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HD Ambitions for the renminbi

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WC 887 words

PD 20 February 2014

SN [The Australian Financial Review](#)

SC AFNR

ED First

PG 2

LA English

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A small private ceremony held in Sydney this week is an indication of the financial evolution occurring in Australia's trading relationship with China. Tad Watroba, executive director of Hancock Prospecting, was present to sign a memorandum of understanding with the powerful Bank of China. The official aim was to promote "strategic co-operation" on the use of the Chinese renminbi.

TD This currency focus is a new twist on the protracted surge in Australian commodities exports that means China has become Australia's most important trading partner.

But China is also a significant investor and financier of projects in Australia and Australian companies are desperately trying to figure out what else they can sell to China – those prospects hopefully boosted by an imminent free trade agreement, assuming strained diplomacy permits.

So the liberalisation of the Chinese currency, including the now direct conversion with the Australian dollar, should improve the ease of doing business both ways – and in a range of areas, including financial services.

The Bank of China is one of the consortium of major banks helping to finance Gina Rinehart's massive Roy Hill iron ore project in the Pilbara, for example, due to start producing late next year. That makes it one of the rare new resources projects under construction in Australia. The complete multi-billion dollar financing of Roy Hill, now assured, is due to be finalised within weeks.

Watroba noted the enormous opportunities to build substantially on the financial links between the two countries, particularly the natural fit of China as a capital exporter and Australia as a capital importer.

"The significant involvement of BOC in financing our Roy Hill projects, utilising both [US dollars and the renminbi], is a great example of this," he declared. Increased flexibility

Hancock projects also buy some of their equipment from Chinese manufacturers and the potential use of RMB gives the company added flexibility. Hancock already holds reserves of RMB with the Bank.

But the bank's agreement with Hancock Prospecting is just part of a broader move by China to develop a more internationally traded currency.

Australia, Japan and the US are so far the only countries that can convert their currencies directly to yuan. The [ASX](#) and the Bank of China have also just signed an agreement that should speed up settlement of deals by providing access to the [ASX](#) payment system for the Chinese currency.

ASX chief executive Elmer Funke Kupper said it would lower costs and risks by allowing Australian companies trading with China to pay and receive yuan on a near real-time basis by the middle of the year.

"The new service will also create new growth opportunities by expanding the scope and global connectivity of Australia's financial markets," he said. "In addition, this initiative will allow for a range of investment products, including RMB denominated bonds and other structured instruments, to be developed."

Both the Hancock and [ASX](#) ceremonies were deliberately timed in the lead-up to the meeting of G20 finance ministers in Sydney this weekend to show the developing breadth of the relationship between the two countries.

Financial Services Minister Arthur Sinodinos attended both events and Mr Funke Kupper was present for the signing of the Hancock and Bank of China agreement the day after the [ASX](#) announcement.

The internationalisation of the yuan still has a long way to go. China is steadily liberalising its pegged currency and wants to expand its use in settling deals from around 4 per cent to 15 per cent by next year. Australia is currently responsible for only about 1 per cent of the deals done in yuan so the potential for growth is obvious. Reserve currency ambitions

But China's ultimate ambition to have the yuan recognised as a reserve currency like the US dollar won't happen while it maintains the restrictions and controls it still insists upon.

Fortescue Metals Group was the latest major iron ore producer to report a strong first-half profit on Wednesday due to a big increase in export volumes to China, underpinned by continuing solid demand and pricing.

Chief executive Nev Power says that in the long term, there's no doubt China will become one of the major commodities currencies and that a greater amount of trade being done in RMB is inevitable. But FMG sees no need to change its reliance on doing business only in US dollars for the foreseeable future.

Other companies in the non-resources area, particularly the financial sector, see major shifts coming relatively quickly.

ANZ, for example, refers to the yuan in terms of "the rise of a new global currency".

Last year [Westpac](#) and ANZ became the first Australian banks with licences to directly trade between Chinese and Australian currencies.

"The complementary economic relationship between Australia and China provides a very natural extension of economic co-operation from commodity trading to the currency markets," an ANZ research paper says. "China is determined to push forward a package of financial sector reform of which the internationalisation of the RMB plays a pivotal role.

"At the time the whole world is seeking out opportunities from the rise of the RMB, Australia should not lag behind."

Think of it instead as the Australian version of the Great Leap Forward.

CO hkpros : Hancock Prospecting Pty. Ltd. | bkchin : Bank of China Ltd

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