

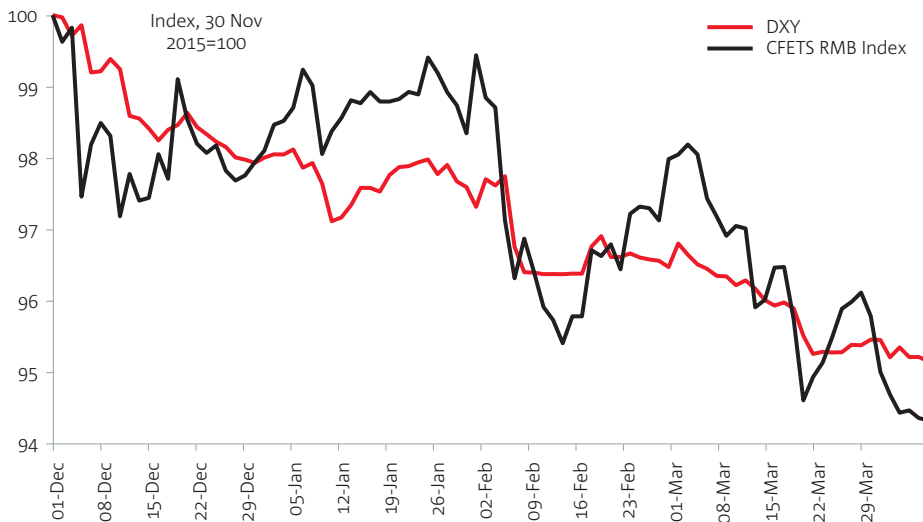
RMB SNAPSHOT 2016

Renminbi



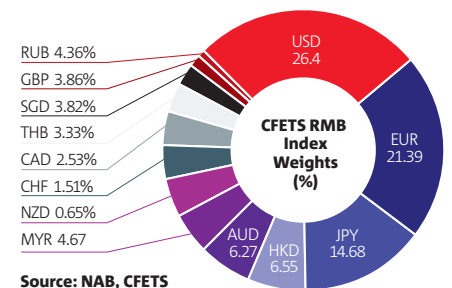
THE RMB EVOLVES

As a matter of official policy, the RMB is being managed with a view to keeping it relatively stable against a basket of currencies as defined by the weights released by the China Foreign Exchange Trade (CFETS). Since December 2015, the CFETS RMB Index has been managed very much in line with the Dollar Index (DXY). This helps to reduce the focus on bilateral USD/CNY (Onshore RMB) rate, in addition to introducing a greater degree of two-way movement in the USD/CNY. This currency flexibility, in turn, helps to ensure that China is able to retain a meaningful degree of autonomy in its monetary policy. The authorities however are still keeping the volatility of the RMB significantly lower than the DXY and this is likely to persist.



In total, these six currencies dominate the CFETS basket with **80%** of the total weight.

Given that the HKD is pegged to the USD, **the latter can be seen as accounting for almost 33%**



1

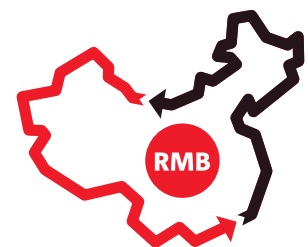
The RMB's rising global importance received an international nod as **the International Monetary Fund officially added the RMB to its SDR basket.**



2

A freer RMB has to be the currency regime that the RMB has to move towards if it is to be trusted as a trade settlement and reserve currency.

The RMB will need to be highly convertible.



3

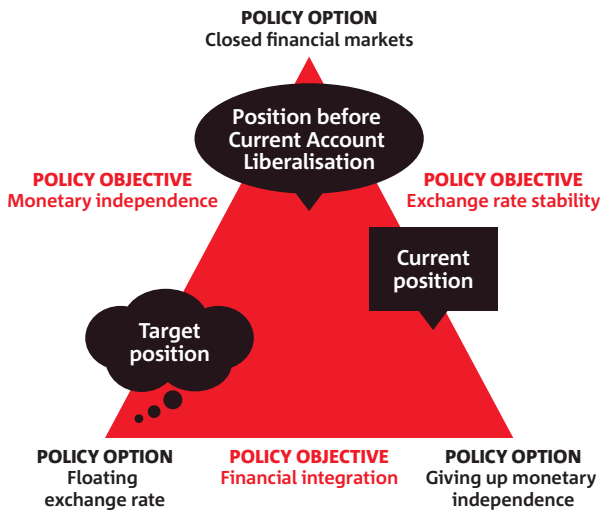
The ease of engaging two-way flows in and out of China will need to be increased to assure external parties that funds converted to RMB will not be trapped. To that end, access to onshore asset markets will also need to be increased so that **RMB holders will be able to have access to yield-bearing assets.**

THE RMB EVOLVES

4

A free float is also necessary if authorities are to be able to maintain monetary policy independence while still continuing to open up the capital account. This is the policy bind known as **The Trilemma**.

'The Impossible Trinity' or simply **'The Trilemma'**, says that at any one time, on 2 out of the following 3 policy objectives - free capital flows (or financial integration), exchange rate stability and monetary autonomy – can be achieved.



Source: NAB, IMF

5

This seems to be in line with the continued evolution of the RMB into a more international currency. The China Foreign Exchange Trade System (CFETS) started publishing an internally calculated exchange rate index of the RMB's value vis-à-vis a basket of currencies in mid December 2015.

