



BANK FOR INTERNATIONAL SETTLEMENTS

## Renminbi internationalisation: global vs national drivers

Presentation at the Society for the Study of Emerging Markets  
panel "Can the Chinese Renminbi Rule?: If So, How and When?"

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\* Views expressed are those of the author and not necessarily the views of the BIS



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# **National or global drivers of currency internationalisation?**



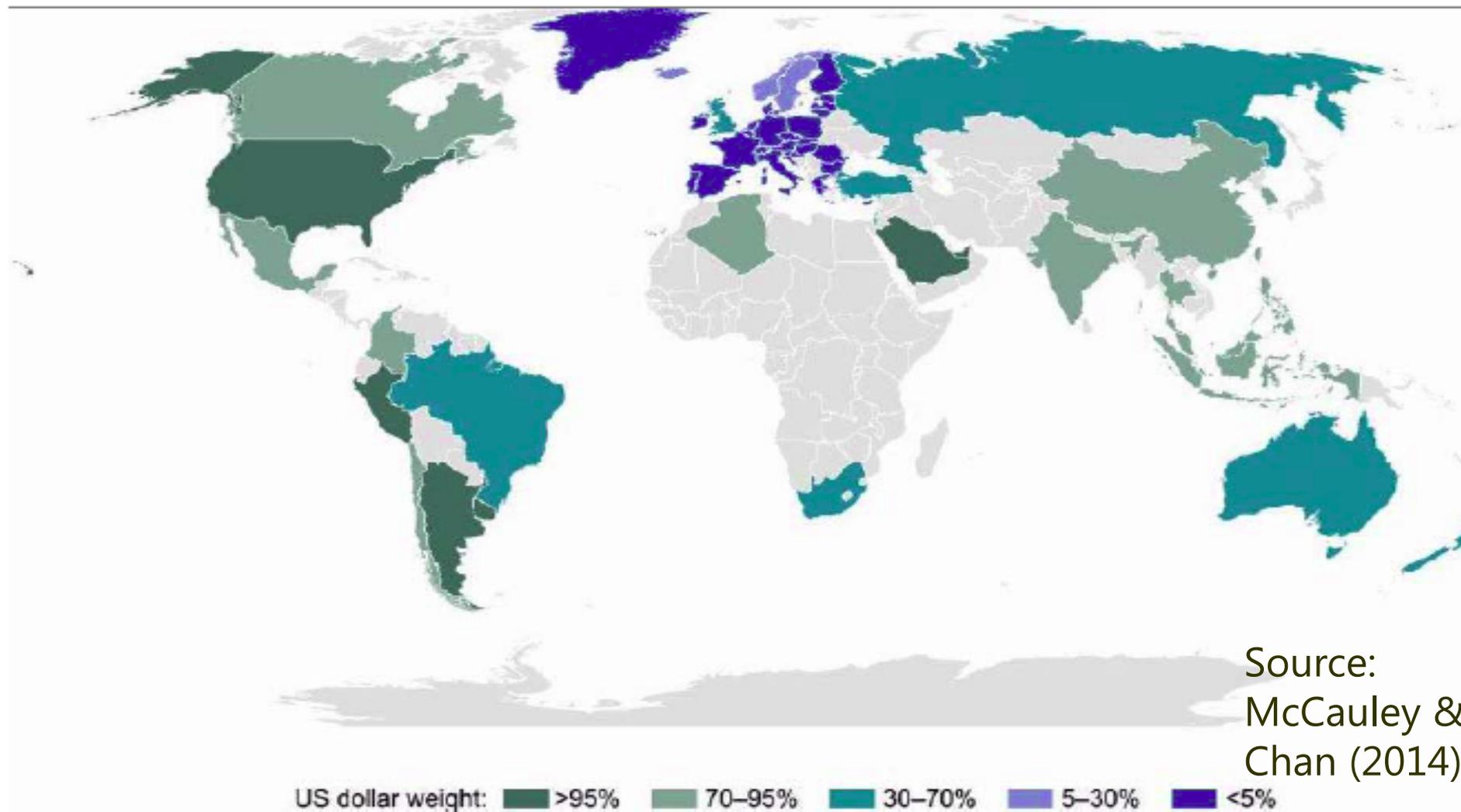
## National vs global drivers of US dollar's international role

