



# The next level of collaboration

Budapest Renminbi Initiative 2016

25<sup>th</sup> May 2016, Budapest

Richárd Végh, CEO

# Contents

---

## Forming of The Renminbi Initiative

- RMB as an international currency
- Budapest as a regional centre for Chinese business
- The Initiative is formed

## Milestones achieved

- Swapline agreement between NBH and PBoC
- Hungary received RQFII quota
- Bank of China branch opened in Budapest
- Budapest became a regional RMB clearing center
- NBH is building RMB-denominated bond portfolio

## Examples of stock exchange cooperation

- Shanghai-Hong Kong Stock Connect
- Ceinex
- Euronext

## Future possibilities for BSE

- For Chinese investors
- For Hungarian investors
- For Chinese companies

# Forming of The Renminbi Initiative

- RMB as an international currency
  - The Chinese economy has grown immensely over the years, **quadrupling** its economic output in the last 10 years
  - Along with economic expansion and internationalisation, the currency itself is rapidly growing” and is becoming a key player in the market
- Budapest as a regional center for Chinese business
  - Hungary was the first CEE country in 1988 to invite Chinese to become HU citizens
  - Political & cultural exchange programs fostered the relationship between Hungary and China
  - Chinese investments in the CEE region are most prominent in Hungary, taking up almost 30% of regional FDI in the last 10 years
- The Initiative is formed
  - To take a step further in formalizing and strengthening the bond between Hungary and China, the Renminbi Initiative was announced by the National Bank of Hungary on 19 February 2015



# Milestones achieved

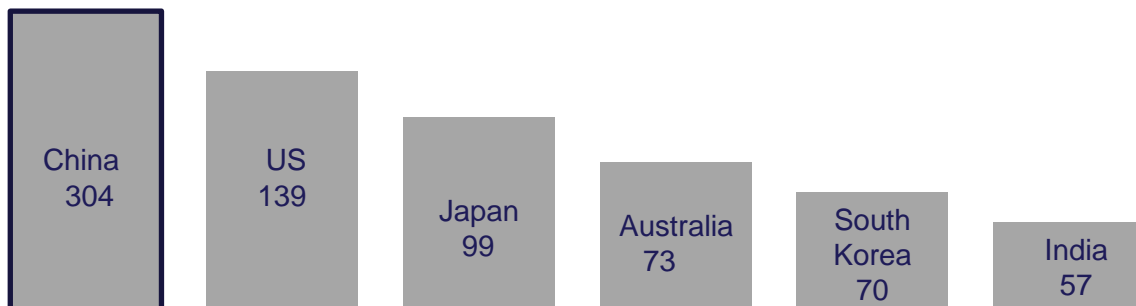
- **Swapline agreement between NBH and PBoC**
  - With the internationalization of the RMB, it makes sense to store Chinese currency in the NBH's FX reserve portfolio
- **Hungary received RQFII quota**
  - RMB Qualified Foreign Institutional Investors quota gives Hungarian investors a total limit of 50bn yuan to invest into Chinese instruments
- **Bank of China branch opened in a Budapest**
  - This branch is the first expansion of BoC into the CEE region
  - The establishment of such institution indicates that the extent of Chinese investments in Hungary is substantial
- **Budapest became a regional RMB clearing center**
  - The establishment of RMB clearing further reinforces the significant presence of Chinese investments and business in Hungary
- **ÁKK is building RMB-denominated bond portfolio**
  - The first tranche of RMB bonds was issued by ÁKK in April with a notional of 1,000,000 RMB

