

Challenging the \$-€opoly: how's the RMB doing?

Comments on SUERF/Baffi Bocconi E-Lecture, *The international role of the euro*
by Hans-Joachim Klöckers and Arnaud Mehl

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Agenda

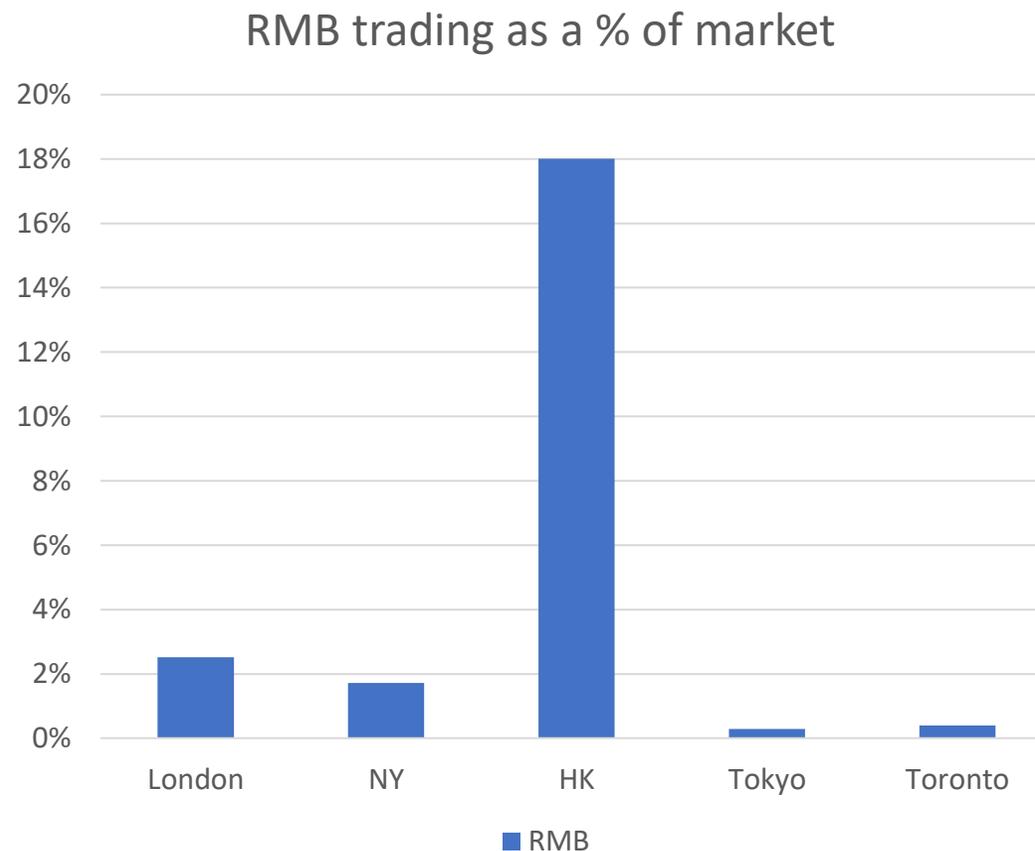
- Improving *The international role of the euro*.
 - Reporting and updating FX turnover.
 - Measuring key currency anchors.
 - Measuring currency composition of FX reserves.
- The RMB in the FX market.
- The RMB in the global bond market.
- The RMB: “lop-sided” or balanced internationalisation?
 - China’s external banking claims and liabilities.
 - The RMB in China’s Belt & Road lending.
- Do we have two jurisdictions promoting currency internationalisation, partly in response to the political use of the dollar’s role?