	National	Global
<b>Economic size</b>	US GDP	Dollar zone GDP
<b>International trade</b>	US exports & imports	Dollar invoiced trade
<b>Financial market depth</b>	US bond market size & liquidity	Global dollar bond market size & liquidity



# Dollar zone is twice the size of the US economy

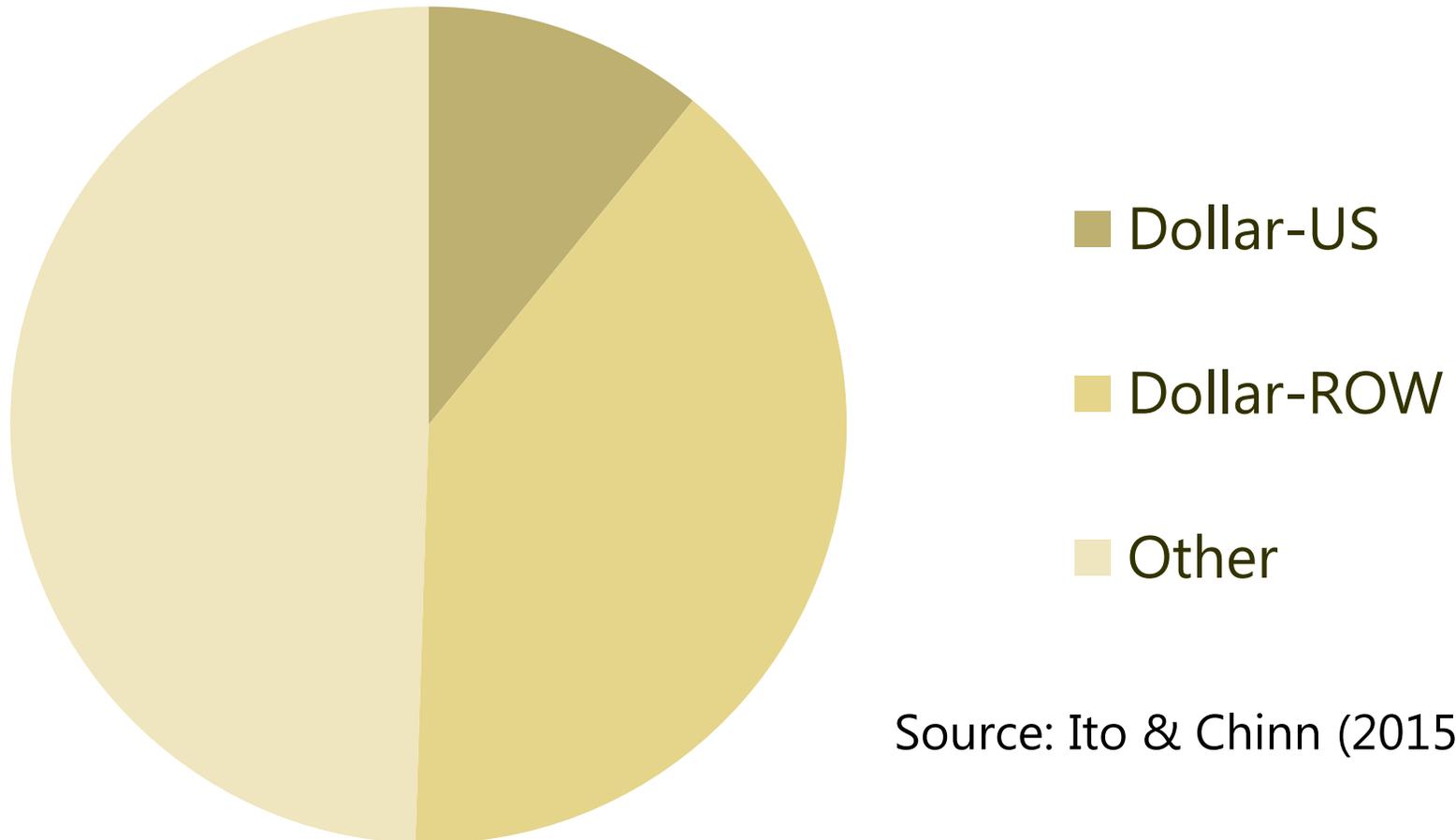
Dollar zone weights



Source:  
McCauley &  
Chan (2014)

