FINANCE

Major lenders prepare for yuan internationalization

By JIANG XUEQING
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The inclusion of the yuan in the Special Drawing Rights basket of the International Monetary Fund will bring great business opportunities to commercial banks with an integrated platform serving clients onshore and offshore.

The holders and users of SDR will be inevitably exposed to the yuan as a result of its inclusion in the currency basket, said Chen Bing, head of BNP Paribas renminbi competence.

"Our renminbi business has been evolving through different stages of renminbi internationalization. SDR inclusion adds another dimension — an immediate business impact is the increasing demand for risk management," he said.

Such currency and interest rate hedging needs are expected to continue growing as corporations, financial institutions and individuals, both domestic and international, are more exposed to Chinese markets and the yuan, he added.

European central banks, which have SDR holdings and loans, came to BNP Paribas asking how they will be able to proactively manage the currency and interest rate exposure with the yuan being accepted as a global reserve currency.

Even before the IMF's decision, global central banks have already been investing in the yuan.

According to an IMF survey conducted for the SDR review, 38 out of 130 central banks held a combined total of SDR 51 billion of renminbi assets ($75 billion) as of the end of 2014, comprising 1.1 percent of total official reserve assets at that time. Official holdings of the yuan are very likely to rise over time, given China's growing economic clout and influence, said HSBC Holdings Plc in a report in September.

A worker at the China Construction Bank counts banknotes at a branch in Haian, Jiangsu province. XU JINBAI / FOR CHINA DAILY


Chen Bing, head of BNP Paribas renminbi competence

Effective from Oct 1, not only the central banks but also supranational organizations such as the World Bank and some corporates have potential needs to manage their currency and interest rate exposure.

As a global bank serving a broad client base both in China and across the world, BNP Paribas developed and provided products dealing with foreign exchange and interest rate exposure to the clients before the SDR inclusion.

"BNP Paribas is deeply committed to serving the China market and developing our RMB business, such as SDR hedging products," Chen said.

He noted that assisting offshore participants to access the China interbank bond market, panda bonds and green bonds are the businesses that BNP Paribas has been actively engaging in by leveraging its truly integrated platform with strong local knowledge and global expertise.

POLICY

SOEs hit reduction goal

Short-term target to reduce steel production by 27 million metric tons within three years

By YANG ZIMAN
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State-owned enterprises directly under the supervision of the State-owned Assets Supervision and Administration Commission have reached the goal of trimming their overcapacity this year, well before the end of 2016, according to a top official of the commission.

There are 103 SOEs directly under the supervision of the SASAC. They include three all-steel companies: Baosteel Group, Wuhan Iron & Steel Group and Ansteel Group, as well as two steel-related companies — China Minerals Corp and Xinxing Cathay International Group.

The short-term goal of capacity reduction is to cut crude steel capacity by 15 percent, or a reduction of 27 million metric tons, within three years starting from 2016. This year's goal is a reduction of 7.19 million tons.

Li Bing, chief of the corporate reform office of the SASAC, said that the overall reduction of capacity would be completed by the companies' own reductions of 16.4 million tons, 9.39 million tons by mergers and reorganization and 1 million tons by export cross-border cooperation.

"The future capacity reduction goal is expected to increase," Li said.

The total crude steel capacity of the five steel and steel-related companies in 2015 stood at 138 million tons, accounting for 12.2 percent of the total steel capacity in China.

Baosteel announced in July that it would reduce its overcapacity by 9.2 million tons from 2016 to 2018. In August, it announced that the company had reached the yearly goal of reducing 3.95 million tons.

Wuhan Iron & Steel said in May that it would reduce capacity by 4.42 million tons. Yet it has not published its progress in this regard. Other steel-related SOEs have not disclosed their goals this year or their progress.

> "The merger of Baosteel and Wuhan Iron & Steel in September is a signal ..."
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> **Xu Xiaoqing**, a steel analyst at 315.com.cn, an information website on bulk commodities

12.2 percent

the proportion of crude steel output by five State-owned steelmakers in 2015

Li said that capacity reduction had become a key criterion for steel SOE leaders' performance reviews.

"The boards of SOEs must strictly review potential investment projects," he said.

"If any of them add new or expand existing steel capacity, the board of the company would be subjected to reorganization," he added.

On the other hand, leaders of whose companies which had made significant progress in capacity reduction would be awarded bonus points in performance reviews and increases in salary, he said.

Xu Xiaoqing, a steel analyst at 315.com.cn, an information website on bulk commodities, said that Wuhan Iron & Steel was expected to outperform its capacity reduction goal this year and Ansteel was expected to reach its goal.

"The merger of Baosteel and Wuhan Iron & Steel in September is a signal: mergers and reorganization will be the main direction for the industry in the future. The days of blind expansion will be over," said Xu.

Battered giants use non-core operations to ride out tough times

Chinese steel companies are managing to ride through the current tough times in the sector after having diversified into more lucrative businesses, said an industry official.

"Steel covers a wide range of industries, including minerals, recycling, logistics, environmental management, finance and steel processing, which provide a lot of options for the steel smelters," said Li Xinchuang, president of the China Metallurgical Industry Planning and Research Institute, on Saturday.

He said the non-steel businesses of the steel groups include high technology, waste gas utilization, real estate and finance.

In 2015, major steel companies reported 112.7 billion yuan ($16.64 billion) in losses from their main businesses. In comparison, their non-steel businesses brought in 48.1 billion yuan of profit.

Li suggested that their non-steel businesses should be part of the steel smelters' long-term strategic plans.

Li Bing, chief of the corporate reform office of the State-owned Assets Supervision and Administration Commission, said that China's urbanization would generate huge potential for steel demand.

He added that China's urbanization rate, currently at 55.9 percent, was far lower than the average 70 percent among developed countries.

"As urbanization deepens, the potential demand will drive up the industries in the various sectors."

- YANG ZIMAN