

China's Dual Exchange Rate System (CNY vs CNH)

The origins of the offshore RMB (CNH) market

- In the past, currency restrictions put in place by the Chinese authorities meant the RMB could only be used on mainland China. As a result, the RMB market only existed on mainland China.
- In July 2009, the authorities lifted restrictions on RMB trade settlements between China and Hong Kong. This was the first time RMB settlements were permitted outside mainland China.
- In recent years, the authorities have incrementally eased regulations further. This has led to the development of RMB markets in Hong Kong and elsewhere (offshore RMB markets). These exist alongside the RMB market on mainland China (onshore RMB market), where buying and selling restrictions still apply. As a result, there are now two RMB markets.

The onshore RMB (CNY) and offshore RMB (CNH) markets

- At present, RMB trading takes place in two markets; the onshore RMB market and the offshore RMB market. These two markets differ according to regulations or market participants, and thus each market has its own exchange rate.

Mizuho Bank uses “**CNY**” to denote RMB funded in the onshore market and “**CNH**” to denote RMB funded in the offshore market.

* CNH is used as the benchmark for the posted rate on Mizuho Bank's website.

- This does not mean there are two different currencies in circulation, namely the onshore RMB (CNY) and the offshore RMB (CNH). Ultimately, both currencies are handled as RMB, with the RMB's International Organization for Standardization (ISO) currency code set as CNY.

Onshore RMB

Listed as CNY.

RMB that circulates on mainland China.

Onshore RMB (CNY) market
(Mainland China)



Offshore RMB

Listed as CNH.

RMB that circulates outside mainland China (mainly in Hong Kong).

Offshore RMB (CNH) market
(Outside mainland China)

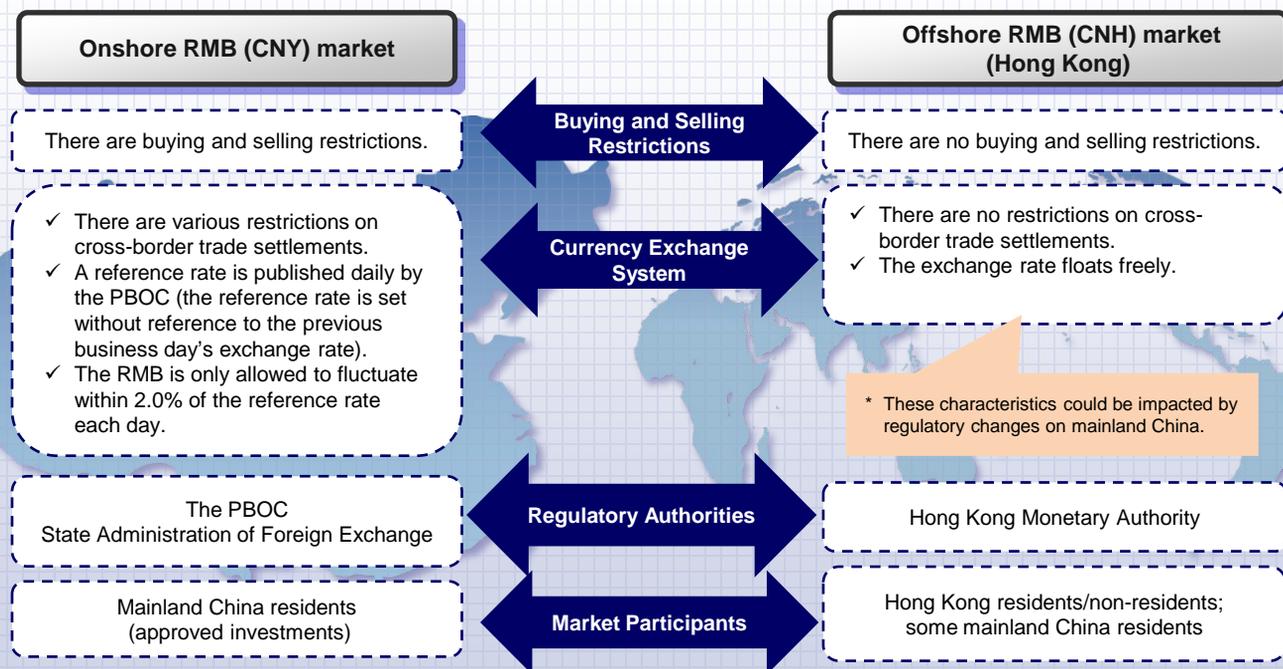


* Starting with Hong Kong and Singapore, RMB markets are opening across the world.

The differences between the onshore RMB (CNY) and offshore RMB (CNH) markets

* As of November 2014

The main differences between the onshore RMB (CNY) and offshore RMB (CNH) markets are outlined below.



The onshore RMB (CNY) and offshore RMB (CNH): The scope of permissible transactions

Onshore RMB (CNY) transactions are currently restricted to demand related to trade in goods. These regulations are based on Circular No.145, promulgated by the PBOC on June 3, 2011. The offshore RMB market (CNH) is outside the scope of these rules.

Transactions permitted by Circular No. 145 regulations

Regulated

Transactions using the onshore RMB (CNY)

Trade in goods (imports and exports)

- Other transactions are not permitted outside mainland China.

Not Regulated

Transactions using the offshore RMB (CNH)

Trade in goods
(imports and exports)

Trade in services
(logistics-related costs, etc.)

Other current account transactions
(loan interest, dividends, etc.)

Capital
(investments, parent-subsidiary [intercompany] loans)

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