QATAR'S RMB CLEARING CENTRE: POISED FOR EXPANSION

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Qatar's RMB Clearing Centre is primed for growth, as trade volumes increase and as it diversifies the type of transactions it hosts to include more investment activities. The projected uplift in transactions will not only introduce further vibrancy and liquidity into the RMB Centre, but it will also foster commercial ties between China and Qatar. Qatari corporates, traders and financial institutions stand to benefit directly through lower transaction costs. As both economies continue to expand well over the next decade, prospects for a stronger commercial bond is destined to materialize and stands ready to be facilitated through the RMB Centre. In the short-term, hiccups derived from the ongoing coronavirus (COVID-19) epidemic may slow down progress, however this will not impede its long-term favorable trajectory.

WHAT IS THE QATAR RMB CENTRE, AND WHAT DOES IT DO?

The Qatar Renminbi Centre (QRC) is the first in the MENA region and the sixth oldest settlement and clearing facility of the Chinese currency in the world. It is a physical financial gateway to China. It allows Qatari establishments to directly access China's onshore RMB, foreign exchange, and capital markets. Financial institutions in- and outside Qatar have opened accounts with the Industrial and Commercial Bank of China (ICBC), which is the clearing center operator of the QRC. These accounts allow them to expand their range of products and services to clients, including the ability to transact directly with Chinese entities in their local currency.

Establishment of global Renminbi Centers has largely been driven by economic considerations, particularly with envisioned future key partners of China. The majority of the other 23 global Renminbi Centres have commenced operations only after the establishment of a swap line between the People's Bank of China (PBoC) and the respective central banks of the hosting countries. In Qatar's case, a 3-year currency swap line with a value of RMB 35 billion was signed in April 2014, which provided access to liquidity under unexpected circumstances and with an intention to expand RMB trade and investment. Other Renminbi Centre hosts, such as Singapore and Hong Kong, have put in place an RMB liquidity facility on the back of the central bank swap facility with the intention of encouraging additional RMB market activity. Qatar's swap line was agreed to at the same time as the now-defunct RQFII quota of RMB 30 billion, which prior to September 2019-dated reforms dictated access to Chinese capital markets for Qatari asset managers. The RQFII scheme now no longer applies, although Qatari institutional investors will continue to be subject to qualification requirements and ongoing account management as well as compliance obligations to access Chinese capital markets.