Reporting and updating FX turnover by currency

- Reporting currency shares in FX market: which statement better serves?
 - The \$ represents 44% of all the currencies involved in the FX market.
 - The \$ is on one side of 88% of trades in the FX market.
- Updating FX turnover by currency
 - *International role* reports 2019 Triennial survey shares.
 - But major centres' FX committees survey every six months, incl October 2020.
 - Oddly no such surveys in euro area.
 - But joint coverage of London, NY, HK, Singapore, Tokyo, Sydney, Shanghai & Toronto is high.
 - Turnover fell about 4% in October 2020 relative to April 2019.
 - London down 10%, HK down 11%, Singapore down 3%.
 - NY up 15%, Tokyo up 7%, Sydney up 17%, Canada up 18%
 - What about turnover by currency?

RMB gains share in FX trading 4/19-10/20

- In the most active centre, London, RMB daily trading rose from \$78.3 billion to \$84.5 billion, even as overall trading fell by 10% there.
- Share in 5 offshore centres averages 4.2%.
- RMB is still quite regional in trading, with wide dispersion of shares of trading by centre.



Measuring key currency anchors

- In Chart 1 and Box 1, *The international role of the euro* depends on Iltzetzki, Reinhart & Rogoff (2019), who sort currencies into key currency zones on a “winner take all” basis, according to the minimum variance.
 - Evidently, information is lost reducing weights on the key currencies to the identification of a single key currency with the minimum variance against the given currency.
 - Russian ruble, Turkish lira and Israeli shekel all trade between the € & \$.
- Better to follow following Haldane and Hall (1990) and Frankel and Wei (1994): decompose currency movements into those associated with \$/€ and idiosyncratic movements, and assign currencies to \$ & € zones accordingly (Ito and McCauley (2019))—“proportional representation”.
- Thus, Box 1 regression suffers from *errors in independent variable*: the estimated coefficient on the “currency alignment” is biased toward zero.

Winner take all puts UK in € zone, Singapore in \$ zone

Bank of England's sterling effective exchange rate stability....

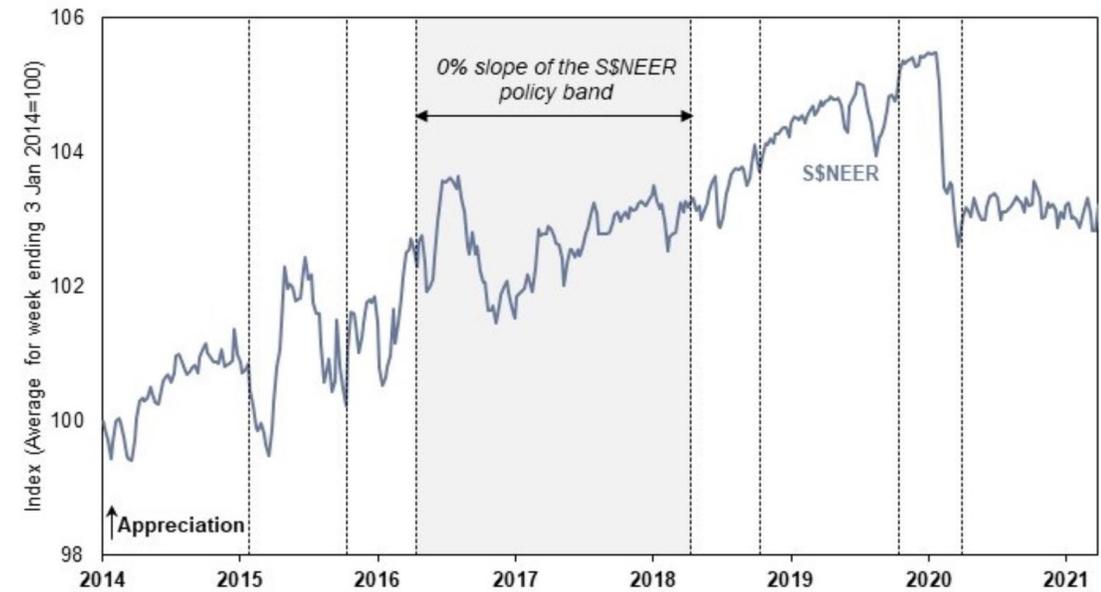
Index, 2005 = 100



...results when £ splits the €-\$ difference, 2/3:1/3
=> € is £ “anchor”?

