CHINA

NAVIGATE

THE NEW

SILK ROAD
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Welcome to Bloomberg’s June Offshore China Wrap, a monthly digest that gives you at a glance, news, insights, data and analysis on recent developments taking place in and around China’s offshore financial markets.

“We are already starting to see greater mutual market access activity from the flows occurring between China and its offshore centres. Looking at the various ‘connect’ schemes in motion, investors should expect to see more channels available to access its growing financial markets.”

“Bloomberg customers from London to Toronto have shown a lot of excitement about these developments and we are continually refining our analytics and solutions to bring the community closer together. Our data has been showing us that the offshore and onshore markets are developing in tandem and this is something that needs to be watched closely if both markets want to grow.”

Taran Khera,
Bloomberg’s Head of Sales for Hong Kong, Korea and Taiwan.
China will start a cross-border payment system for the yuan by the end of the year as it seeks to promote its global use.

The first phase of the China International Payment System will begin in Shanghai to handle deals in Asia, Oceania and Europe, the People’s Bank of China said in its yuan internationalization report published on Thursday. CIPS will run from 9 a.m. to 8 p.m. local time and facilitate cross-border trade settlement, direct investments and other yuan deals, according to the report.

China is drumming up efforts to boost the yuan’s global use as it seeks to have it added to the International Monetary Fund’s Special Drawing Rights basket of currencies that already includes the dollar, euro, yen and pound. The PBOC has appointed yuan-clearing lenders in 11 cities including Seoul, Sydney, Kuala Lumpur and Bangkok in the past year.

“The launch of CIPS is a vital step for the yuan’s internationalization,” said Tommy Xie, an economist at Oversea-Chinese Banking Corp. in Singapore. “The system will increase the efficiency and reduce the costs for banks that settle the yuan, as it will erase the time and technical barriers among banks across the world.”

China will “actively encourage” foreign central banks to include yuan-denominated assets in their foreign-exchange reserves and it may scrap limits on how much onshore yuan bonds they can buy, PBOC said in the report.

The IMF’s mission to China said in preliminary findings released on May 26 that the yuan is no longer undervalued, and that it will work with Chinese authorities toward its inclusion in the SDR in an October review. The currency has become Asia’s most-active for payments to China and Hong Kong, according to the Society for Worldwide Interbank Financial Telecommunications.

MSCI Inc. held off from adding China’s mainland stocks to its benchmark indexes, opting to work with the nation’s securities regulator to overcome remaining obstacles such as investor quotas and ease of access.

The index provider expects to put yuan-denominated equities, also called A shares, in its global benchmarks only after settling the issues through collaboration with the China Securities Regulatory Commission, according to a statement issued Tuesday. MSCI said a decision may come at any time.

Chinese authorities have been pushing for an MSCI endorsement as they seek to elevate the status of mainland markets on the world stage and make the yuan a more international currency. Efforts to open up local shares to foreign investors, including an exchange link with Hong Kong, have already helped propel a $6.5 trillion surge in the value of Chinese equities over the past year.

“Some might regard it as disappointing that it didn't happen immediately,” Shane Oliver, the head of investment strategy at AMP Capital Investors Ltd. in Sydney, which manages about $124 billion, said by phone. “By the same token, it looks like it’s going to happen anyway at some point. It’s just a question of when. They’ve just got some remaining issues to resolve.”

The Shanghai Composite Index dropped as much as 2.2 percent before paring declines to 0.2 percent at the close.

The possible addition of mainland equities to MSCI’s global indexes has been a divisive issue among fund managers. Even as China’s stocks more than doubled over the past year, foreigners have been cautious about entering a market where retail investors account for 80 percent of trading.
INVESTING CURBS
Global investors are still subject to quotas under the Shanghai-Hong Kong exchange link, which started in November and allowed anyone with a Hong Kong brokerage account to gain access to the mainland stock market. Foreigners can buy a net 13 billion yuan ($2.1 billion) of mainland shares each day and there’s an aggregate quota of 300 billion yuan.

