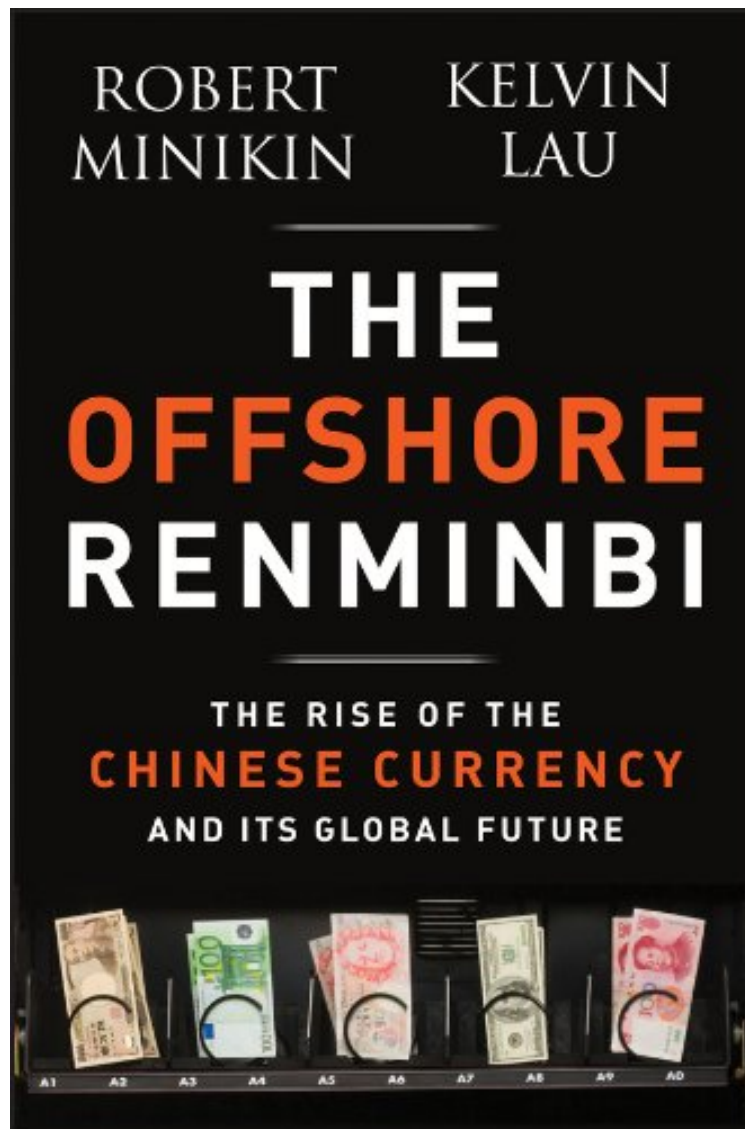


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The Offshore Renminbi: The Rise of the Chinese Currency and Its Global Future