Source: Bank of England.

Monetary Authority of Singapore's S\$ effective stability...



...requires heavy weight on US\$, given Asian FX, but
MAS policy anchor is clearly the trade weighted index!

Source: MAS.

Measuring FX reserve composition by currency

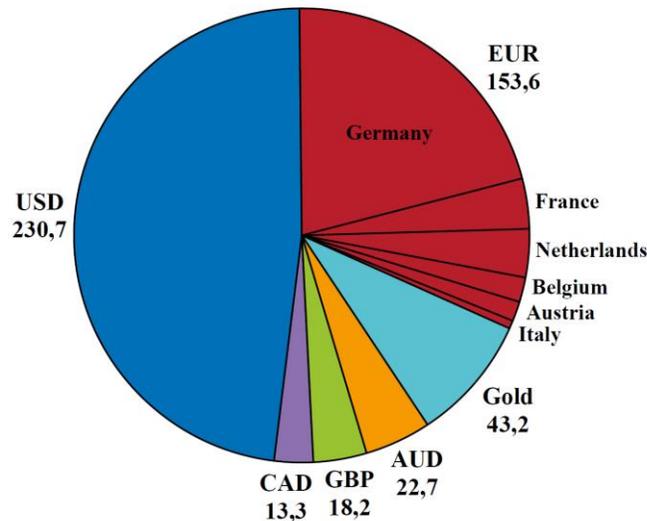
- Box 1 of *The international role of the euro* depends on IMF staff compilations of individual countries' FX reserve composition by currency (Iancu et al (2020)).
- Despite its 9 authors, the reliability of this study remains to be demonstrated.
 - Eg, Riksbank gives two FX reserve compositions, one by country (residence of obligor), the other by FX exposure.
 - IMF team uses country breakdown; Ito and McCauley (2020) FX exposure.
 - The latter takes into account eg the sale of \$ forward against Norwegian kroner, that in effect turns US Treasury securities into synthetic Norwegian kroner securities.

What is Riksbank's FX currency composition?

Iancu et al: \$, 53%; €, 35%?

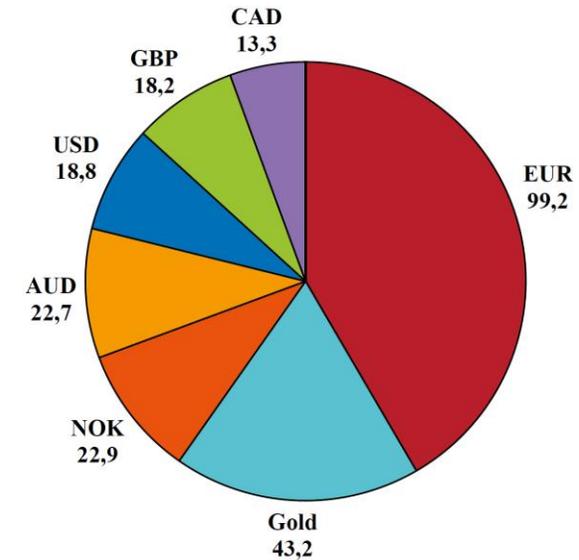
Ito & McCauley: \$ 10%; €, 51%?

Chart 13 Composition of the foreign currency reserve at the end of 2017, SEK billion



Note: The figures in the chart show the market value of the gold and foreign currency reserve, including accrued interest.
Source: The Riksbank.

