Many European exporters are considering the switch to renminbi invoicing.

Making the Switch

The ability to conduct trade in renminbi is shifting from a "could have" to a "must have". Deutsche Bank's Evan Goldstein explores the considerations involved in taking this step.

Treasurers with links to China need to consider three things: why an RMB switch is beneficial, whether it is right for them and how to go about it. The first is certainly the easiest. The RMB is already the eighth most-traded world currency – overtaking 22 currencies in just three years – and is the second-most-utilised currency in trade finance.

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Indeed, not just the considerable growth, but the rate of growth is noteworthy, having achieved this trajectory in a matter of years. Between November and December 2013, the value of RMB used globally grew by 15%, compared to the average 7% of other currencies. Such progress is expected to continue as are the gradual, but steady steps towards convertibility and internationalisation that China has been implementing, including relaxing regulations of all kinds, most notably by widening trading bands and allowing electronic transactions.

For corporates trading with China, pricing and settling in RMB can reduce transaction costs by up to 7% and help avoid FX costs and risks as well as creating opportunities to improve sales terms with Chinese corporates, giving them a competitive advantage in the onshore market.

Of course, such capabilities cannot be achieved without understanding the complexities of this currency – one that undoubtedly has more than most. For example, there are two separate and non-combinable pools of the currency: CNY (the official ISO code and regulated onshore currency) and CNH (the offshore pool whose rate is determined by the market). In addition, constantly changing regulations require market diligence and carefully-managed reactivity, and they are also opening the RMB up to the possibility of greater volatility.

Operational complexity and the importance of detailed and up-to-date information should not be a deterrent. By leveraging the support of a strong and experienced banking partner, corporates can ensure that these obstacles do not prevent them from accessing the great benefits that trading in RMB will yield.

The first step in this regard is for treasurers to ascertain the cooperation of stakeholders and counterparties alike. As with any such project, alignment and communication across an organisation is key. Then, current and expected rules and regulations must be considered and met with the assistance and specialist expertise of a provider.

Lastly, infrastructural changes will be necessary – including, but not limited to, accounting and treasury system upgrades. The specificities of this undertaking should be determined by banks on an individual case-by-case basis, as exactly what this entails will depend largely on corporates' existing state and needs.

This is not the simplest of journeys, but it will soon become a necessary one. Corporates that leap (before they are pushed by market pressures) will find themselves better positioned to exploit the opportunities that the currency provides.

» Pricing and settling in RMB can reduce transaction costs by up to 7%.«

For more information on the nuances of regulations – their changing nature and predicted future – and on the benefits and challenges of becoming RMB-capable, please refer to Deutsche Bank's upcoming whitepaper, 'The Renminbi: 2014 and beyond: Translating developments into tangible business opportunities'.