中國銀行 馬尼拉分行
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Peso-RMB spot market to make int'l deals with China more efficient

Filipino firms will soon be able to change their renminbi (RMB) into pesos, and vice-versa, at better exchange rates without having to rely on the US dollar as an intermediate peg. This is the result of efforts by Bank of China Manila, along with fifteen local banks, to organize a Philippine RMB Community that will make international RMB-denominated transactions more convenient and cost-efficient.

The formalization of this RMB Community implements Bank of China's proposal to the Bangko Sentral to form a peso-renminbi spot market, a plan that was greenlighted in March this year.

An MOU among members of this RMB Community is expected to be signed within Q3 of the year, which will facilitate better economic relationships between China and the Philippines.

China is a major trade and investment partner of the Philippines, with government analysts projecting even greater cross-border deals over the medium term. The Belt and Road Initiative (BRI) and the 21st Century Maritime Silk Road share common goals with President Rodrigo Duterte's vision for a "golden age of infrastructure", opening new opportunities for Philippine businesses to join in the growth story of the world's second largest economy.

Total merchandise trade with the Philippines continues to rise with China being the country's top bilateral trading partner for the second year, brought about by imports growth averaging 20.7% from 2010 to 2017 according to the National Economic and Development Authority (NEDA). And in April this year, Chinese firms committed US$9.5 billion in new investments in infrastructure and public works, agriculture, fisheries, energy, e-commerce, industrial park development, processing, manufacturing and tourism.

Deng Jun, Philippine country head of Bank of China (BOC), sees the RMB Community as an opportunity to deepen trade and investment between the two countries. "Bank of China is currently the only Chinese-funded bank in the Philippines. Since its establishment in Manila, we have regarded promoting China-Philippine economic and trade exchanges as our responsibility, and have made efforts to becoming a bridge between the two with regard to trade and economy, investment, finance, and cultural exchanges and cooperation," he said.

The practical benefits of RMB settling

The use of RMB presents several practical benefits for Philippine businesses. This will be felt by all industries -- from tourism to foreign direct investments to Filipino companies sourcing their raw materials from Chinese suppliers.

First, traders can save in hedging costs against currency risk by using RMB directly when exporting to or importing from China. More, currency risk and operational costs related to foreign exchange can limit their customer and supplier opportunities.

At present, transactions between Filipino and Chinese businesses must first be priced using the current USD rate for both currencies. This is called a "cross," a process that entails additional margin cost. This is bypassed when settling in RMB, in effect saving both parties anywhere from 1% to 2% in costs, subject to the exchange rate.

China currently ranks first as a source imports at 20.1% share as of April 2018, valued at USD1.75 billion in import payments. They also rank fourth in exports at 11.5 percent as of April 2018, valued at USD589.87 million in export shipments. This presents a significant savings opportunity for both importers from and exporters to China

Second, accepting RMB will greatly benefit the tourism industry in the Philippines. In 2017, a total of 968,447 Chinese nationals visited the country, almost double compared with the 2016 total of 675,663. And the Department of Tourism (DOT) is looking to grow that number to 1.5 million this year. In fact, the first two months of 2018 saw 256,880 Chinese tourists visit the Philippines, an impressive 56.44 percent growth rate compared to same period last year.

On average, Chinese tourists spend USD1,541 per trip per person or approximately USD1.5 billion in total tourist spend globally. The Philippines will become a more attractive tourist destination with the peso-RMB spot market. Chinese tourists will soon be able to change their RMB into pesos at better exchange rates, while Filipino merchants would be able to accept RMB, which they can later exchange for Peso with banks at lower costs.

Third, RMB reserves opens the door to increased investments from mainland China. Doing away with the need to exchange RMB for USD will be a tremendous incentive for Chinese firms looking to invest in the Philippines.

Chinese investor confidence in the Philippines is growing. As Chinese firms commit to USD9.5 billion in new investments in several Philippine industries, this figure could increase due to RMB settling. A direct RMB transaction would result in an additional PHP95 million in foreign investment from China.

The RMB as a growing global currency

Over 60 countries and regions have now adopted the RMB as a new reserve currency, according to the latest report on RMB internationalization by the People's Bank of China. In October 2016, the International Monetary Fund (IMF) included China's currency in its Special Drawing Rights (SDR) basket as an international reserve currency, along with the USD, the euro, the Japanese yen and the British pound.

This inclusion has further promoted the international use of RMB. The European Central Bank invested 500 million euros of its reserves in RMB-denominated assets during the first half of 2017. The Belt and Road Initiative has further driven the global adoption of the RMB. More and more market players are expected to use RMB for settlement thanks to China's economic growth and improved foreign exchange regime, according to the report.

Data from transactions organization SWIFT showed that China's RMB is increasingly being used by financial institutions for global payments by value, ranking 6th among most-used currencies.

"The renminbi has become an important player in global payments and trade settlement," Deng Jun said. "Our role in the Philippines is to act as a bridge between the Philippines and China – to educate and inform our clients of the advantages on the use of RMB and help them improve relationships with trading partners while helping mitigate foreign exchange risk."

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