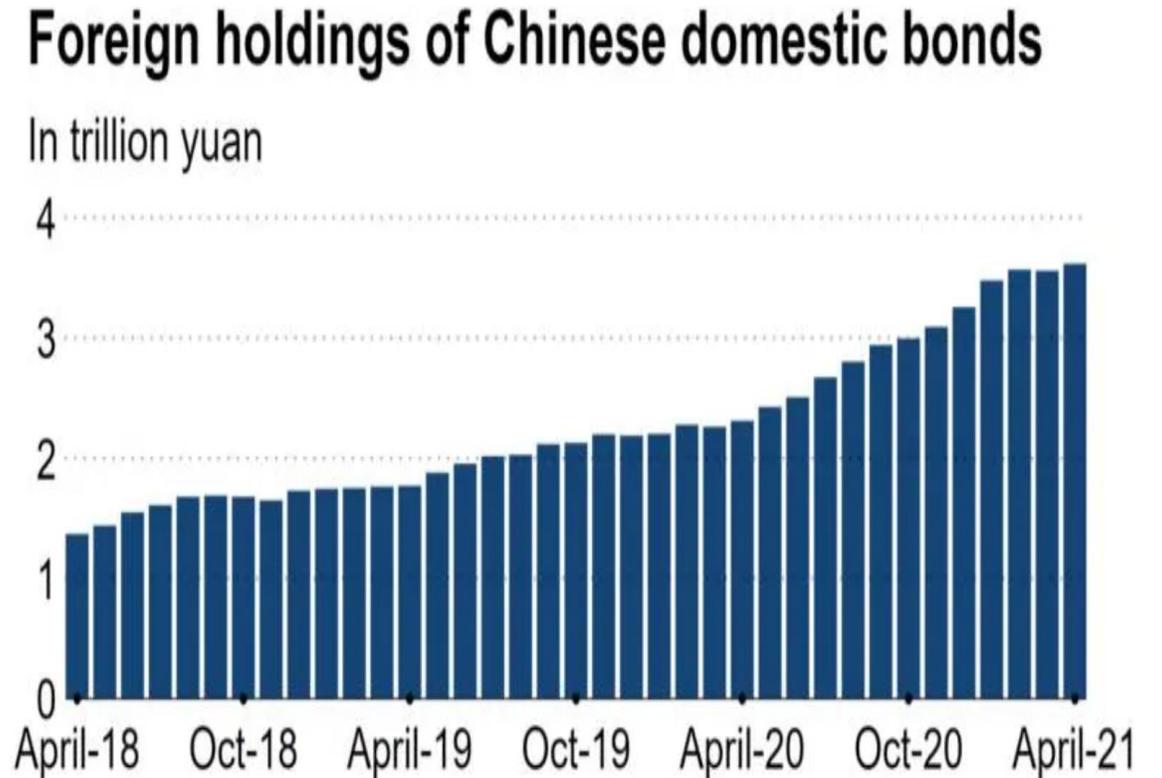
Chart 14 The Riksbank's foreign currency exposure at the end of 2017, SEK billion



Note: The figures in the chart show the Riksbank's foreign currency exposure including accrued interest. The calculation of foreign currency exposure is based on both assets and liabilities (including currency swaps) and is reported for the Riksbank's net receivables.
Source: The Riksbank.