MSCI said in its statement that it will work with Chinese regulators to establish policies that resolve the “remaining accessibility issues.” Those include giving investors access to quotas commensurate with the size of their assets under management, improvements in liquidity and further clarification of share-ownership rules.

Closer collaboration with the regulator will speed up the process, Remy Briand, MSCI’s global head of research, said on a conference call. There will be at least 12 months between any announcement of A shares’ index inclusion and the implementation, Briand said.

TAX WAIVER
“Short term, it’s a disappointment for some of us who would like to see them start the process sooner,” said Brendan Ahern, the chief investment officer at Krane Fund Advisors, which manages a U.S. exchange-traded fund investing in Chinese domestically listed shares. “But the trajectory is there. It’s telling asset managers, ‘You have to figure this out -- this change is coming.’ I don’t believe the three issues they raised are insurmountable. They won’t wait until the 2016 review to include A shares. It will happen sooner.”

China has addressed some of the biggest concerns that emerged from MSCI’s review last year over market access. One is taxes, with authorities saying in November that purchases through the exchange link will get a “temporary” waiver on capital gains levies. Policy makers have also eased controls on using multiple brokers and started a trial to allow same-day trading on some securities.

STOCK VALUATIONS
The Shanghai Composite Index has jumped 152 percent in the past 12 months through Tuesday, the most among major global benchmark indexes, spurred by record margin debt and surging participation by individual investors. The gauge is valued at 25.6 times reported earnings, compared with a multiple of 13.9 for the MSCI Emerging Markets Index.

China, through companies listed in Hong Kong, accounts for more than 25 percent of the emerging-market benchmark. It’s the biggest weighting in the gauge, followed by South Korea’s 15 percent and 13 percent for Taiwan, data compiled by Bloomberg show.

MSCI also said Tuesday it’s monitoring the opening of Saudi Arabia’s equity market, consulting investors regarding a possible inclusion of the MSCI Saudi Arabia Index in the emerging-market benchmark. The index-provider also said it added Pakistan to the list for consideration for an upgrade to developing-nation status as part of the 2016 review.
SHANGHAI SWING
Mainland investors’ penchant for volatility was on display Thursday as the Shanghai Composite Index tumbled as much as 5.4 percent, before rallying to end the day with a 0.8 percent gain. The gauge’s swings over the past 10 days are bigger than all of the 70 other benchmark indexes tracked by Bloomberg worldwide. It rose 1.5 percent on Friday to the highest level since January 2008, while the Hang Seng index dropped 1.1 percent.

Chinese investors are gaining unprecedented freedom to bring their own brand of trading to overseas markets as the government eases capital controls to promote international use of the yuan.

The seven-month-old exchange link with Hong Kong lets them buy a net 10.5 billion yuan ($1.4 billion) of shares in the former British colony each day. Authorities will soon let some wealthy individuals buy international shares and other assets under the so-called QDII2 program, China’s Securities Times reported last week.

In Hong Kong, “I have people telling me now that they’re concerned about this volatility,” said Herald van der Linde, the head of Asia-Pacific equity strategy at HSBC Holdings Plc. “It becomes a little bit more like mainland China.”

TRADING LIMITS
Hong Kong’s bourse is considering changes to its trading rules that would give investors a “cooling-off period,” limiting trades to a fixed range for five minutes whenever a stock price spikes more than 10 percent. The exchange currently has no limits on intraday swings and mainland bourses cap daily moves at 10 percent.

While trading by Chinese investors has helped fuel some of the biggest swings on Hong Kong’s exchange, overall inflows through the bourse link have been tepid so far. Aside from a few days in April when net purchases surged, Chinese traders have tended to leave most of their daily quota unused.

For stocks with some of the biggest volume through the link, however, price swings are surging. The 20-day historical volatility of Hanergy, the Chinese solar maker being probed by Hong Kong regulators, more than tripled in May before trading was halted. Price swings in Evergrande, the developer that sold $593 million of new shares last week, jumped 75 percent.

