Sydney-- [Media OutReach] -- 26 March 2014 -- [The Centre for International Finance and Regulation (CIFR)] today released a comprehensive academic research report into the internationalisation of the renminbi (RMB) and its implications for global financial markets
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Authored by Dr. Kathleen Walsh and Mr. Geoff Weir, both research fellows from CIFR, and Professor Barry Eichengreen from University of California Berkeley, the 125-page report includes in-depth analysis of the Chinese financial landscape as well as interviews with more than 100 Chinese companies. It concludes that in the near-to-medium term capital controls will be largely or completely lifted; borrowing and lending rates will be market-determined; the exchange rate will be market-determined and the RMB will become a significant international reserve asset.

Key insights from the report include:

· RMB likely to become a major trade invoicing and settlement currency with implications for trade financing; FX markets and derivatives markets.

· Chinese equity market likely to become the largest in the world within a decade, with a forecast market capitalisation of around US$30 trillion or almost 25% of projected world equity market capitalisation compared to a projected US$22 trillion (18%) for the US.

· Chinese bond markets likely to become the second biggest in the world.

· Capital inflows will surge as China becomes a core component of benchmark indices, as will capital outflows as Chinese domestic portfolios diversify.

· RMB to be a significant global reserve currency, with RMB-denominated government securities likely to become the main alternative 'safe asset' to US Treasuries. This dual reserve asset future is projected to have a stabilising influence on global markets.

Geoff Weir said there would be winners and losers from the internationalisation of the renminbi:

"For example, markets that are already centres of offshore RMB expertise will experience strong growth in RMB-related financial flows and activity. On the flip side, as Chinese financial assets become major components of global equity and fixed income benchmark indices, they will do so at the expense of the assets of other countries - in particular developed economies. Currencies and asset classes such as the Australian dollar and Australian resource stocks, which are used as 'proxy' trades to express views on China, will lose popularity."

Kathleen Walsh said that RMB trade invoicing offers many benefits for parties on both sides, but some constraints in both China and its trading partners identified in the survey they have conducted will need to be overcome.

"The costs of hedging foreign exchange risks would appear to be significantly higher in China than in many offshore financial centres, reflecting the greater liquidity and interbank connections offshore," she said. "This suggests that both parties can potentially benefit from RMB trade invoicing, but many markets have constraints that will need to be removed in order to reap the full benefits of greater RMB trade invoicing."

The report will be launched today at a Symposium in Sydney, where CIFR executives and research fellows will be joined by RMB experts from the Bank of China; the Reserve Bank of Australia; the Australian Treasury; Schrodersb; ANZ; the Australian Financial Markets Association; the Australian National University; the University of Auckland and the Chinese Academy of Social Sciences.

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About the authors:Geoff Weir began his career in The Australian Treasury and the Reserve Bank of Australia. In 1991 he moved to the financial sector, working in London and Paris as a hedge fund strategist for Bankers Trust International and later for Moore Capital. In 1996 Geoff returned to Sydney to take up a position as Head of Global Fixed Income at BT Funds Management. In 2002 he moved to JBWere (now Goldman Sachs JBWere) where he worked as strategist on a global macro hedge fund. Geoff was appointed to the position of Director, Australian Financial Centre Forum, in September 2008. He has worked as a Research Fellow at CIFR since late 2012. Geoff has a First Class Honours degree in economics from Macquarie University in Sydney and a Master of Philosophy degree from New College, Oxford.

Dr Kathleen Walsh holds a PhD in Finance from the AGSM and a First Class Honours degree in Finance from Curtin University, WA. She has held senior finance academic positions at the University of New South Wales and the University of Sydney and currently holds an appointment as an Associate Professor of Finance at the Australian National University. Dr Walsh is well published in leading domestic and international journals and has been awarded several research prizes including the E. Yetton prize for best paper in the Australian Journal of Management. Dr Walsh has also been the recipient of several research grants including a large ARC linkage grant.

Barry Eichengreen is the George C. Pardee and Helen N. Pardee Professor of Economics and Professor of Political Science at the University of California, Berkeley, where he has taught since 1987. He is a Research Associate of the National Bureau of Economic Research (Cambridge, Massachusetts) and Research Fellow of the Centre for Economic Policy Research (London, England). In 1997-98 he was Senior Policy Advisor at the International Monetary Fund. He is a fellow of the American Academy of Arts and Sciences (class of 1997). Professor Eichengreen is the convener of the Bellagio Group of academics and economic officials and chair of the Academic Advisory Committee of the Peterson Institute of International Economics. He has held Guggenheim and Fulbright Fellowships and has been a fellow of the Center for Advanced Study in the Behavioral Sciences (Palo Alto) and the Institute for Advanced Study (Berlin). He is a regular monthly columnist for Project Syndicate.His books include Labor in the Era of Globalization, co-edited with Clair Brown and Michael Reich, Emerging Giants: China and India in the World Economy, co-edited with Poonam Gupta and Ranjiv Kumar, Fostering Monetary & Financial Cooperation in East Asia, co-edited with Duck-Koo Chung, What G20 Leaders Must Do to Stabilize Our Economy and Fix the Financial System, co-edited with Richard Baldwin, (e-book 2008), Rescuing Our Jobs and Savings: What G7/8 Leaders Can Do to Solve the Global Credit Crisis, co-edited with Richard Baldwin, (e-book 2008), Globalizing Capital: A History of the International Monetary System, Second Edition (2008), The European Economy since 1945: Coordinated Capitalism and Beyond (updated paperback edition) (2008), Bond Markets in Latin America: On the Verge of a Big Bang?, co-edited with Eduardo Borensztein, Kevin Cowan, and Ugo Panizza (2008), and China, Asia, and the New World Economy, co-edited with Charles Wyplosz and Yung Chul Park (2008).He was awarded the Economic History Association's Jonathan R.T. Hughes Prize for Excellence in Teaching in 2002 and the University of California at Berkeley Social Science Division's Distinguished Teaching Award in 2004. He is also the recipient of a doctor honoris causa from the American University in Paris.

About CIFR:The Centre for International Finance and Regulation (CIFR) brings together leading Australian universities, research centres and financial organisations to assist the financial sector, government and regulators to meet emerging challenges and opportunities locally, regionally and internationally.

Supported by a consortium, including the Commonwealth and NSW Governments, CIFR provides a strategic link between academia, financial regulators, policy makers and industry. The Centre pursues a substantial agenda across three domains: world class research, policy input and engagement with industry.