

Ruble-Yuan to Trade at MICEX

By [The Moscow Times](#)

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Russia will start trading in Chinese yuan against the ruble by the end of 2010, in a move that could boost trade ties between two of the biggest emerging economies, top officials said Wednesday.

The move is a step toward settling bilateral trade in national currencies, as championed by Chinese and Russian leaders when they met in June 2009 — an intention that has been reiterated by officials since. The launch of the yuan-ruble trading is a priority, Kirill Vergunov, head of domestic market operations at the Central Bank, told reporters at a markets conference.

Jinny Yan, an economist with Standard Chartered in Shanghai, said she expected such trade to also start in China. The move had been expected since Beijing launched trade in the Malaysian ringgit last month, she added. Russia has been pushing for a greater role of the ruble on the global financial market and, eventually, as some form of a reserve currency. Beijing is also seeking a greater international role for the still tightly controlled yuan.

"It's pretty symbolic. ... This is pretty much in line with [the Chinese central bank's] strategy," Yan said. "Potentially, this is a new currency pair for onshore traders to quote. In practice, though, it's not going to start significant amounts of flow in the currency."

Russian analysts and market players agreed that, while significant in the long run, for now volumes and market impact would likely be limited.

"There is a lot of potential, but the amount of trade between Russia and China is not that large — the business relationship is not that vibrant," said Elina Ribakova at Citibank in Moscow. "And even euro-ruble is not that active. It has a great future, but at this stage, I think the effect will be muted."

The MICEX exchange liquidity is mostly confined to dollar-ruble — traditionally the most important currency for Russia's export-focused economy. Trade in the euro-ruble pair and euro-dollar on MICEX is considerably lower, meaning that most transactions involving the euro are carried out via the dollar. This also applies to the Central Bank's own operations.

Trade turnover between Russia and China has been increasing over the last few years, rising to \$25.47 billion in the first six months of 2010 compared with \$16.29 billion a year ago, according to Russian Federal Customs Service data. China overtook Germany as Russia's second-largest trading partner in the first six months of the year, helped by exports of Russian commodities such as aluminum, nickel, oil and gas.

Trade between China and Russia jumped 50 percent to \$30.7 billion in the first seven months of this year, compared with the same period in 2009, China's Commerce Ministry said in a statement Aug. 21. But China still accounts for just 9 percent of Russia's foreign trade, while the European Union claims 50 percent. The ties are strengthening though, with China agreeing to lend Russia \$6 billion for coal supplies.

"Taking into account a growing trade turnover with China, the demand for [direct currency settlements] will also be increasing," said Alexander Morozov, chief economist for Russia and the CIS at HSBC in Moscow.

Natalya Orlova, chief economist at Alfa Bank, agreed that the yuan-ruble trade would be good for trade turnover but said it would not have a large impact on the economy or markets.

"Some 30 banks are interested in that. These are Russian banks and Chinese affiliates," MICEX vice president Igor Marich said, adding that volumes would start relatively low. Ruben Aganbegyan, head of the MICEX exchange, said that to increase volumes, infrastructure would need to be developed.

The Chinese central bank's yuan fixed exchange rate policy may be a hurdle for such forex operations and will not pose a threat for the dollar, which is currently the main transfer currency between China and Russia, analysts say. However, in the longer run, the direct yuan-ruble trading "will transfer to less demand for the dollar as a transit currency," said HSBC's Morozov.

"Given the risk to the dollar and U.S. assets from their fiscal position, they want to reduce their dependence on the dollar as an invoicing currency," Bhanu Baweja, global head of

emerging markets fixed income, currency and credit research at UBS, said in a phone interview from London. "It makes sense for two large economies to exclude a third, overly dominant economy from their trading equation."

In the wake of the global financial crisis, which forced the U.S. economy into recession, both China and Russia have called for the dollar's role in the financial system to be diluted. Volatility in major currencies is putting global recovery at risk, said Zhang Ping, head of China's National Development and Reform Commission. President Dmitry Medvedev last year suggested that Russia, holder of the world's third-largest foreign currency reserves, reduce its dollar holdings.

(Reuters, Bloomberg)

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