“You have new breed of investors coming in, it’s the China angle,” said Jeffrey Chan, chairman of the Hong Kong Securities Association. “We’re seeing more liquidity pouring in from China, and we’ve seen more volatility.”
China opened a market for short-term loans to foreign banks, giving them access to cheaper yuan funding as policy makers encourage greater global use of the currency.

All overseas yuan clearing and settlement banks that participate in the interbank bond market can conduct repurchase agreements and move the funds abroad, the People’s Bank of China said in a statement on Wednesday. There are 107 offshore lenders that can exchange debt with their local counterparts and the change will make repos possible for most of them, including HSBC Holdings Plc and Standard Chartered Plc.

The change comes as China seeks to bolster the case for the International Monetary Fund to grant the yuan reserve status later this year. The currency failed to qualify in a 2010 review because it wasn’t deemed to be freely usable. Onshore interbank short-term money rates have fallen below that of Hong Kong after the PBOC reduced interest rates three times since November and cut major banks’ reserve ratios twice this year.

“This latest move is to address the last few remaining major restrictions of China’s capital account,” said Suan Teck Kin, Singapore-based economist at United Overseas Bank Ltd. “The further opening of China’s capital account will help lower offshore funding costs and improve offshore liquidity conditions, as China keeps its eye on the the IMF’s Special Drawing Rights.”

The overnight repo rate on the interbank market has declined 272 basis points this year to 1.03 percent as of 12:04 p.m. in Shanghai, while the comparable daily fixing in Hong Kong has dropped 19 basis points to 1.64 percent.

**RATE CONVERGENCE**

“We are moving quickly toward a one currency, one curve system, as we have been expecting for a long time,” analysts led by Hong Kong-based Qu Hongbin at HSBC Holdings Plc wrote in a note Thursday. “The move will result in greater transmission of onshore monetary policy to the offshore market.”

The monetary authority has in the past year appointed yuan-clearing banks in 11 foreign cities, including Seoul, Sydney and Kuala Lumpur, choosing local branches of the Industrial & Commercial Bank of China Ltd., China Construction Bank Corp., Bank of China Ltd. and Bank of Communications Co. The PBOC started to allow central banks and overseas yuan clearing and settlement banks to invest in the domestic interbank bond market in 2010. Lenders including HSBC and Standard Chartered obtained licenses to conduct yuan settlement overseas in 2009.
Bloomberg and the Toronto Financial Services Alliance (TFSA) hosted a conference on Canada’s establishment as the first RMB trading hub in the Americas. More than 100 Canadian Foreign Exchange executives attended the conference in Toronto on May 28 and we polled them to see what they thought about the potential of the RMB.

**Q. WHEN IS THE RMB LIKELY TO BECOME A GLOBAL RESERVE CURRENCY?**

**RESPONSE**

- **Less than 1 Year**: 8%
- **1 to 3 Years**: 36%
- **3 to 5 Years**: 28%
- **More than 5 Years**: 28%

**Q. WHAT AREAS REPRESENT THE GREATEST OPPORTUNITY FOR CANADA’S RMB HUB?**

**RESPONSE**

- **Trade Finance**: 28%
- **FX**: 28%
- **Asset Management**: 36%
- **Commercial Banking**: 4%
FROM OUR ANALYSTS:

Tim Craighead (Research Director): Mainland stock gains tower over Hong Kong in great China divide. Bloomberg Intelligence Director of Asian Research looks at the sharp divergence between mainland China and Hong Kong shares.

Kindly contact us for more insights
China's Market and Policy Timeline

Dec. 17
Tight Monetary Conditions Mean More Easing
Bloomberg's Monetary Conditions index shows conditions tighter than any time in last decade.

Dec. 28
Rule Tweak Gives banks More Room to lend
PBOC changes rules on loan deposit requirements to ease liquidity pressure.

Jan. 19, 2015
China Equities – Over So Soon?
Shanghai market corrects close to 8 percent as regulators clamp down on margin lending.

