



Money

Green light may be given to offshore yuan investment in A-share market

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China is considering opening the domestic A-share market for offshore yuan investment after cross-border yuan trade settlement witnessed an explosive growth since early this year, with yuan deposits abroad setting a new high, the Securities Times reported on Wednesday.

Chinese exporters prefer yuan settlement as it will protect them from the risk of exchange rate fluctuations and also significantly improves the efficiency in capital usage, industry insiders told the newspaper.

In April 2009, China announced a pilot program allowing exporters and importers in Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan to settle cross-border trade deals in yuan.

Bank of China (BOC), the country's largest foreign exchange bank, received the first cross-border yuan trade settlement deal from BOC (Hong Kong) in July.

According to the report, BOC, Bank of Communications and China Merchants Bank have seen their yuan trade settlement transactions double every month since the beginning of this year.

BOC reported a total of 18.7 billion yuan in its cross-border yuan settlement business by the end of February, including 6.4 billion yuan from pilot cities and 12.3 billion yuan from BOC (Hong Kong), according to the paper.

The figure soared to more than 30 billion yuan at the end of March, with 2.6 billion yuan from pilot cities and 11.7 billion yuan from BOC (Hong Kong) in March alone, it said.

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China is considering enlarging the scope of cross-border yuan settlement from commodity trade into service trade, the central bank said early last month.

Meanwhile, the country may add another 14 pilot cities to the program. Industry analysts predicted that the cross-border yuan trade settlement deals would top 200 billion yuan in 2010 and might even exceed 300 billion

yuan, as there is also a market expectation that the yuan will be stronger, the paper said.

On the other hand, the latest statistics released by the Hong Kong Monetary Authority (HKMA) showed that yuan deposits in the special administrative region had increased to 70.8 billion yuan by the end of March.

In March, yuan deposit in Hong Kong rose by 7.1 percent over the previous month, compared with a slight fall in deposits in foreign currencies.

Joseph Yam Chi-kwong, former chief executive of the HKMA, said he hoped that mainland regulators "give the green light" to offshore yuan investment, such as allowing stock brokerages to open yuan accounts for their clients.

That call was received with positive responses from authorities in Shanghai. The newspaper said that regulators were considering opening normal channels for offshore yuan investment, such as bonds, stocks, and inter-bank lending, to deepen cross-border yuan trade.

Su Ning, vice governor of the central bank, had previously voiced his support for Shanghai and Hong Kong bourses' effort to set up an offshore center for the yuan.

Shanghai will be introducing the trade of cross-market exchange-traded funds (ETFs) this year, which will allow Chinese investors to buy a basket of securities that tracks overseas indices.