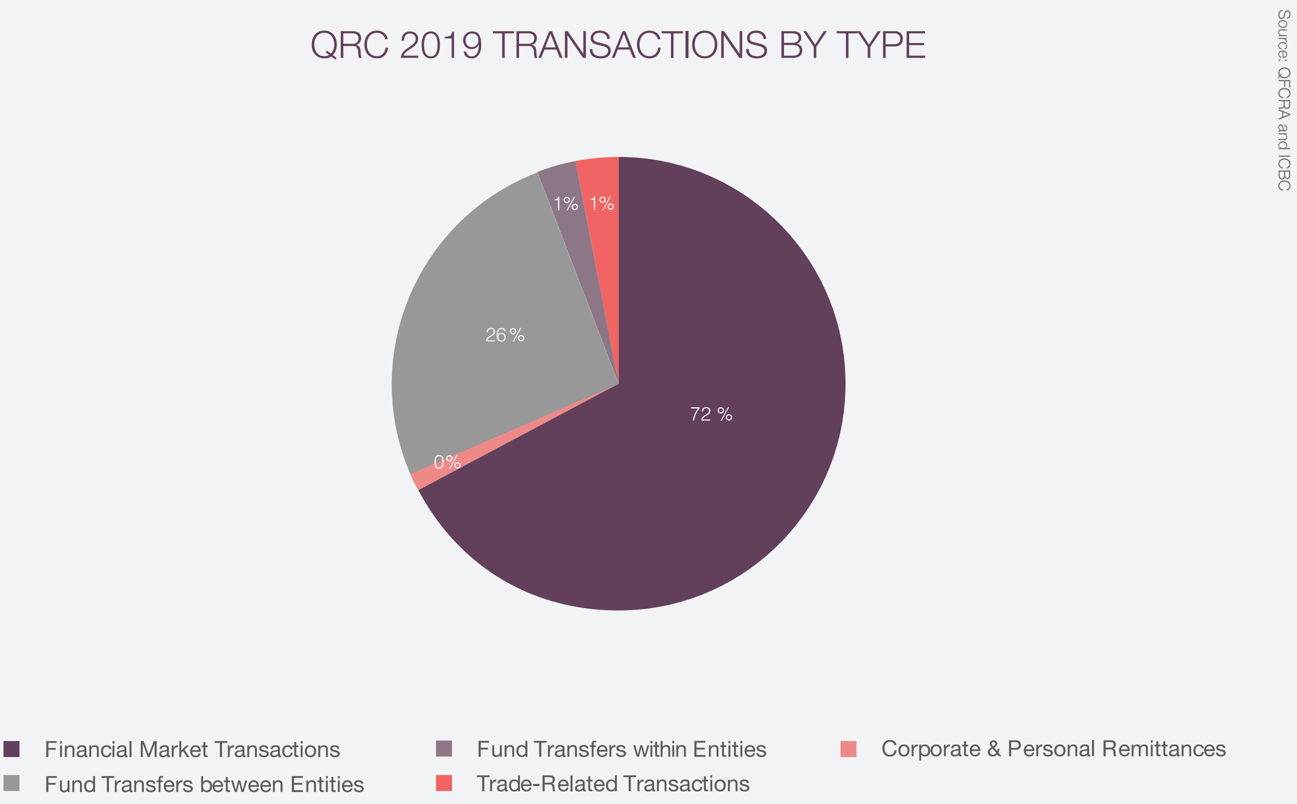
GLOBAL RMB CENTRES

Country	RQFII Quota (RMB bn)	PBoC Swap Line (RMB bn)	RMB Deposit	Clearing Bank	Clearing Centre start date
Hong Kong	270	400	617.0	BoC	1/1/2003
Taiwan	100	N/A	261.0	BoC	2/1/2013
Singapore	100	400	122.0	ICBC	4/1/2013
South Africa	0	30	N/A	BoC	9/1/2013
Russia	N/A	150	N/A	ICBC	10/1/2013
Qatar	30	35	N/A	ICBC	4/1/2014
UK	80	200	56.7	CCB	6/1/2014
South Korea	120	360	1.4	Bocom	7/1/2014
France	80	350	20.0	BoC	9/1/2014
Luxembourg	50	350	67.2	ICBC	9/1/2014
Australia	50	200	N/A	BoC	11/1/2014
Germany	80	350	50.0	BoC	11/1/2014
Thailand	50	70	N/A	ICBC	12/1/2014
Canada	50	200	N/A	ICBC	3/1/2015
Malaysia	50	180	N/A	BoC	4/1/2015
Chile	50	22	N/A	CCB	7/1/2015
Argentina	N/A	70	N/A	ICBC	9/1/2015
Hungary	50	10	N/A	BoC	10/1/2015
Switzerland	50	150	N/A	CCB	11/1/2015
USA	250	N/A	N/A	BoC	9/1/2016
Macau	0	N/A	31.6	BoC	10/1/2016
UAE	50	35	N/A	ABC	5/1/2017
Japan	N/A	N/A	N/A	BoC	6/1/2019
Philippines	N/A	N/A	N/A	BoC	9/1/2019

The QRC's volumes have risen steadily over time, to have reached RMB 184.5 billion in 2019. Most of the activity was dominated by financial market transactions, which are principally money market flows. The largest participants are Qatari banks regulated by the Qatar Central Bank that are providing and drawing on excess short-term liquidity. This Qatari increase in RMB usage mirrors that of global financial institutions, of which 26.3% now use the RMB for payments as of July 2019 according to Watch (powered by SWIFT BI). The remainder of QRC transactions are either fund transfers between or within financial institutions as well as remittances and trade-related transactions. This pattern largely mirrors that of other global RMB centers, from which global financial institutions and corporates often send monies between jurisdictions they operate under.