Jan. 20
China's 4Q GDP – a Deeper Dive
GDP expanded 7.3 percent year on year in 4Q14, beating expectations.

Feb. 4
PBOC Reserve Ratio Cut to Hit Two Birds With One Stone
PBOC cuts reserve requirement rate 50 basis points.

Feb. 14
Valentine's Rose Has Deflationary Thorns
Falling price of roses shows deflation risk.

Mar. 8
Back From the Brink of China's Fiscal Cliff
Ministry of Finance announces trillion yuan local government debt swap.

Mar. 31
China's High School Drop-Out Equity Rally
China Household Finance Survey shows average investor in equity rally didn't graduate from high school.

Apr. 13
China's Economy in 1Q – A Deeper Dive
Bloomberg monthly GDP tracker shows growth at 6.5 percent year on year in 1Q15.

Apr. 19
Outside RRR Cut Intensifies Easing
PBOC cuts RRR by 100 basis points.

May 10
Keynes's Lesson for China Is Rate Cuts Alone Don't Work
PBOC cuts rates by 25 basis points.

June 10
Two Trillion Yuan Debt Swap Frees Funds for Growth
Ministry of Finance expands local government debt swap to 2 trillion.

June 19
China's A-Shares – Already Priced In?
MSCI stop short of including China A-Shares in global benchmark.

July 5
China's Equity Rescue – the Cost of a Bigger Boat
IPOs suspended, major brokers launch market stabilization fund, PBOC provides liquidity support for margin finance.

June 27
Easing Shows Markets Crucial for Growth
PBOC cuts rates by 25 basis points and RRR 50 basis points for select banks.

June 24
Scraping Loan Ratio Won't Boost Credit Demand
PBOC scraps loan deposit ratio cap.
ON THE RADAR:

LAUNCH OF THE SHENZHEN-HONG KONG STOCK CONNECT
Hong Kong stocks rallied the most in three weeks on speculation authorities are getting closer to announcing a start date for the Shenzhen exchange link.

The Hang Seng Index jumped as much as 2.4 percent before paring gains to 2 percent at the close. Hong Kong Exchanges & Clearing Ltd. climbed 5 percent even as the bourse said it has no plans to unveil the program today. Haitong International Securities Group Ltd. advanced 6.3 percent.

“There are some market talks that the Hong Kong Stock Exchange will announce details on the Shenzhen connect this weekend, with the starting date being in September,” said Yen Chiu, a Hong Kong-based trader at Shenwan Hongyuan Group. “The rally seems to be speculation-driven for now.”

The Shenzhen link, modeled after its six-month-old counterpart in Shanghai, will help solidify Hong Kong’s role as a gateway to Chinese markets and give foreign investors greater access to non-state companies in the world’s second-largest economy. HKEx Chairman Chow Chung Kong said last month the bourse is preparing for the Shenzhen program to begin in the second half of 2015.

The exchange has no arrangements to announce the Shenzhen connect today, said Lorraine Chan, a spokeswoman at HKEx. A call to the media department of the Shenzhen Stock Exchange went unanswered.

LINK BUYING
HKEx shares extended their gain this year to 69 percent. Volumes via the Shanghai link helped boost the bourse’s first-quarter profit by 34 percent from a year earlier as average daily turnover for equities climbed 17 percent, the company said this week.

Hutchison Whampoa Ltd., controlled by Hong Kong billionaire Li Ka-shing, gained 4.3 percent, its biggest increase in four months. CK Hutchison Holdings Ltd. rose 4.1 percent, while China Mobile Ltd. climbed 3.6 percent.

The Shenzhen Composite Index fell 0.5 percent at the close, paring an earlier loss of as much as 1.9 percent. Technology, consumer and health-care companies comprise almost half of the index, while state-backed banks and industrial conglomerates dominate Shanghai’s bourse.

