The Chinese Renminbi

Opening New Opportunities

CAXTON FX
BUSINESS

One Currency – Different Markets

Both the CNY and the CNH are the same currency, the renminbi, with the unit of currency being the yuan. There are significant differences between the two, mainly relating to the location of trading in each and the way that exchange rates are determined. The CNY is an onshore currency, meaning that it can only be bought or sold within mainland China while the CNH can be freely traded outside of mainland China (usually in locations such as Hong Kong and London).

In addition, the CNH exchange rate fluctuates freely with the price of the currency decided by supply and demand on the global market. In contrast, the CNY rate against the US dollar is set daily by the central bank – the People's Bank of China (PBoC).

Benefits of using RMB

1. Unrestricted offshore access – CNH can be freely traded in an unrestricted manner on global markets.
2. Cost saving – with RMB payments not requiring an intermediary to be processed to the recipient, a cost saving can be made in comparison to USD payments.
3. Speed – as RMB payments are sent direct to the beneficiary, payments are considerably quicker than USD.
4. Strengthen business relationships – relationships can be deepened by paying in local currency as many businesses believe that this is not possible.
5. Improve cash flow – the quicker settlement cycle could improve your cash flow.

Historical Timeline

1978 — Xiaoping introduces "Four Modernisations" program

1989 — Stock markets open in Shanghai and Shenzhen

1998 — Economic slowdown in aftermath of Asian Financial Crisis

2001 — China becomes member of World Trade Organisation (WTO)

2010 — Chinese economy become world's second biggest

> China is one of the fastest growing economies in the world which, although currently slowing, is expected to cement its place as the second largest global economy due to continued monetary policy easing to stimulate growth.

CNY Currency Outlook

3 MONTH OUTLOOK

The CNY weakened in 2018 after GDP growth figures for the year fell to a multi-decade low, at 6.6% on a year-on-year basis, as ongoing trade tensions caused a drag on economic activity. Such concerns are likely to intensify over the coming months as economies around the world begin to slow, hence incoming economic surveys will be closely examined to gauge the extent of the decrease in economic activity.

Furthermore, trade tensions between China and the US are set to continue featuring on investors' radar, especially with the truce agreement between the two superpowers coming to an end at the beginning of March and as the prospect of further tariffs being imposed increases. It is likely that the imposition of further tariffs would be met with a further devaluation of the currency by the PBoC in an attempt to counter the effects of such action.

12 MONTH OUTLOOK

Over the long-term, expectations are for the PBoC to begin a gradual process of loosening monetary policy in light of a drop in economic activity. While the central bank will need to act carefully to avoid fears of a slowdown spiralling, markets currently expect up to four cuts to the required reserve ratio as well as a couple of cuts to the main 7-day policy rate as part of an effort to keep the economy stable amid the escalating trade war and loosen fiscal conditions.

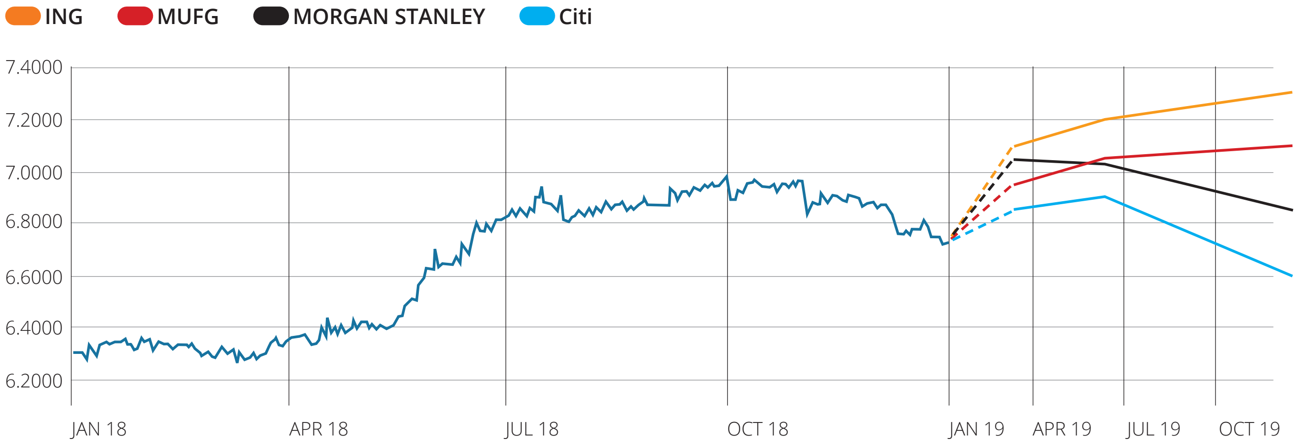
In addition, the ongoing trade tensions between the US and China are likely to escalate as the year goes on, with no sign of a resolution or even conciliatory comments at present. While trade talks continue, these are likely to remain the main focus of the market however investors should not rule out the possibility of a sale of China's treasury holdings or the imposition of further tariffs.

Furthermore, the imposition of further tariffs would likely spark a sharp devaluation of the yuan, which the PBoC would be minded to avoid due to the danger of triggering a 'sell China' mentality in the market and sparking a broader market downturn across asset classes.

Finally, the slim chance of a positive end to the trade war cannot be ruled out with a CNY rally likely should the US and China agree to revoke previously imposed tariffs.

Sending payments in CNY can not only be cheaper and quicker for your business, but also allow you to cement cross-border relationships and improve cashflow.

USD/CNY 12 MONTHS AND YEAR AHEAD FORECASTS



Economic Data	China
GDP	6.4% (Q4 18)
Interest Rate	4.35% (Oct 15)
Inflation Rate	1.9% (Dec 18)
Unemployment Rate	3.8% (Q4 18)
Wage Growth	7.7% (2017)
Trade Balance	571mln (Dec 18)
Current Account	233mln (Q3 18)

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