RMB internationalisation: Big inflows into Chinese govt bonds

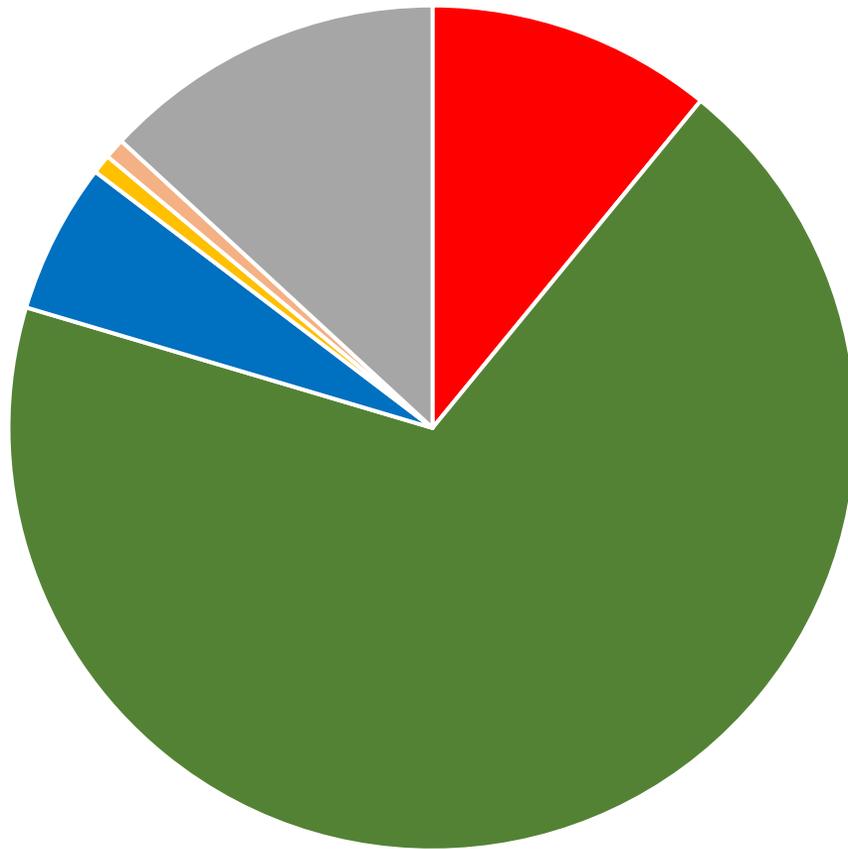
- As Chinese government bonds have joined major global bond indices, indexed money has joined reach-for-yield investors.
- Foreign holdings have hit double-digit share of such bonds.
- Current tax exemption for foreign investors expires in November.
- But the pattern of more investment than borrowing in RMB is being repeated.



Source: ChinaBond and Shanghai Clearing House

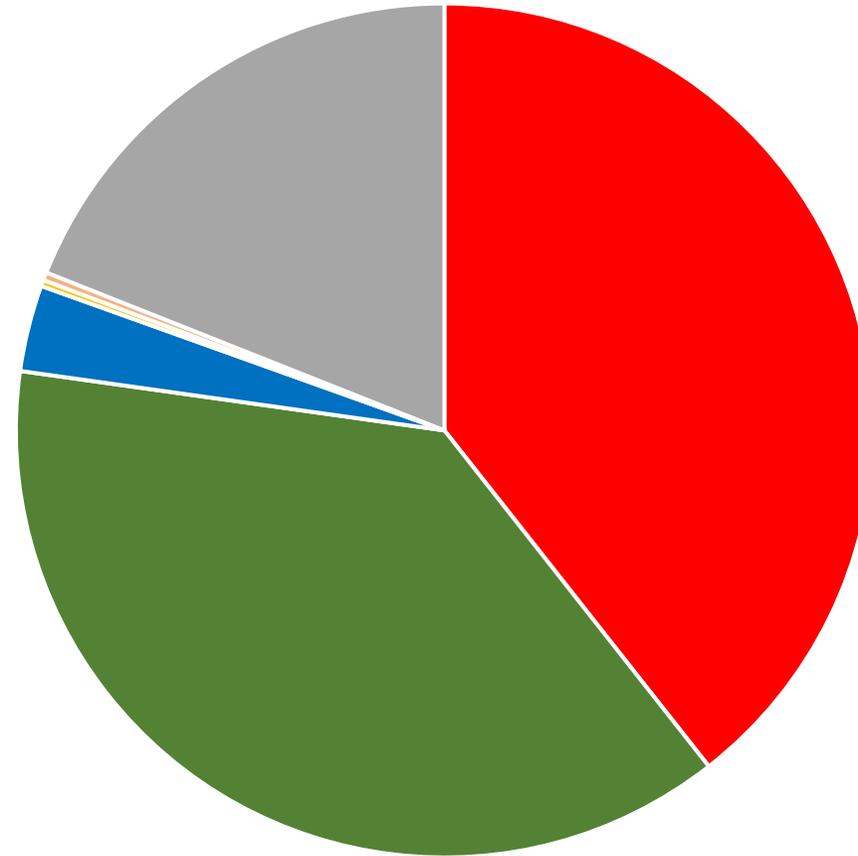
RMB internationalisation: limited & “lopsided”