Foreign investors have purchased about 136 billion yuan ($22 billion) of the 300 billion yuan aggregate quota of mainland equities available through the Shanghai link. Chinese traders have bought about 90 billion yuan of Hong Kong shares.
CHINA AND HONG KONG STARTING CROSS-BORDER SALES OF FUNDS ON JULY 1

China and Hong Kong will start cross-border sales of funds on July 1, widening access to financial markets and capital in the world’s second-largest economy.

The initial quota will be a total 600 billion yuan ($97 billion), split evenly in each direction, regulators in China and Hong Kong said in a joint statement on Friday. The regulators will establish a way to vet funds, it said. The allocation was bigger than anticipated, according to Invesco Ltd., which oversaw $812 billion globally at the end of April.

Mutual recognition opens a new channel for foreign asset-management firms to tap household savings of around $8 trillion in China, where tight capital controls remain. It also comes six months after the start of a cross-border stock link program allowing mainland investors to buy Hong Kong stocks while giving overseas funds unprecedented access to Shanghai shares.

“I expect to see a balanced two-way flow under the mutual fund recognition program,” said Ken Hu, the Hong Kong-based chief investment officer for Asia-Pacific fixed income at Invesco. “Chinese investors are keen to invest overseas now. One of the reasons is that expectations of yuan appreciation have greatly reduced so there’s more incentives to invest overseas.”

Futures on the Hang Seng China Enterprises Index of mainland stocks traded in Hong Kong gained 1.7 percent at 6:25 p.m. local time, while those for the Hang Seng Index advanced 0.9 percent. The offshore yuan traded at 6.1975 per dollar, little changed from Thursday.

‘MORE INTERNATIONALIZATION’

Mutual recognition would enable Chinese asset-management firms to sell their products to offshore investors, while giving their foreign counterparts direct access to the Chinese market. International managers previously tapped China’s growing personal wealth by teaming up with local companies for mutual-fund joint ventures in the country.

“It's more internationalization,” said Wu Kan, a money manager at Dragon Life Insurance Co. in Shanghai, which oversees about $3.3 billion. “The possible consequence could be that the two markets converge and become closer in terms of investment styles and mentality.”

China funds eligible for the program must be established for more than a year and have a minimum size of 200 million yuan, Hong Kong’s Securities and Futures Commission said in a separate statement. The funds must not primarily invest in Hong Kong’s market, according to the statement.

About 100 Hong Kong funds, and 850 counterparts in China qualify for the program, Julia Leung, the executive director for investment product at the Hong Kong regulator said at a briefing. Together the funds have assets worth 2.3 trillion yuan. The quota can be expanded later, Leung said.

ROFII ALLOCATED

At the initial stage, only general equity funds, bond funds, mixed funds, unlisted index funds and physical index-tracking exchange traded funds would be eligible under the scheme, the regulator said in the statement. The value of units in funds sold to investors in Hong Kong can’t be more than 50 percent of the value of a fund’s total assets, it said.

China has allocated all the 270 billion yuan quotas under the Renminbi Qualified Foreign Institutional Investor program to Hong Kong institutions. It hasn’t given out any new allocations even as the city’s officials have asked for more. Globally, countries including the U.K., Singapore and France have a total of 870 billion yuan of RQFII quotas, according to data compiled by Bloomberg.

YUAN BOOST

“Mutual recognition gives foreign investors more channels to access the Chinese market and hence boosts the cross-border flow of yuan,” Kenix Lai, a Hong Kong-based currency analyst at Bank of East Asia Ltd., said by phone. “That will facilitate China’s ambition to make the yuan a global reserve currency as it further opens up the capital market. That’s a positive for the yuan.”

Fund providers have been waiting for an official agreement since talks between regulators in China and Hong Kong were made public in December 2012 and January 2013. More than a year has passed since Alexa Lam, the then-deputy chief executive officer of the city’s Securities and Futures Commission, said the program was in its final stretch.