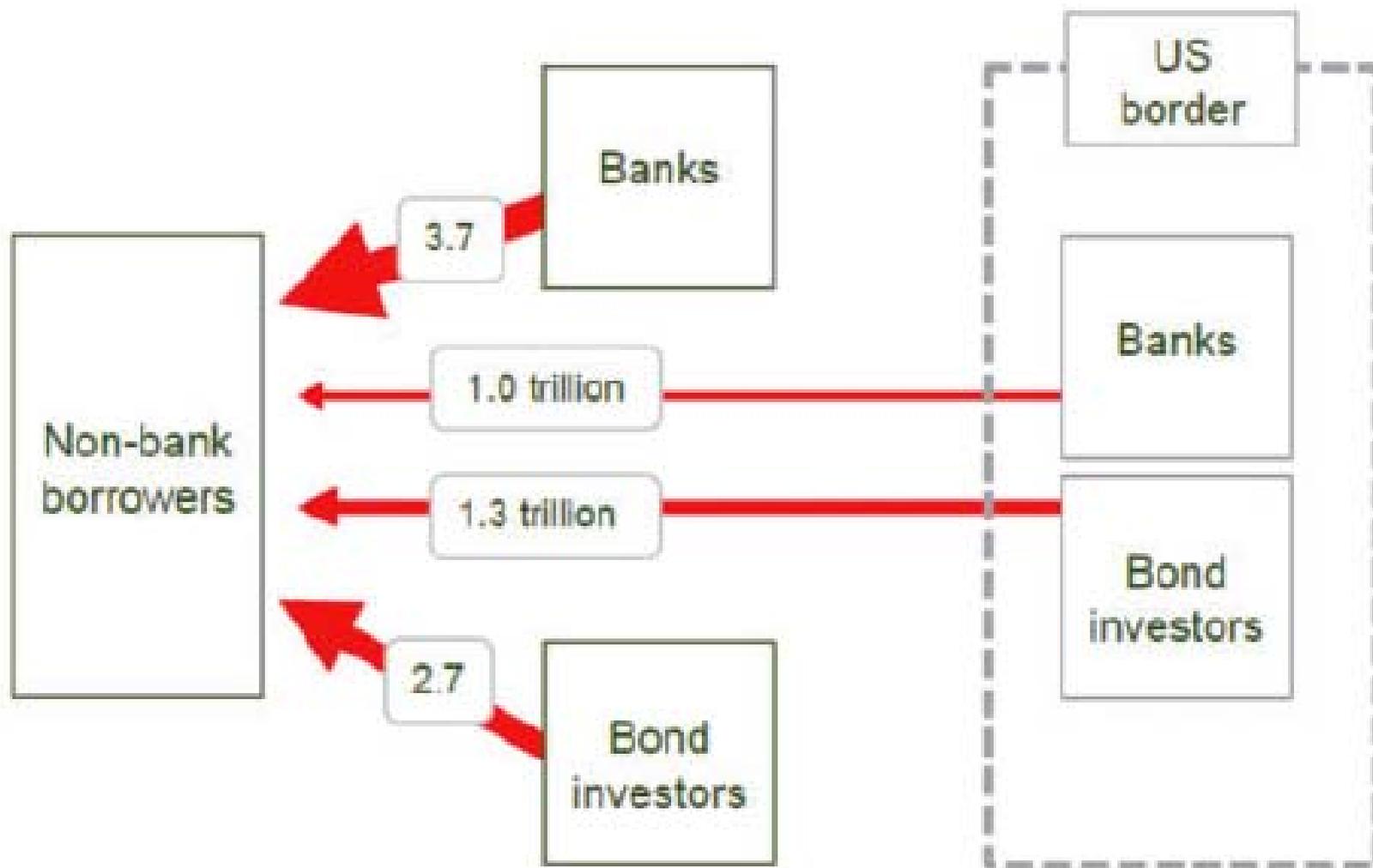
# Dollar invoiced global trade is four times US trade