Banks in China: external assets, end-2020, \$1.4 trillion



■ RMB ■ \$ ■ Euro ■ JPY ■ £ ■ Other

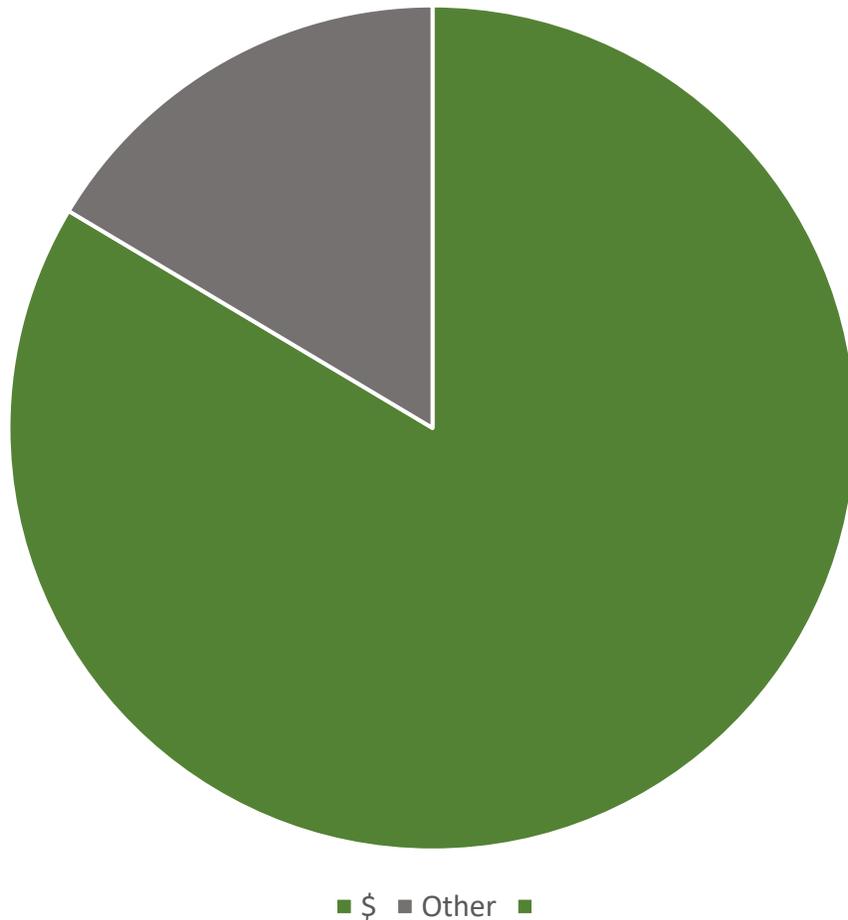
Banks in China: external liabilities, end-2020, \$1.5 trillion