The news comes before the start of a stock exchange link between Shenzhen and Hong Kong that will expand foreign investors’ access to smaller companies. Hong Kong Exchanges & Clearing Ltd. is preparing for the Shenzhen program to begin in the second half of 2015, while the date may be announced by the end of June, Chairman Chow Chung Kong said last month.

“The timing is good because no one expected it to happen before the Shenzhen stock connect,” Tony Chu, a Hong Kong-based money manager for RS Investment Management Co., which oversees more than $20 billion. “It’s easier for foreign investors to access A shares these days so perhaps there’s not much excitement. It’s more interesting for local investors to do mutual recognition because they can buy global equities.”

The Shanghai Composite Index jumped 2.8 percent to its highest close since February 2008, before the news was announced. Hong Kong’s Hang Seng Index rallied 1.7 percent.
CHINA PUSHES FOR SDR STATUS

You can’t buy a beer with it. You can’t trade in it. Yet China’s push to win an arcane currency status bestowed by the International Monetary Fund is driving policy makers in Beijing to ease capital restrictions.

Board members of the IMF will vote this year on whether to add the yuan to its Special Drawing Rights basket along with the U.S. dollar, euro, yen and British pound. An IMF mission in China Tuesday said it will work closely with authorities toward inclusion, which is “not a matter of if but when.”

The SDR, an accounting unit usually deployed in bailout packages, would deliver few direct benefits to China’s 1.3 billion people. But on Beijing’s streets and in the popular press, the issue is being followed, with taxi driver Wang Jiansheng saying the yuan’s fate is “definitely important” to China’s future and his own.

“Internationalization of the renminbi means that foreign tourists in Beijing could use it in a more convenient way,” he said, using the yuan’s alternative name. “It’s good for us.”

People’s Bank of China Governor Zhou Xiaochuan and Premier Li Keqiang seem to agree with that assessment. In March, Zhou dropped a plan to speak about monetary policy at a forum in Beijing so he could lobby fellow panelist, IMF Managing Director Christine Lagarde, for admission. A day later, Li promised to speed up financial market reforms to help win access to the SDR, which endows reserve status on a currency.

“It’s importance is as a tool to build political support for China’s financial and capital account liberalization,” said David Loevinger, former U.S. Treasury Department senior coordinator for China affairs and now an analyst at TCW Group Inc. in Los Angeles. “SDR inclusion will lock in reforms.”

‘FREELY USABLE’

o admit the yuan to the SDR basket, the IMF has to deem it “freely usable.” The currency is convertible for transactions such as trade and tourism while the capital account, which measures inflows and outflows of capital, remains restricted.

“Chinese authorities have stated publicly their interest in including the Renminbi in the SDR basket,” the IMF officials said in a statement at the end of their so-called Article IV mission to assess the economy. “We welcome and share this objective and will work closely with the Chinese authorities in this regard.”

The IMF also dropped its long-held view that the yuan is undervalued. The People’s Daily newspaper had an editorial on May 21 saying SDR inclusion would be “major progress” for yuan internationalization. The IMF’s commentary on the yuan Tuesday was reported on popular Chinese website Sina.com.

CONTROLS RELAXED

Currency controls have been relaxed and are likely to ease further this year after Zhou said in March that steps will be taken to increase the yuan’s convertibility under the capital account. Steps to free the use of the yuan have already included allowing foreign investors to trade Shanghai-listed stocks through a link with Hong Kong’s exchange and giving overseas funds greater access to Chinese stocks and bonds.

The latest initiative was announced on Friday, when Chinese regulators and their Hong Kong counterparts said that cross-border sales of funds can begin July 1 with an initial quota of 300 billion yuan ($48 billion) in each direction. That comes six months after a link between the Shanghai and Hong Kong stock exchanges was opened.

China is pressing ahead with its bid to join the SDR even as its economy slows. Raising the stakes: Capital outflows are tightening domestic liquidity and policy makers are seeking to deleverage the economy after a debt binge.

China must think carefully about costs and benefits and should not subject its financial liberalization agenda “to the desire of putting the RMB into the SDR basket,” said former central bank adviser Yu Yongding.

