.S. dollar, pound sterling, and Japanese yen in the last decade among recognized global currencies thanks to China's RMB internationalization efforts.

These efforts include policies and activities geared towards making RMB available outside the Mainland, such as encouraging Chinese financial institutions to fund overseas businesses, as well as currency-swap agreements with more than 30 countries including Canada, Singapore, and members of the European Union. Through these efforts, traders and investors worldwide can now use RMB for cross-border deals.

Why should you care about RMB?

China remains one of the country's major trading partners. Based on May 2018 data from the Philippine Statistics Authority (PSA), the Mainland ranked fourth among the country's top export destinations with a share of 13.2 percent, amounting to USD761.40 million. China also came in first as the country's biggest importer with 20.3 percent of shares or USD1.92 billion in total payments.

Additionally, the Mainland has become the country's second largest tourism market in recent years. The Department of Tourism reported that between January and April 2018, visitors from China numbered 481,281—a 52.65 percent increase from last year in the same period. In 2017, total arrivals surged at approximately 968,000 according to the DOT.

By directly converting peso to RMB and vice versa, Chinese customers as well as local businesses won't have to bridge transactions using the U.S. dollar. Currencies currently undergo a two-step conversion process: first from RMB to USD, and then from USD to peso. This, in turn, doubles foreign exchange costs.

Direct peso to RMB conversion reduces the number of processes, allowing transacting parties to save from one to two percent in foreign exchange and related fees. These savings can then encourage more Chinese customers to do business with Filipinos.

For instance, a kilo of mangoes as of August 29 costs an average of 167 pesos in groceries according to the PSA, while exchange rates reported by Google Finance as of September 6 are the following: one yuan to 0.15 dollars, one dollar to 53.56 pesos, and one yuan to 7.82 pesos.

If Chinese buyers were to convert RMB to USD first, a kilo of mangoes would cost 21.38 yuan. On the other hand, if they were to buy a kilo directly with RMB, they would only spend 21.36 yuan—a huge difference for more expensive purchases such as apparel and electronics.

Local sources of RMB

Bank of China Manila is an RMB specialty bank offering foreign exchange services for local enterprises that wish to do business with Chinese customers.

The bank also partners with 14 other local financial institutions to provide clients with RMB services. These include: Asia United Bank, BDO Unibank, Inc., Bank of the Philippine Islands, China Banking Corporation, East West Banking Corporation, Metropolitan Bank & Trust Company, Philippine Bank of Communications, Philippine National Bank, Philippine Business Bank, Rizal Commercial Banking Corporation, Sterling Bank of Asia, Security Bank Corporation (SBC), UnionBank of the Philippines, and Bank of Commerce.

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