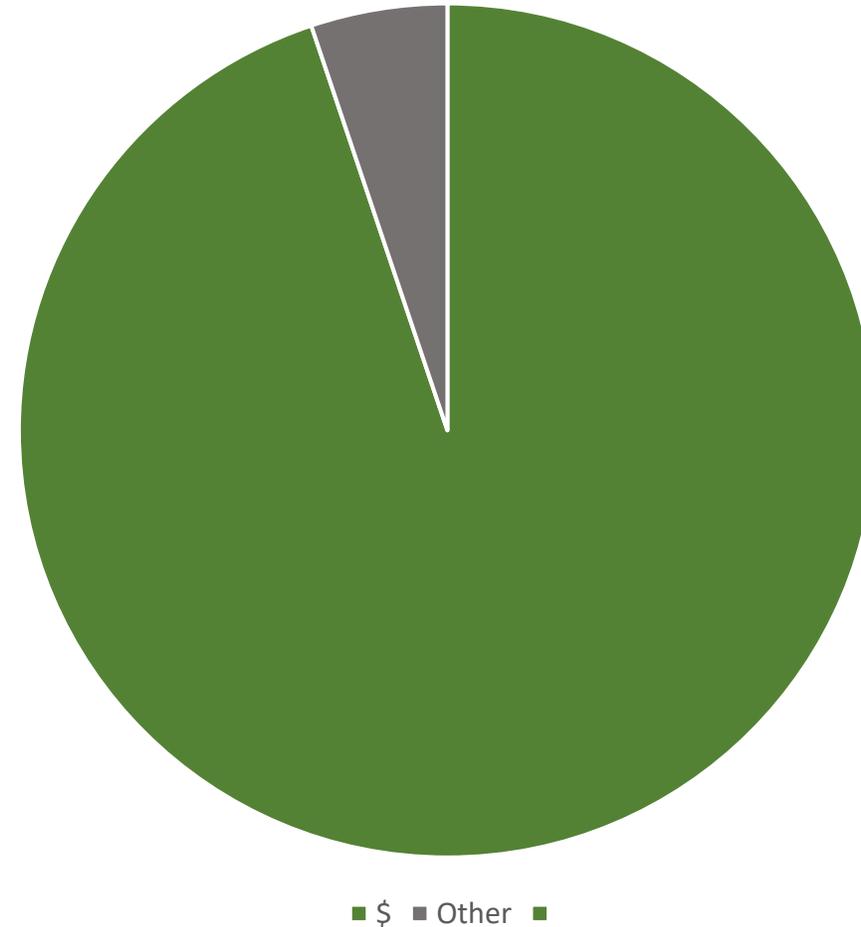
■ RMB ■ \$ ■ Euro ■ JPY ■ £ ■ Other

\$ internationalisation: extensive & balanced

Banks in US: external assets, end-2020, \$4.4 trillion

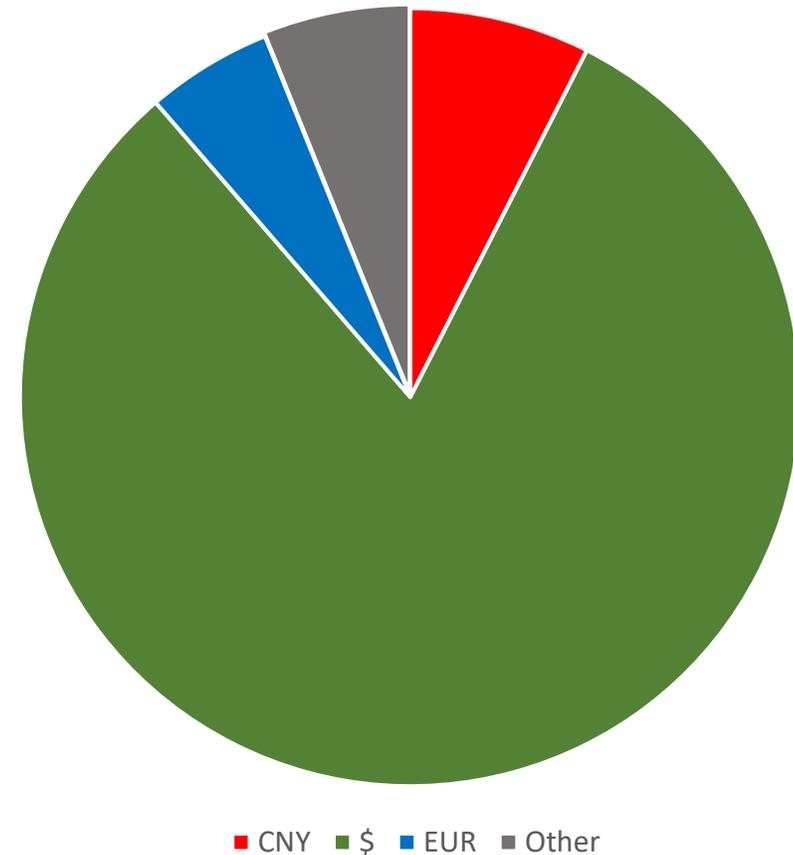
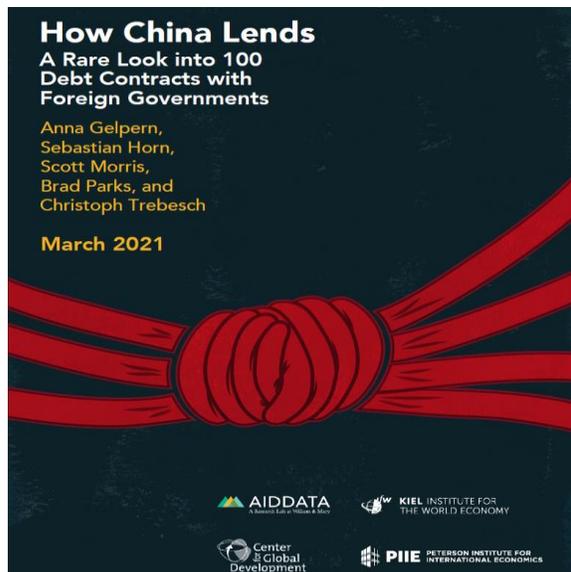