## Global trade invoicing



Source: Ito & Chinn (2015)

# Dollar credit to borrowers outside of US mostly extended outside the US (\$ trillions at end 2013)



## National vs global drivers of renminbi's international role

	National	Global
<b>Economic size</b>	What happens if China's GDP share grows?	What happens if neighbours' (or commodity) currencies co-move with renminbi?
<b>International trade</b>	What happens if China's trade expands?	What happens if renminbi trade invoicing grows?
<b>Financial market depth</b>	What happens if China's domestic bond market grows?	What happens if renminbi offshore bond market grows?



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**Questions re RMB Internationalisation !**

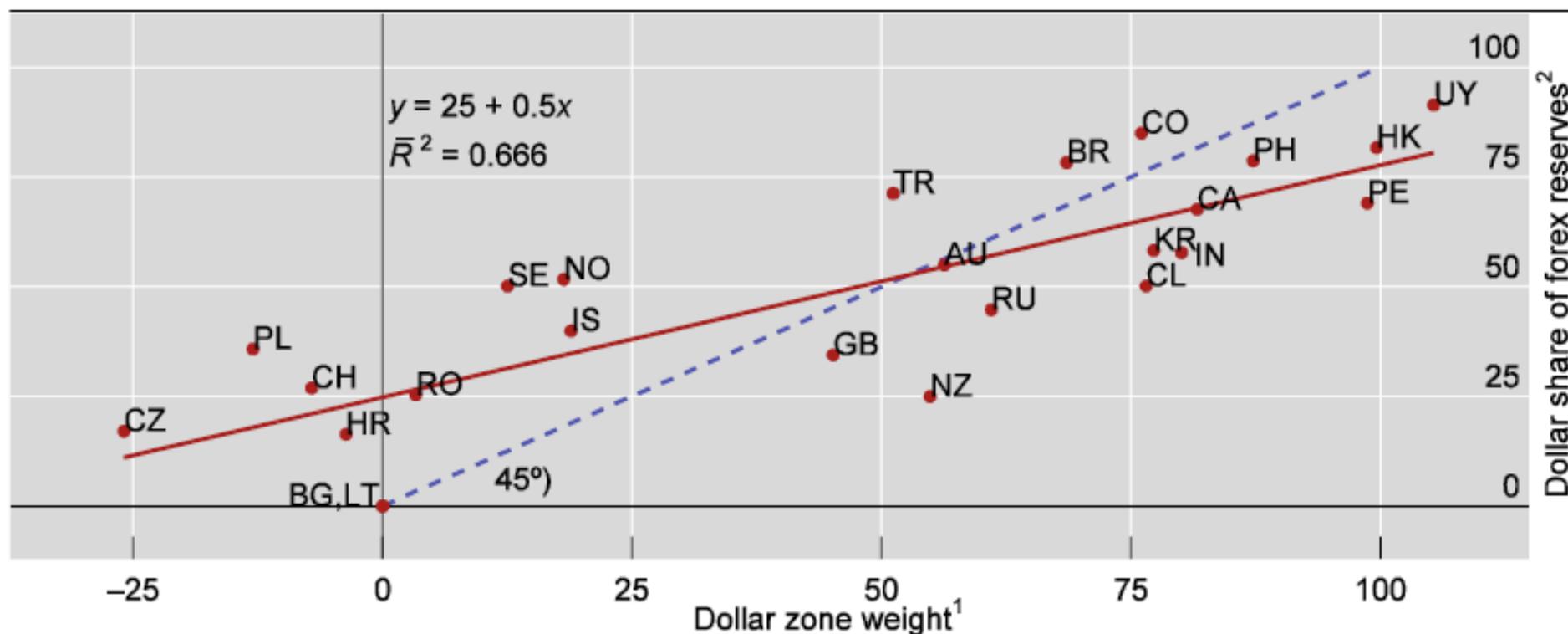




**A renminbi zone?  
...would make a difference to portfolio  
managers, both official and private**



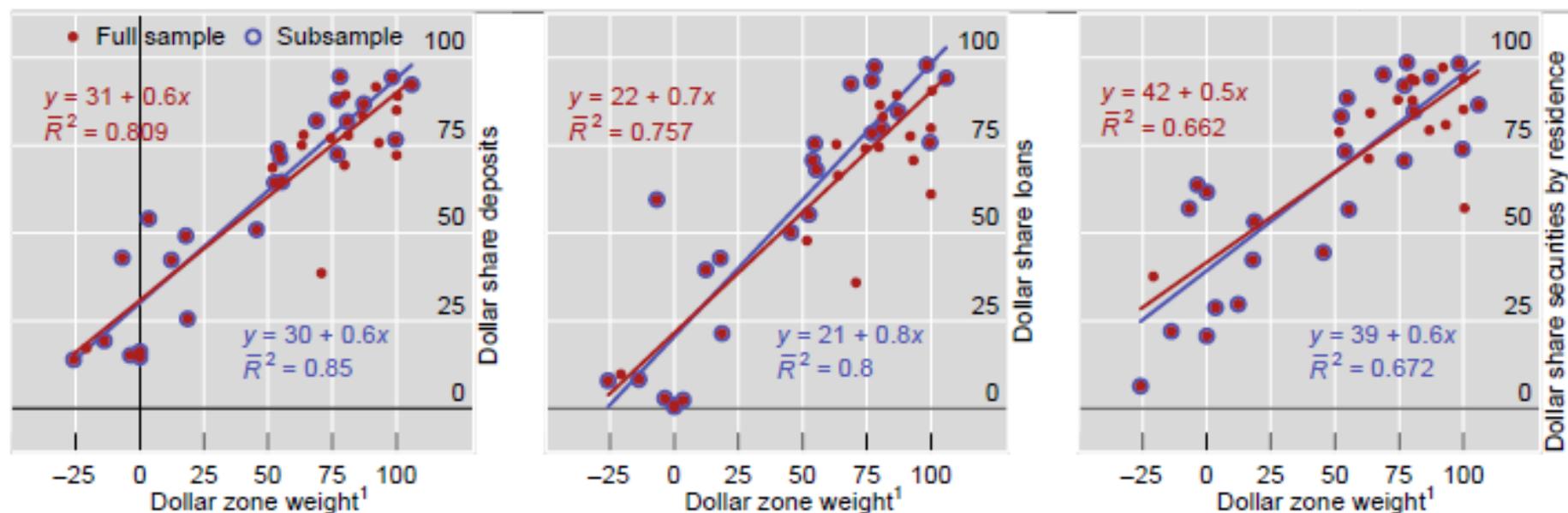
# Dollar zone weight drives \$ share of forex reserves



AU = Australia; BG = Bulgaria; BR = Brazil; CA = Canada; CH = Switzerland; CL = Chile; CO = Colombia; CZ = Czech Republic; GB = United Kingdom; HK = Hong Kong SAR; HR = Croatia; IN = India; IS = Iceland; KR = Korea; LT = Lithuania; NO = Norway; NZ = New Zealand; PE = Peru; PH = Philippines; PL = Poland; RO = Romania; RU = Russia; SE = Sweden; TR = Turkey; UY = Uruguay.

<sup>1</sup> Average over four years. <sup>2</sup> For AU, June 2013; CO, March 2011; IN, 2014; NZ, September 2010; TR, 2012.