> **"THE QRC'S VOLUMES HAVE RISEN STEADILY OVER TIME, TO HAVE REACHED RMB 184.5 BILLION IN 2019"**

QRC 2019 TRANSACTIONS BY TYPE

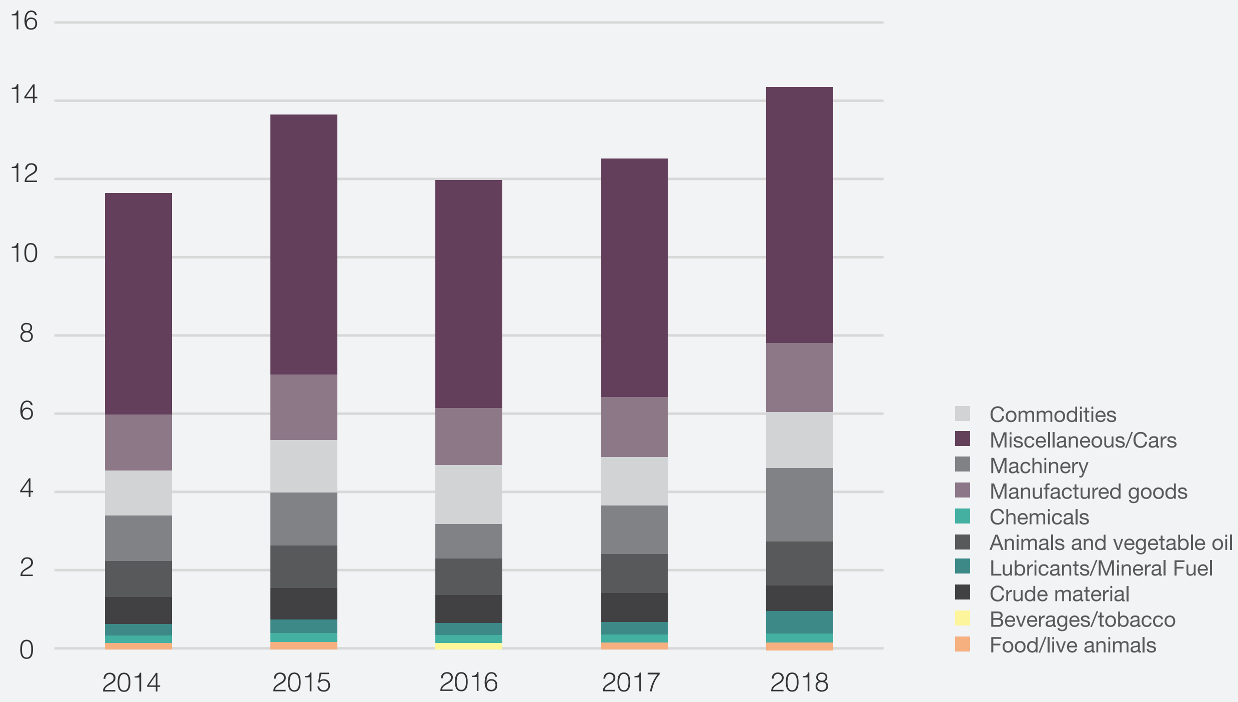


WHAT IS NEXT FOR QRC? HOW WILL IT REACH THE NEXT LEVEL?