Banks in US: external liabilities, end-2020, \$6.5 trillion



Even Chinese policy banks lend to EM gov'ts in \$

- Mostly Ex-Im Bank and China Development Bank loans to mostly African and Latin American governments.
- Totals to \$42 billion.



McCauley, Challenging the \$-€opoly: how's the RMB doing?

Policy on currency internationalisation

	Resist	Be neutral	Promote
Youth	DE, 1950s-1960s JP, 1950s-1980s CN, 1950s-2009/11		China, 2009/11-
Maturity	DE, 1970s-1990s <i>Evade</i> : “US on occasion”	<i>Enjoy</i> : € area 1999-2019(?)	Japan 1990s <i>Exploit</i> : “US most of the time” € area 2020-(?)
Decline	<i>Reinforce</i> decline: UK, 1960-1970s	<i>Relax</i> : JP, post-2003, UK, 1979-	<i>Resist</i> decline: UK 1950s

Freely adapted from Benjamin Cohen, *Currency statecraft: monetary rivalry and geopolitical ambition*, Chicago: UC Press, 2019.

Is the euro area now promoting the euro?

- Original ECB policy: Neither promote nor discourage.
- Brussels ambition evident in Alogoskoufis & Portes (1991, 1992, 1997).
- Evidence:
 - Exhibit A: European Commission (2019): “Strengthening the international role of the euro: results of the consultations”, *Staff Working Document* 600, 12 June.
 - Exhibit B: J Pisani-Ferry, M Leonard, E Ribakova, J Shapiro and G Wolff (2019): “Redefining Europe’s economic sovereignty”, in in M Leonard and J Shapiro, eds, *Strategic sovereignty: how Europe can regain the capacity to act*, European Council on Foreign Relations.
 - Exhibit C: T Ruys and C Ryngaert (2020): “Secondary sanctions: a weapon out of control? The international legality of, and European responses to, US secondary sanctions”, *The British Yearbook of International Law*.
 - Exhibit D: B Eichengreen and D Gros (2020): *Post-COVID-19 global currency order: risks and opportunities for the euro*, European Parliament, Policy Department for Economic, Scientific and Quality of Life Policies for the Committee on Economic and Monetary Affairs, September.
 - Exhibit E: European Commission (2021): “The European economic and financial system: fostering openness, strength and resilience”, COM(2021) 32 final, 19 January.

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