Robert Minikin, Kelvin Lau

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forgotten, the authors of this timely and fascinating book place on record the critical dates in which the Chinese renminbi began the process of internationalisation. The baby steps began quietly, almost unnoticed in December 2003 with the introduction of limited retail conversion into renminbi by personal depositors in Hong Kong. In July 2010 the People's Bank of China signed a memorandum with the Hong Kong Monetary Authority allowing the renminbi to be used freely in the international markets. In August 2011, the Chinese government launched the third and biggest sale of Chinese Government Bonds in Hong Kong, implicitly setting Hong Kong as the geographical centre ("home") of the international renminbi. The policy intentions are clear. China wants to have the same "exorbitant privilege" of the US - to be able to issue government debt to overseas holders of the renminbi. But its approach has been cautious. China was not a participant in the 2008 subprime market that hit the US and European economies. The August 2011 bond sale, however, marked a clear acceleration of the process of internationalisation. The willingness of multinational corporations to settle in renminbi will be critical to China. In Chapter 6 of this book the authors examined the reasons such corporations should and would be willing to do so. The "ultimate prize in renminbi internationalisation will be when it has all the characteristics we see today in the US dollar - including as a liquid currency of last resort." The authors believe that the shift may come from a sort of herd mentality, when more and more corporations use the renminbi to settle its transactions, as they stated, "Just as we choose to learn a specific foreign language or maintain a profile on Facebook - because the language is widely spoken or many of our friends are on Facebook." This might perhaps be a superficial perception, but the authors quickly point out the similarity in trade patterns between the UK and China. The latter's role in merchandise trade today is, in the authors' view, a favourable factor for internationalisation. When we add the size of China's economy and the steady rise in China's standard of living to the equation international usage of the renminbi will accelerate. Further, international investors had played an important role in the offshore renminbi from the outset, and should the renminbi hold its value against the other major currencies and assets, the foundation will be strong enough to encourage even deeper involvement by such investors. The authors firmly believe that such investors have a pivotal role to play. As we are witnessing the early movements, the authors point to some crucial impact and implications that would be worth noting. One of which is the impact of the offshore renminbi on the Hong Kong dollar itself. The question whether the Chinese policy might become a role model for other Asian governments is another. The big question is whether the renminbi might become a foreign exchange anchor in Asia, given the dominance of the US dollar and the Euro thus far. Finally, might we see eventually an Asian monetary union? The authors reminded us that the last great hope was the Japanese yen. Similar optimism had been expressed about the yen 15 to 20 years ago. The Chinese government, and indeed, all Asian governments would like to learn from the lessons in history. If the Chinese succeed, it might be at the expense of the US dollar. The authors seemed to believe that the US dollar will diminish over time. They warned, however, of important challenges - the Chinese authorities must "manage [the] growth of the currency's external use alongside financial market reform and capital account liberalization." However, the authors also believed that the renminbi will rise to stand alongside the developed currencies but not eclipsing them. China's great fear of inflation and a revaluation of its renminbi by free market forces presently ensure that it will not be moving too quickly. The next decade will be a fascinating one for China watchers. Those who find this book interesting might also wish to read Henry Sanderson and Michael Forsythe's "China's Superbank", 2013 John Wiley Sons. That is an account of the influence of the China Development Bank in recent times across the world. This bank has been expanding Chinese financial power and influence across the globe. 1 of 1 people found the following review helpful. Timely and well written. By Robin A good introduction to the issue of renminbi internationalization. The book gives an excellent overview of the economic and policy drivers for extending the use of the renminbi in international trade and financial markets. It is also great for explaining the new market jargon for the general reader. I would like to read more about the likely pace of onshore financial market reform and its influences on the pace of renminbi internationalization (perhaps a second book?). Very timely and well written.

The rise of the renminbi and what it means for forex markets Chinese authorities have ambitious plans to "internationalize" the renminbi, transforming it from a tightly controlled domestic legal tender into a global currency for international trade, held by both private and public sector asset managers. The Offshore Renminbi examines this impending currency revolution, outlining why the emergence of China as a major economic power will likely soon be matched by a transformation of the renminbi's role in the global financial system. It explains how new markets for "offshore" renminbi are developing outside mainland China since the country is not yet ready to fully open up its economy to international capital flows, and the regulations that govern them. The potential growth for the renminbi market is vast, thanks to China's role in the global trading community. The early stages of the internationalization effort were small-scale, but momentum has greatly increased over the past 18 months, making this book more relevant than ever. These developments offer new opportunities (and challenges) for corporate treasurers and investors, as China's profound economic success and growing prominence in global trade may transform offshore renminbi into a new global reserve currency and a legitimate competitor to the U.S. dollar. Explores how the "internationalization" of the renminbi is likely to yield a new global currency to rival the U.S. dollar Examines "offshore" renminbi and the host of new financial markets they have created, from a spot FX market to Dim Sum bonds in Hong Kong Covers broad

themes of interest to general readers and policymakers, as well as more detailed issues of practical and direct importance to corporate treasurers and investors. The Chinese government has ambitious plans to make the renminbi a global currency. *The Offshore Renminbi* explains the complexities of this strategy and the dramatic implications for the global FX markets.