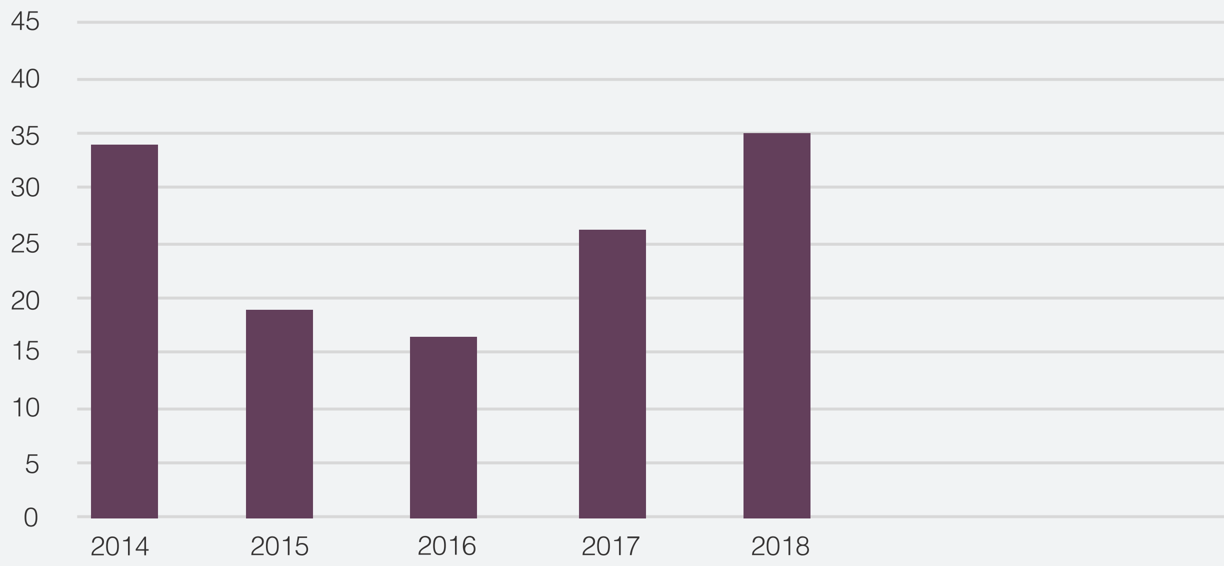
The QRC is poised to enlarge as it branches out to cater to new and evolving client needs. One immediate area of potential growth is in the goods and services trade, which is projected to expand robustly over the near-term horizon. Beyond that, further flows will be dependent on a positive use case for RMB by Qatari investors eager to establish a substantial commercial presence in China.

By engaging in RMB invoicing, Qatari corporates stand to grow profits and their opportunity set. As Qatar-China commercial links expand further, and trade volumes traveling through Qatari ports rise, there is destined to be more trade-related transactions hosted on the QRC. As of 2019, only 0.76% of QRC transactions were connected to trade transactions, which represented 1.5% of all Qatar-China goods trade in the same year. This stands in contrast to the global benchmark, which as of August 2019 stood at 2.22% of RMB's use in payments (for both goods and services). Qatari corporates stand to benefit directly from transitioning to the use of RMB in their transactions. It is proven that increased use of RMB results in reduced costs, facilitation of commercial discussions and relations, as well as enablement of access to a larger supplier base in China. Especially after recent regulatory changes in China, Chinese merchants have a driving reason to use the RMB in transactions that remove documentation complexities. Qatari merchants stand to source existing and increasingly complex products directly from China through their use of RMB invoicing. Qatar could follow Australia's example, where a gradually deepening economic relationship with China has seen Australia's service exports to the nation rise by an average annual rate of 15% over the past decade. This follows Australia's commencement of RMB invoicing in 2009, which expanded to cover 20% of China's total foreign trade with the country by 2014. Beyond the geographical limits of the State of Qatar, Qatari merchants stand to benefit from the country increasing re-exports to East Africa and beyond through agreements with MSC to use Hamad Port as a transshipment hub. Chinese focus on expanding trade flows to the wider region can complement simultaneous Qatari corporate and banking activity.

QATARI IMPORTS FROM CHINA (2018-2014, QAR BILLIONS)



QATARI EXPORTS TO CHINA (2018-2014, QAR BILLIONS)

