

HD FTA key to high currency flow

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TRADING volumes between the Australian dollar and the renminbi are expected to be one of the major beneficiaries of a FTA.

Tony Abbott has promised to finalise a trade deal between Australia and **China** before the end of the year, after sealing agreements with Japan and South Korea as part of his first major overseas tour as Prime Minister earlier this month.

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The Australian dollar is just the fourth currency that is fully convertible with the renminbi, which the **Chinese** government plans to turn into a global currency.

The convertibility deal was signed between Australia and **China** a year ago but the trading volumes of the two currencies have started to flatline after an initial spike.

Figures compiled by global bank HBSBC show that despite an initial rise in volumes and value of at least 40 per cent between the pair of currencies after the convertibility deal was signed in April last year, trading has defied most experts' expectations and sharply stabilised since then.

It is estimated that the currency flows are worth \$US2.5 **billion** (\$2.8bn) a month, up sharply from about \$US300 **million** a month before the convertibility was approved by former prime minister Julia Gillard in Beijing. Despite the initial sharp jump, currency analysts had expected the turnover to grow each month as more Australian businesses started exporting to **China**.

China remains Australia's No 1 trading partner, with trade worth at least \$US130bn a year

The stability in trading volumes has been partially blamed on the number of corporate and investment transactions between Australia and **China** moderating abruptly, after a rush of **mining** and commodity-related deals early last year.

The dollar is only the fourth currency — along with the US dollar, NZ dollar and Japanese yen — to be fully convertible against the yuan, which allows Australian exporters to settle **Chinese** trade deals in the local currency. The convertibility reduces the costs of doing business with the world's second-largest economy.

Westpac's head of **China**, Andrew Whitford, said he believed an FTA between Australia and **China** would increase the trading volumes and flow between the two currencies. Some exporters estimate the convertibility deal has saved up to 10 per cent on the currency transaction costs.

"The trading between the dollar and the renminbi has flatlined over the past couple of months but it will take off again, the next obvious step is to see Sydney become a renminbi hub," Mr Whitford said. "I'm a very strong advocate for Sydney to become that hub. There is certainly a need for that to happen."

Commodity deals to **China** from Australia are still settled in US dollars but there is a growing trend towards payment in renminbi.

Rio Tinto earlier this month made Australia's first **iron ore sale** in the **Chinese** currency, three months after flagging it was keen to start dealing in the renminbi.

The **mining** group sold 175,602 tonnes of **iron ore** worth \$US21m to the state-owned steelmaker Baosteel.

Mr Whitford said he believed there would be a growing demand from Australian businesses to deal directly with the renminbi once an FTA was settled.

"If Australia becomes an renminbi hub, it would be the first Western country to have that and if it would make it easier to transact," Mr Whitford said.

"Plus you would be able to create other products, like investment products. The technology is being built."

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