# \$ zone weight drives \$ share of private portfolios: bank deposits, bank loans, international bonds

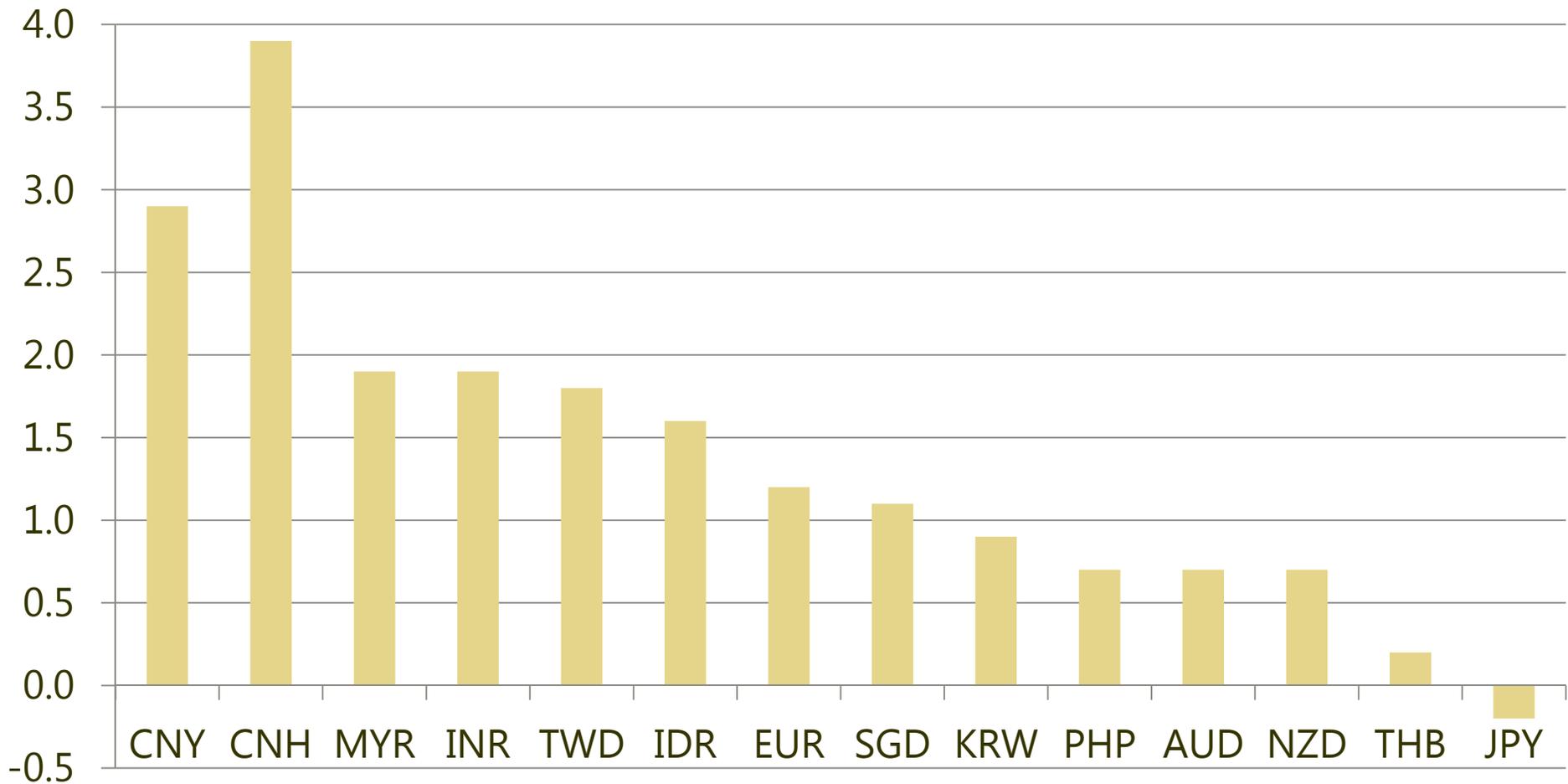


# Renminbi zone?

## Studies find various effects of RMB on East Asian currencies

- Very limited:
  - Balsubramanian, Patnaik & Shah (2011);
  - Chow (2011).
- Discernible, but modest effect:
  - Ho, Ma & McCauley (2005): CNY non-deliverable forwards;
  - Shu, Chow and Chan (2007);
  - Chen, Peng and Shu (2009);
  - Fratzscher and Mehl (2011);
  - Fang, Huang & Niu (2012);
  - Chen, Siregar and Yiu (2013);
  - Huang et al (2014);
  - Shu, He & Cheng (2015);
  - Kawai and Pontines (2015).
- RMB bloc is here:
  - Subramanian & Kessler (2012);
  - Henning (2012).
  - Chinn (2014).

## Depreciation vs dollar, 10/8/15 – 13/8/15 In percent



Source: Bloomberg.