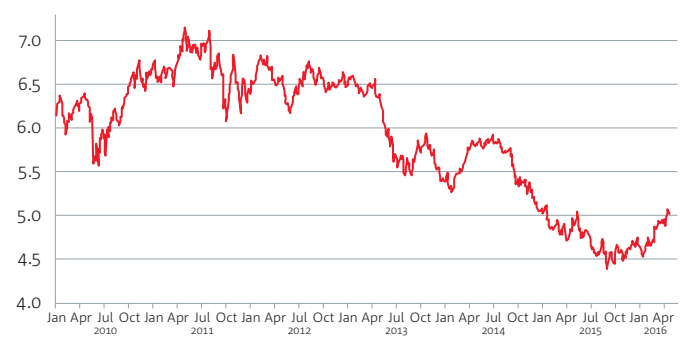


6

The CFETS RMB index is heavily weighted in the majors of the USD, EUR and JPY, but is also adapted to the specific nature of China's trading landscape, devoting

17.5%
to the HKD, AUD and MYR.

AUD/CNY Spot Exchange Rate



AGENDAS AHEAD

China's policy agenda is likely to be dominated by the twin agendas of

- Cementing the RMB's reserve currency status by further liberalizing currency, and
- Opening the capital account

Key steps in the next five years for China:

Slower growth trend (sub <7.0%)

Faster innovation

Constant financial market liberalisation

A more market driven currency

A deeper bond market

A healthier banking sector

A global force with:

- The RMB as a reserve currency in the IMF SDR basket
- Asian Infrastructure Investment Bank (AIIB)
- One Belt One Road (OBOR)



China's Economic Targets And Actual Data

| | 2015 Target | 2015 Actual | 2016 Target |
|------------------------|-------------|-------------|----------------------------|
| GDP growth | 7.0% | 6.9% | 6.5-7% |
| CPI inflation | 3.0% | 1.4% | 3.0% |
| M2 growth | 12.0% | 13.3% | 13.0% |
| Fixed asset investment | 15.0% | 9.8% | 10.5% |
| Fiscal deficit to GDP | 2.3% | 2.4% | 3.0% |
| Total Trade | 6.0% | -8.0% | No target this year |

Source: NAB, Bloomberg

WHAT DOES IT MEAN FOR BUSINESSES OUTSIDE OF CHINA



Potential increase in RMB transactions within Asian economies

China is now the largest trading partner for many Asian economies



Increased access to banking sector credit

Effective from 1 October 2015, the government had removed the 75% cap on banks' Loan-to-Deposit Ratio (LDR)



Increased access to trust loans, interest rate flexibility and risk appetite

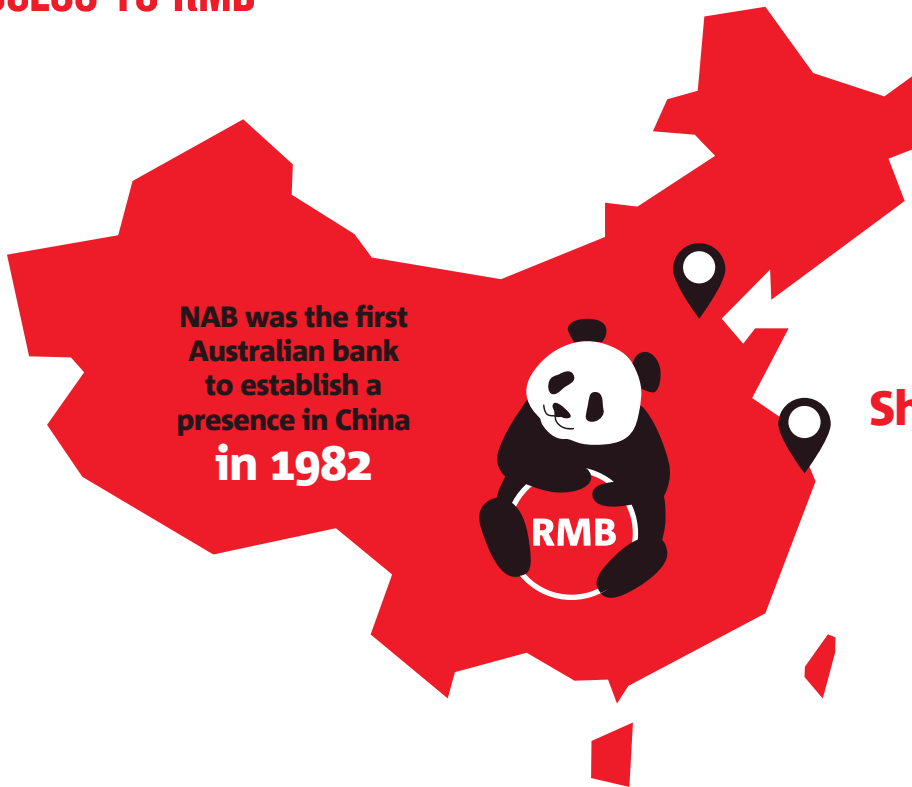
The China authorities have taken steps to liberalize interest rates and provide incentives to lend to SMEs and the agricultural sector



Business trend moving from SOEs to sizeable segment of the economy – SMEs

The China authorities have already demonstrated that they are willing to bear the pain of slower growth in order to begin to correct the lack of allocative efficiency in the economy

ACCESS TO RMB



NAB was the first Australian bank to establish a presence in China in 1982

Branches established in Shanghai and Beijing

| Onshore CNY | Offshore CNH | Cross-border |
|-----------------|--|----------------------------|
| USD/CNY Spot FX | USD/CNH Spot FX | Trade related RMB delivery |
| | USD/CNH Outright to 5 years | |
| | USD/CNH Forward FX swaps up to 5 years | |
| | USD/CNH CCS up to 5 years | |
| | CNH vanilla Options | |

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