‘FINANCIAL FRAGILITY’

“Especially due to China’s financial fragility, it is still too early to liberalize its capital account,” Yu said. “If a fully liberalized capital account is a condition for joining the SDR, China should and can wait another five years.”

Former Federal Reserve Chairman Ben S. Bernanke Monday warned in a speech in Shanghai that opening the capital account is “a two-edge sword and a drop in the currency could cause panic and an exodus of money, he said. “When opening the capital account you need to make sure the economy is strong enough to handle the fund flows out,” he said.

Zhou and Li have made it clear they think the rewards outweigh the risks and are pressing ahead. The IMF’s Lagarde said in March the yuan “clearly belongs” in the SDR basket.
Winning admission would be a vindication for Zhou, who for more than five years has pushed for the yuan to be added to the SDR basket, a move that would aid China's attempts to diminish the dollar's dominance in global trade and finance. The nation's ascent to become the world's second-largest economy has bolstered his case.

“If the international monetary system is more multipolar it will also be more stable,” said Jukka Pihlman, head of central banks and sovereign wealth funds for Standard Chartered Bank in Singapore. “It’s hard to underestimate the importance of this for the entire international monetary system.”

Inclusion could spur as much as 6.2 trillion yuan of net purchases of China's onshore bonds by end-2020, Standard Chartered estimates. AXA Investment Managers says about 10 percent of the $11.6 trillion of global reserves will flow into yuan assets. It didn’t give a timeframe.

Standard Chartered, which says the yuan broadly meets SDR criteria, estimates a 60 percent chance of it gaining admission this year; Deutsche Bank puts it at a 40 percent chance this year and 60 percent in 2016.

A rebuff for China may have consequences for the global financial architecture if it encourages a go-it-alone approach. China already has backed new institutions including the $100 billion Asian Infrastructure Investment Bank, a $50 billion development bank in conjunction with fellow BRICS nations, and a $40 billion fund to revive the ancient Silk Road trade route.

They are being set up after years of frustrated attempts by China and other emerging nations to revamp the existing international financial institutions to better reflect the shape of the global economy.

A key sticking point is the U.S.'s failure for more than four years to approve shifts in the IMF's ownership structure, which would give emerging markets more influence and install China as the third-largest member nation, up from sixth.

‘BAD BLOOD’

“If the IMF were to sidestep the explicitly stated desire of China’s government to have the yuan included in the SDR basket, it would create more bad blood in an already contentious relationship regarding currency matters,” said Eswar Prasad professor of trade policy at Cornell University in Ithaca, New York, and senior fellow at the Brookings Institution in Washington. “A negative ruling on the yuan’s inclusion in the SDR basket could crystallize emerging market policymakers’ concerns that the IMF remains an institution run by and for the benefit of advanced economies.”

On China’s streets there are suspicions over the U.S.’s role in the IMF’s review. A failure for China to enter the SDR basket may be because the U.S. “doesn't want to see the rising power of China,” said Beijing-based information technology worker Miu Jie, 29.

At the Central University of Finance and Economics in Beijing, student Daniel Min is taking the long view.

“If China wants to reach the goal of becoming a developed nation, it’s an indispensable step,” said Min, 21. “Power determines everything. China is already big enough that they have to pay attention to China’s concerns. The IMF will make the decision to put the RMB into the SDR basket sooner or later.”

An earlier version of this story was corrected.
The founding vision in 1982 was to create an information services, news and media company that provides business and financial professionals with the tools and data they need on a single all-inclusive platform. The success of Bloomberg is due to the constant innovation of our products, unrivaled dedication to customer service and the unique way in which we constantly adapt to an ever-changing marketplace. The Bloomberg Professional service is a powerful and flexible tool for financial professionals—whatever their needs—in cash and derivatives markets as diverse as equities, currencies, commodities, money markets, government and municipal securities, mortgages, indices, insurance, and legal information. The Bloomberg Professional service seamlessly integrates the very best in real-time data, news and analytics.

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