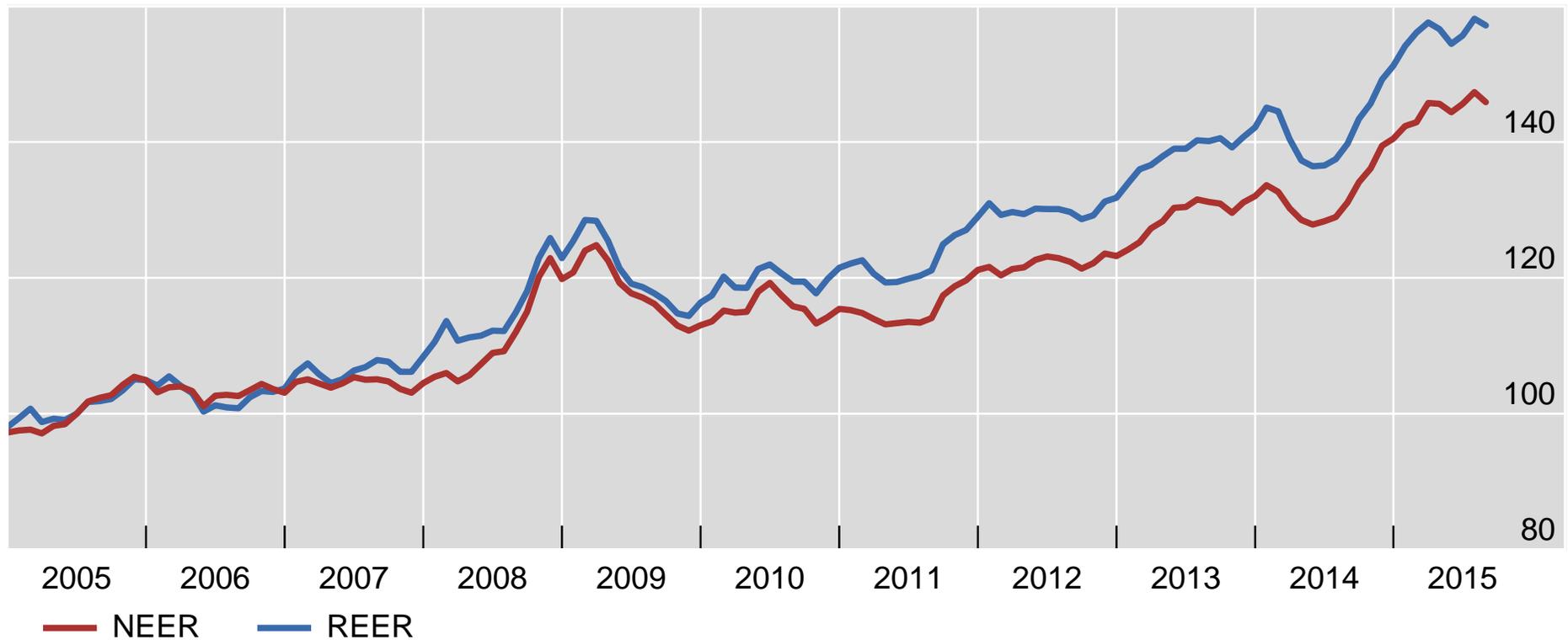


# Effects of RMB management against effective exchange rate basket

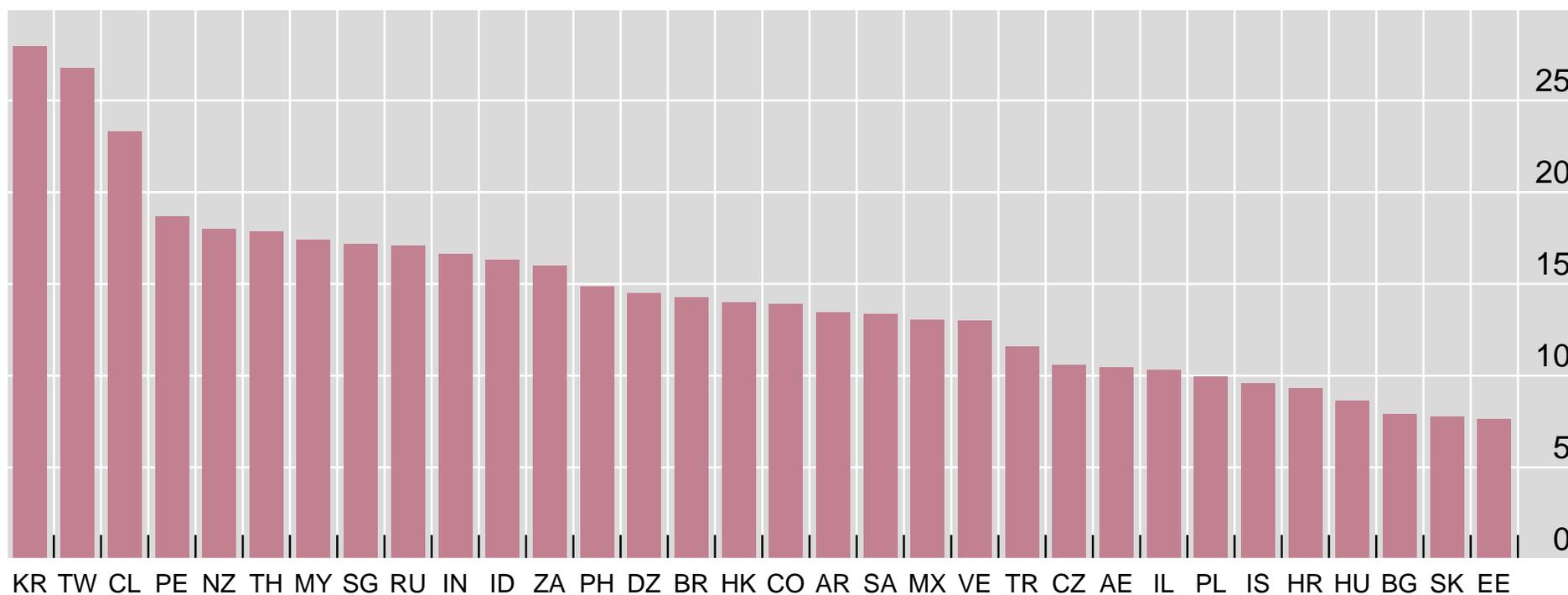


# Renminbi nominal and real effective exchange rates

Index, June 2005 = 100



## RMB has substantial weight in trade-weighted baskets of emerging markets



## Distinguish: RMB basket vs idiosyncratic moves

- Basket management of RMB & dollar zone:
  - If neighbours stabilise their currencies against their own baskets, then RMB basket management would lead neighbouring currencies to trade with lower weight on dollar.
  - This might imply shrinkage of dollar zone.
- Idiosyncratic moves of RMB
  - Necessary condition for RMB zone
  - In which neighbouring currencies share idiosyncratic moves of RMB vs dollar and euro.

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## **Conclusion: RMB internationalisation depends on global, not just national factors**

- Response of other currencies to idiosyncratic renminbi moves.
- Invoicing of trade, especially in third country trade.
- Denomination of debt contracts.
- Need break free from national perspective on international finance (Avdjiev et al (2015)).