# Chinese Exchange's IPO volumes lead the way

## Top 6 exchanges by funds raised

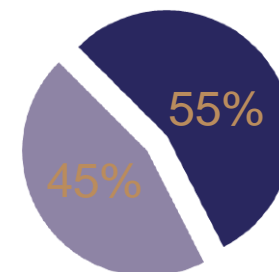


## Top 6 countries by deal volume



## Number of deals

■ Asia Pacific ■ Rest of the World



Ernst and Young IPO report

# Chinese stock exchanges

- **Shanghai Stock Exchange**

- 1100 listed companies, over 100 exchange members and 7100 traded securities
- Products include equities, bonds, ETFs and derivatives
- 89 IPO-s in 2015
- 85 % retail, 15 % institutional

- **Hong Kong Stock Exchange**

- 3 market platforms: Main Board, Growth Enterprise Market, Derivative board
- Over 1600 listed companies, 577 exchange members and 8700 traded securities
- 117 IPO-s in 2015
- Product range is very diverse, ranging from straightforward equity, debt and index instruments to complex instruments such as inverse trackers, REITs to structured derivatives
- Investor base is dominated by institutional investors taking up 50% of trading while retail takes up 27%. The rest of the volume comes from electronic platform trading

- **Shenzen Stock Exchange**

- 3 market platforms: Main Board, SME Board, ChiNext
- Over 1700 listed companies and 3700 securities
- In addition to equities and bonds instruments include a unique „LeFu” product category covering closed-end and open-end funds and ETFs. Asset-backed securities are also traded on the exchange
- 131 IPO-s in 2015
- 90 % retail flow, 10 % institutional

# Chinese stock exchanges

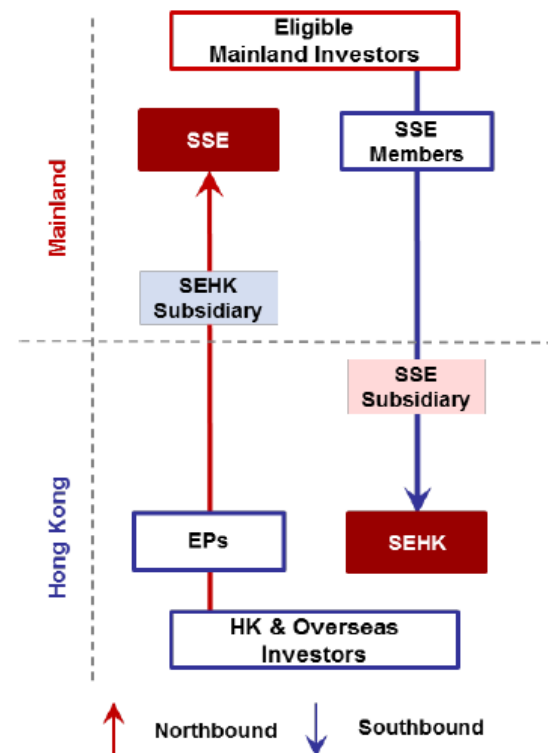
---

- Analysts observe growing institutional volume in Shanghai thanks to the HK-Shanghai stock connect and low valuations which will provide increased market efficiency with more fundamental valuations and less irrational market movements.
- Foreign investor volumes still below 5 % of total volumes in Shenzhen or Shanghai
- Despite high retail ratio of volumes only 7 % of population is trading with on chinese exchanges.

# Examples of stock exchange cooperation

- **Shanghai - Hong Kong Stock Connect**

- Enables bilateral trading between Chinese investors in Hong Kong and mainland China since November 2014  
How? Those who hold an account with a Hong-Kong stock exchange member can trade in Shanghai and vice versa.
- Maximum quotas are determined for both directions  
Today on average 42 % of quota on Shanghai shares are utilized of the total 300 billion RMB quota
- Advantage: No time zone difference between exchanges, regional proximity, local know-how





# Examples of stock exchange cooperation

- **Ceinex**

- A trading platform set up by Deutsche Borse for local investors to trade Chinese instruments since October 2015

- Xetra – Clearstream trading and settlement environment

- Product offering is currently limited to about 200 various bonds and ETFs

- Average volume of the last 6 months is estimated 3 million EUR

- ETFs have been issued by Deutsche Bank and Commerzbank

- Bonds issued by Bank of China and China Construction Bank

- Issuers are:

