Singapore can be offshore yuan centre, but won't surpass Hong Kong

By Kevin Lim

SINGAPORE, April 11 (Reuters) - Singapore has the financial infrastructure to become an overseas trading centre for the Chinese yuan, but political considerations will prevent the Southeast Asian city-state from challenging Hong Kong's supremacy in this area.

Singapore, Asia's largest foreign exchange trading centre after Japan, is where the likes of Citigroup and Standard Chartered base their biggest Asian dealing rooms.

Singapore is also the region's trading hub for many of the commodities that China imports and more than 3,000 mainland firms operate in the city.

The Wall Street Journal, citing unnamed sources, reported over the weekend that China is weighing steps to expand trading of its currency outside the mainland and may select Singapore as a second yuan-trading hub after Hong Kong.

Analysts said that while Singapore will likely grab a large slice of the fast-growing offshore yuan business, the People's Bank of China (PBOC) will ensure that Hong Kong, a special territory of China, remains the paramount centre.

"Singapore, for the foreseeable future, is unlikely to overtake Hong Kong as the primary offshore RMB trading hub," said Singapore Management University's Bernard Lee, a former managing director at U.S. fund manager Blackrock.

"Hong Kong, being part of China, is the place where PBOC can afford to do some experimentation in liberalising the RMB in a controlled manner. A lot of Chinese manufacturers have long-term sales contracts denominated in U.S. dollars. If the RMB appreciates too fast, there is a credible risk that some of those factories may be forced out of business."

A Chinese banker in Beijing who declined to be identified added that Singapore also lags Hong Kong in the volume of yuan trades.

"Overall, ties between Singapore and China are also not as close as those between Hong Kong and China," he said.

The Monetary Authority of Singapore did not directly comment on the Wall Street Journal report but said the city-state is well-positioned to facilitate trade-linked business flows with mainland China.

"Many global MNCs house their treasury centre and offshore trading operations in Singapore... Several banks in Singapore have begun offering RMB banking services to their clients and expanded their product offerings to retail investors," the Singapore central bank said in a statement.
The PBOC declined to comment on the report.

SMU's Lee and others added that China, as a major importer of commodities, is keen to see more of these trades settled in yuan.

"Hong Kong may naturally be the first pot of gold in terms of trade settlement in RMB but Singapore will ride this wave, as a regional commodities hub as well as the treasury centre for multinationals," said Ray Ferguson, Stanchart's regional CEO for Singapore and Southeast Asia.

"Commodities is the reason why the RMB scheme is going global...," he added.

YUAN LIBERALISATION

China began allowing its currency to be used to settle international trades in 2009 through a scheme involving several Chinese cities along with Hong Kong, Macau and various Southeast Asian countries including Singapore. The scheme was extended to the rest of the world in 2010.

Hong Kong currently dominates the offshore yuan market, thanks to large pool of yuan deposits in the territory and the slew of yuan-denominated bonds issued in Hong Kong by Beijing and various Chinese firms.

Chinese backing for the former British colony can also be seen in Bank of China's Hong Kong unit being the designated clearing bank for transaction in the Chinese currency.

But China has also been supportive of Singapore, signing in July 2010 a S$30 billion ($23.9 billion) currency swap agreement with MAS to ensure yuan liquidity in the city-state. Chinese banks have also been expanding their operations in Singapore.

"The amount that Singapore received was not only the third highest in absolute term but was the highest in proportion to Singapore's share of China's total trade in Asia," said Chia Woon Khien, head of emerging markets strategy for Asia ex-Japan at Royal Bank of Scotland.

Roy Huang, head of CITIC Bank International, the offshore arm of China's CITIC Bank, said during a visit to Singapore last week that the Chinese lender saw great potential in Singapore for developing a yuan business.

"We think Singapore, with Hong Kong obviously, will be the pioneer on a lot of these steps towards the internationalization of the renminbi. We definitely see Singapore as very much part of the story," he told Reuters in an interview.

CITIC recently opened a branch in Singapore to provide customers with yuan deposits and trade settlement involving the Chinese currency. ($1 = 1.257 Singapore Dollars) (Additional reporting by Saeed Azhar in SINGAPORE, Koh Gui Qing in BEIJING and Saikat Chatterjee and Kelvin in HONG KONG; Editing by Kim Coghill)