From the Inside Flap: The implications of China's momentous decision to internationalise its national currency extend far beyond its many clear advantages for national and regional trade and economic stability. While the Chinese government's game plan regarding the opening of the renminbi to the global markets remains obscure, no one can doubt that its goals are ambitious— including, perhaps, replacing the U.S. dollar as the global reserve currency. As a global currency, the offshore renminbi is still a comparatively minor player, limited mainly to the Hong Kong Dim Sum bond and FX spot markets. Yet it already has begun to have a significant impact on the global business and finance status quo, challenging time-honored market practices— such as invoicing in U.S. dollars— and creating a steadily mounting wave of new financial products and investment opportunities. Written by two Hong Kong— based analysts with unparalleled expertise in Chinese market development and insider knowledge of the Chinese authorities' motives and mission regarding the renminbi, *The Offshore Renminbi* provides detailed answers to questions about the rise of the renminbi that are of critical importance to international business, finance and public policy professionals. Supported by first-hand source material and extensive original research, Robert Minikin and Kelvin Lau reveal: The motives behind China's decision to open its national currency to global free market forces and what it really hopes to gain by the move. The role the global credit crisis of 2008 played in the timing and structure of the rollout of the offshore renminbi. Why China has not fully opened its economy to international capital flows. How long it is likely to be before China fully opens the renminbi to a global free market. Regulatory measures which have laid the foundation for the new offshore renminbi. The huge potential for renminbi market growth given China's increasingly central role in global trade. The new financial markets and instruments that have sprung up around the offshore renminbi and their importance for investors and traders. Public policy implications of an internationalised renminbi and the seismic shifts already underway in both the Asian and global economies. The first authoritative, in-depth analysis of the rise of the renminbi and what it means for the international markets, *The Offshore Renminbi* is a valuable resource for corporate treasurers, real money and hedge fund investors, FX traders and financial officers at multinational corporations, as well as government policymakers and academic researchers in a variety of related fields.

From the Back Cover: Reveals the truth about China's big plans for its national currency and the global implications of an "internationalised" renminbi. "Robert and Kelvin have done an excellent job detailing the infrastructure of renminbi markets, in China and offshore, and describing specific policy moves to encourage internationalisation of the currency. Its accession to reserve currency status will depend on removal of Chinese exchange controls, acceptance of a floating yuan, and probably the end of interest-rate fixing within China, moves that could take much longer than the authors suggest. But as China moves down this path, this book will be a good guide to understanding its implications." — Charles Dumas, Chairman and Chief Economist of Lombard Street Research

"Minikin and Lau have written a timely, comprehensive, and useful book on what may be the most important opening of Chinese financial markets for years. China needs to embrace deeper reforms to continue to grow, and the relaxation of capital controls and a growing international role for the renminbi will be essential steps in that process. Understanding what is happening in Hong Kong and beyond with the renminbi is vital for anyone interested in Chinese growth." — Fraser Howie, Managing Director, CLSA Singapore and co-author of *Red Capitalism*

"The authors have provided a comprehensive and illuminating description of the internationalisation of the renminbi, one of the most significant financial stories of our time." — Robert Cookson, Asia Markets Correspondent at the Financial Times

About the Author: Robert Minikin is the Senior Foreign Exchange Strategist with Standard Chartered Bank, Hong Kong. He is a member of the Global Foreign Exchange Strategy team focusing on Northeast Asia FX, with a particular emphasis on "CNH," the new Chinese yuan (CNY) offshore market in Hong Kong. He is a well known commentator on financial market development who is regularly featured both in the print and broadcast media. Mr. Minikin has more than twenty years of experience in financial market analysis. He holds first and second degrees in economics from the University of London. Kelvin Lau is a Hong Kong— based economist covering Greater China, specialising in Hong Kong and the Pearl River Delta in Southern China. Kelvin joined Standard Chartered Bank as an economist in September 2000 and is currently a member of the Greater China research team. With a focus on Hong Kong and the Pearl River Delta (PRD) region in Southern China, Kelvin provides macroeconomic analysis and on-the-ground views of major economic issues. His views are quoted by various international as well as local media. He holds a degree in economics from the London School of Economics and Political Science.