- Prominent Chinese enterprises and financial institutions

- Supranational institutions, sovereigns/government and quasi-sovereign agencies

- Sino-German strategic cooperation projects

- (focusing on companies in manufacturing industry)

- China's 'One Belt, One Road' infrastructure project



## Examples of stock exchange cooperation

---

- Euronext
  - Index marketing and sales cooperation with Shanghai
- London Stock Exchange is aiming to set up a similar framework
  - Chinese equities trading would be solved via using GDR-s

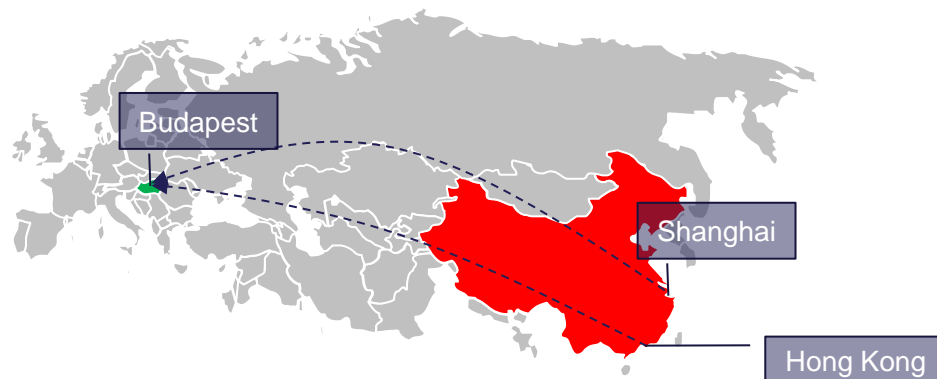
***Main difficulties to trading between Europe & China include time zone difference which affect information flow and therefore market prices***

- Budapest Stock Exchange can be the next to join this trend

# Future possibilities for BSE

## Focusing on Chinese investors

- **Potential:** Hungarian companies to be promoted among Chinese investors
- On the local front
  - Chinese banks can become an BSE exchange members and promote local investments to their customers
- On the international front
  - Organizing road shows and events for Chinese investors can secure a face-to-face discussion between local companies and Chinese investors
  - Partnering up with Chinese brokerages can also provide solutions to make Hungarian equities more attractive



# Future possibilities for BSE

## Focusing on Hungarian investors

- **Potential:** Local investors to trade Chinese instruments listed on SSE, HKEx or in Shenzhen
- **On the local front**
  - Hungary received a quota from CSRC to trade Chinese equities, but the framework to trade is not ready yet.
  - To solve this, a trading platform similar to Hong Kong-Shanghai Stock Connect or Ceinex could be set up
  - In such framework in order to trade Chinese equities local investors need local providers who obtained the quota as well.
  - To avoid the above mentioned difficulties, instrument focus could be primarily either in the form of ETFs or GDR listed on BSE.
- **On the international front**
  - Establishing partnerships with SSE and HKEx to set up the trading platform link framework and instrument eligibility
  - Possible strategic partnerships with Chinese, HK brokerage houses to link Hungarian investors to the market



# Future possibilities for BSE

## Focusing on Chinese companies

- **Potential:** Listing or dual listing Chinese companies on the BSE
  - This would primarily involve Chinese companies that are known among local investors
  - Examples can include Lenovo, Huawei, ZTE in the IT & Telecom sector, Wanhua (ex BorsodChem), Orient Solar (solar panel manufacturing)
- **On the local front**
    - A Board could be set up with local and international members (e.g.: joint venture form)
    - The Board would be responsible to select Chinese companies with appropriate financial and business prospects to be listed on BSE
    - The Board would also act as a mediator between local and Chinese exchanges and regulators



# The self-reinforcing process

---





---

Thank you for your  
attention!