

Economic Analysis

# The RMB starts direct trading with Euro: another step towards RMB internationalization

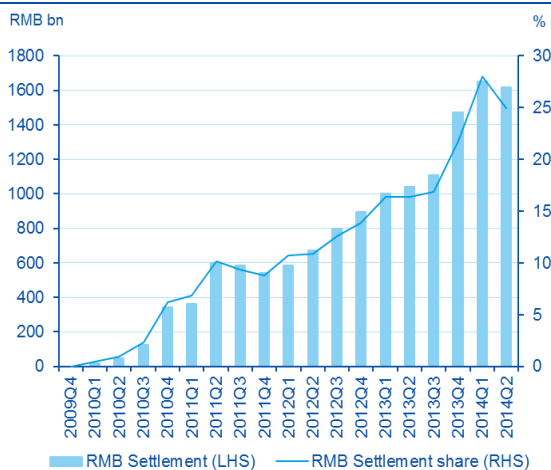
Le Xia and Jinyue Dong

The PBoC announced yesterday that the RMB will start direct trading with the Euro, marking another significant milestone of the RMB internationalization. (Figure 1) Previously, trading the RMB with other currencies in China's onshore foreign exchange markets required the usage of the US dollar as an intermediary. Under the direct trading mechanism, the RMB market makers can directly settle their RMB/Euro transactions. The direct trading will therefore lower transaction costs of market makers and facilitate the settlements relating to bilateral trade and investment. Prior to the direct trading with the Euro, China has already established similar mechanisms with the Russian Ruble, the US dollar, Australia and New Zealand dollars, the British pound and Japanese yen. Moreover, HSBC and Agricultural Bank of China are designated as the first batch of money makers for RMB/Euro trading in China's onshore market.

The establishment of the RMB-Euro direct trading is mainly due to the close trade and financial ties between China and the Euro Zone. (Figure 2) Furthermore, European countries' interest in the RMB is on the rise. In particular, French and German companies lead the use of the RMB outside Asia, according to a HSBC report based on a survey of 1,304 companies in 11 major economies. The report also revealed that 26% of surveyed French corporates and 23% of German companies used the RMB to settle their trade transactions, the highest proportions apart from Hong Kong and Taiwan.

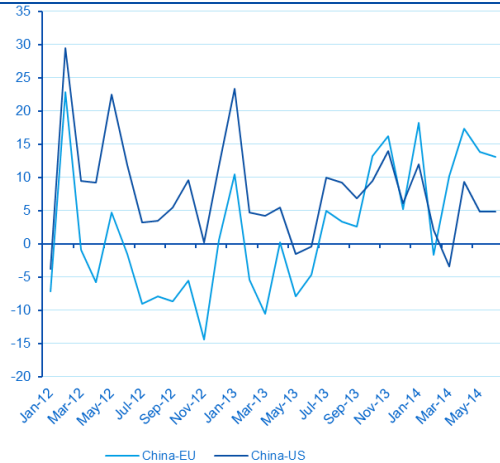
In summary, direct trading of the RMB and the Euro would benefit both sides and constitute another important step of the RMB internationalization. However, it still has a long way to cover before the RMB becomes a global reserve currency comparable to the USD, Euro and JPY given that China's capital account largely remains closed.

Figure 1  
**The percentage of RMB settled trade has increased rapidly**



Source: CEIC and BBVA Research

Figure 2  
**Trade linkage between China and the Europe has become tighter than that of the US**



Source: CEIC and BBVA Research

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