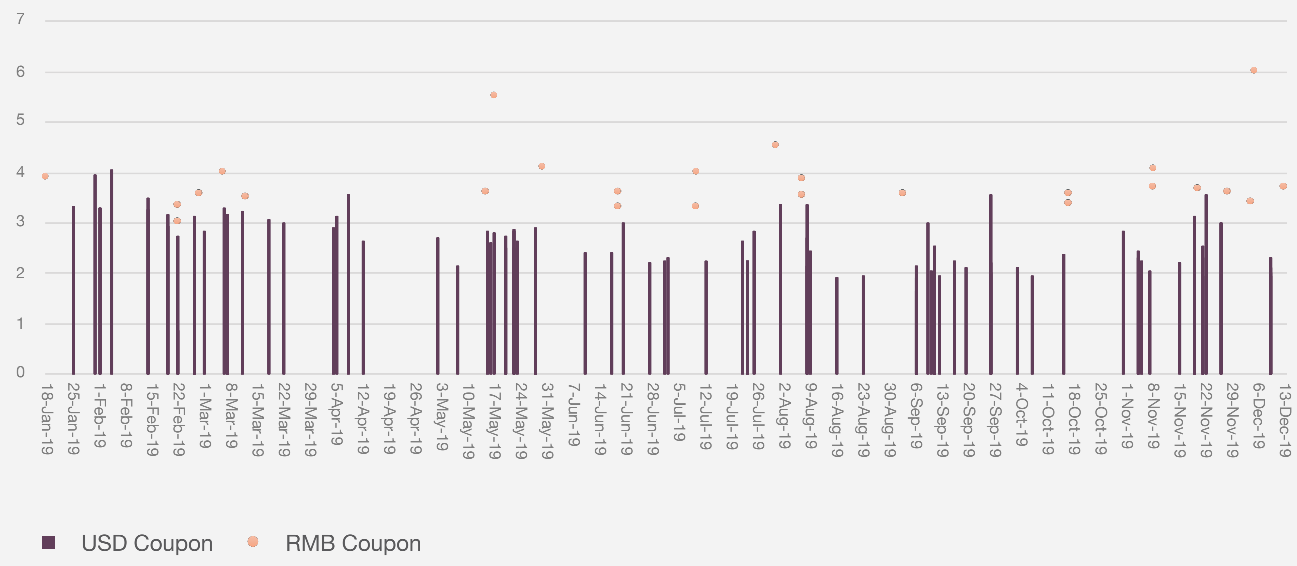


An additional avenue for increased QRC transactions is in the financial space, where funding transactions from Qatari financial institutions and corporates are positioned to rise. Qatari financial institutions already tap into Chinese capital markets. However, this activity is concentrated exclusively on short-term transactions in money markets. Looking forward, Qatari corporates are well positioned to issue medium- and long-term notes in the form of Panda bonds (onshore), much like QNB Finance has already tapped into Dim Sum bonds (offshore in London). These pioneering Qatari financial institutions and corporates would join ranks with the likes of Daimler, Trafigura and Veolia to issue substantial debt instruments in Chinese capital markets. Other issuers in the region have followed suit, and in the last two years have made 40 debt issuances including 3 and 5-year RMB-denominated issuances. As Qatari entities increasingly tap into Asian capital markets, such as Taiwan through Formosa bonds, exploring an even larger and deeper capital market in China beckons. This is especially true as the spread between USD and RMB-denominated is narrowing, to an average of 116 basis points in 2019 amongst a sample of over 120 transactions and is projected to fall further.

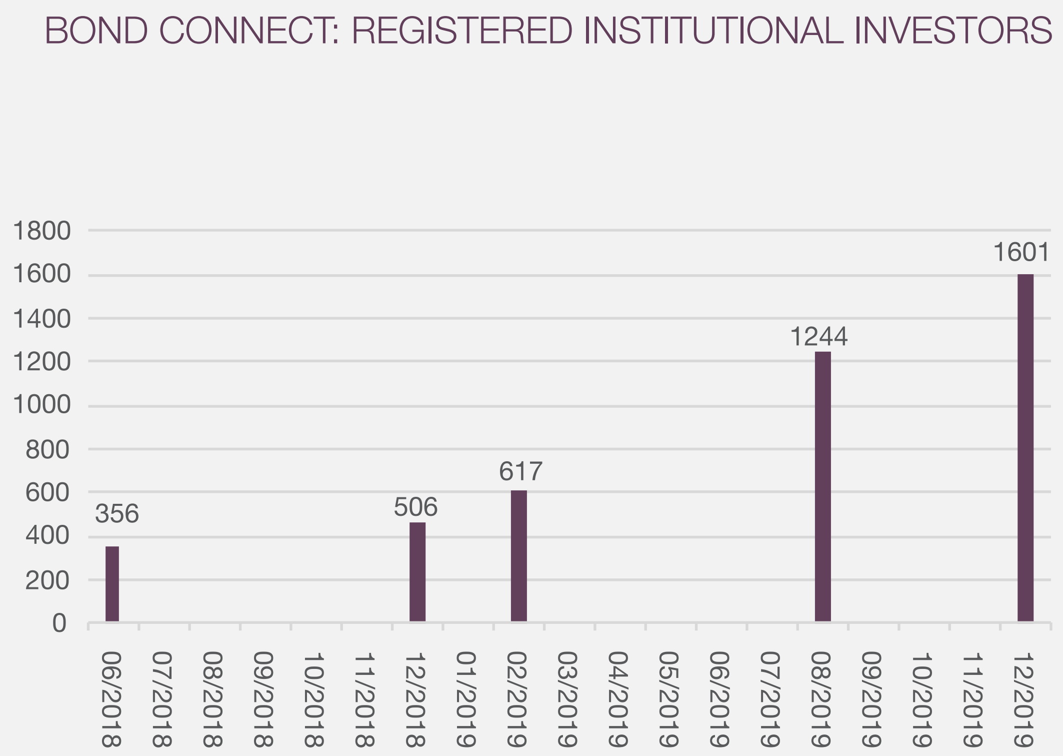
QATARI DIMSUM ISSUES

Issuer	RMB Amount (mm)	Coupon	Issue Date	Maturity	Tenor
QNB Finance Ltd	200	3.80	25/4/19	25/4/22	3
QNB Finance Ltd	100	4.18	29/3/19	28/3/24	5
QNB Finance Ltd	135	3.93	28/2/19	28/2/21	3
QNB Finance Ltd	500	4.35	29/1/19	29/1/22	3
QNB Finance Ltd	135	4.60	23/1/19	23/1/24	5
QNB Finance Ltd	142	5.32	5/7/18	6/7/21	3
QNB Finance Ltd	1250	5.25	21/6/18	21/6/21	3
QNB Finance Ltd	600	5.20	7/6/18	7/6/21	3
QNB Finance Ltd	1000	5.10	14/5/18	15/5/21	3
QNB Finance Ltd	200	5.50	20/3/18	20/3/21	3
QNB Finance Ltd	130	5.46	9/3/18	9/3/20	2
QNB Finance Ltd	750	5.10	8/3/18	8/3/21	3
QNB Finance Ltd	130	5.33	15/12/16	15/12/19	3
QNB Finance Ltd	130	4.40	18/11/16	18/11/19	3
QNB Finance Ltd	160	4.30	17/11/16	17/11/19	3
QNB Finance Ltd	130	4.35	21/7/16	21/7/19	3

NARROWING SPREAD: USD & RMB DENOMINATED BOND YIELDS



Source: QFC analysis, Refinitv, Chengxin
* Note: All depicted 2019-issued corporate bonds have 2-3 year tenors, and outliers were excluded. The USD-denominated bonds consist of 94 issuances, while th RMB-deonominated panda bonds consist of 29 issues.



Beyond funding transactions, there is perhaps even greater promise to expand portfolio and direct investments between the two countries using RMB. China has substantial and rapidly growing savings pools that need to be invested in offshore assets, while Qatar has a budding, efficient and increasingly sophisticated funds management sector. At the institutional level from China, there is strong interest in investment in offshore infrastructure and real estate, two asset classes in which Qatar has considerable expertise and opportunities.
In the opposite direction, Qatari investors are eager to tap into deep and lucrative Chinese capital markets. A primary avenue is through the Bond Connect scheme, which allows global investors to directly trade Chinese bonds. The platform is growing at a rapid clip, and over 2019 reached trading volume of RMB 2.63 trillion with an average daily turnover of RMB 10.7 billion. However, ultimately Qatari investors would be most attracted to promising direct investments in China.

These direct investments are likely to include energy and aviation infrastructure as well as others that would directly complement Qatari investors' overseas strategies as they expand commercially and deepen connections with key trading partners.

SUMMARY

Together, these tangential and novel areas represent traction for QRC expansion. As the Qatar-China relationship continues to blossom, the QRC will increasingly act as a financial intermediary between these vibrant and growing economies.