



# CHINA ECONOMICS WEEKLY

## Is Brazil joining the renminbi club?

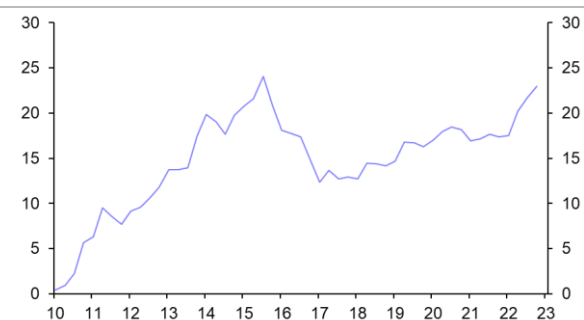
China and Brazil are taking steps to allow bilateral trade to be settled in renminbi rather than US dollars. The Brazilian branch of ICBC will establish renminbi clearing in the country. And Banco BOCOM BBM will become the first Latin American participant in CIPS, China's home-grown [alternative to SWIFT](#).

Contrary to how these developments have been portrayed in the media, this is unlikely to mean that Brazil will ditch the US dollar for all of its trade with China. The Brazilian government is simply giving firms will have the option of doing so.

China already has similar arrangements in place with many other countries, including close allies like Russia and Pakistan and also competitors like the US, UK and Australia. Take-up of renminbi trade settlement varies widely across these countries. Russia has gone furthest, in large part due to western financial sanctions. But in most countries, access to renminbi settlement has made little difference to the dominance of the US dollar in bilateral trade with China. It remains to be seen whether that will be the case in Brazil too.

The US dollar benefits from substantial network effects, making it hard to dislodge. Despite the proliferation of RMB clearing banks and foreign CIPS participants in recent years, the share of China's current account transactions settled in yuan is still lower than it was on the eve of the currency's abrupt depreciation in 2015. (See Chart 1.)

**Chart 1: Share of China's Current Account Transactions Settled in Renminbi (%)**



Sources: CEIC, Capital Economics

Nonetheless, the renminbi's use in global trade is clearly on the rise again. And China does have some levers it can use to encourage greater adoption. Political pressure can be applied to countries that rely heavily on China as a source of export demand. And financial incentives can be offered to help foreign firms offset the higher costs involved in moving away from the US dollar. These sticks and carrots will work best with commodity producers that are politically aligned with China and where purchases of their exports are dominated by large Chinese SOEs with the power to set pricing terms.

Brazil seems to fit the bill given that a third of its exports go to China, over half being iron ore and soybeans. And although we classified Brazil as "unaligned" in our [Global Fracturing](#) database, there are some signs that it is leaning more toward China since Lula regained the presidency this year. He is planning a high-level visit to Beijing soon and has signalled an interest in joining the Belt and Road Initiative. The extent to which the country adopts the renminbi in its trade with China will be one measure of how far this political shift has gone.

Convincing China-dependent commodity producers to use the renminbi in their trade will be the easy part, however. China has much less leverage to push renminbi adoption in its largest export markets. And challenging the US dollar will require firms to not only settle trade in yuan but also build up large holdings of RMB-denominated assets. Currently, the pool of such assets is small compared with the deep and liquid market in dollar-denominated securities.

While the renminbi will probably gain some ground, dethroning the US dollar as the world's reserve currency will remain a [pipedream](#) as long as the US and its allies continue to dominate global [trade](#) and [financial flows](#).

### The week ahead

We will get a second look at the progress of the economic recovery in March when the Caixin manufacturing and services surveys are released next week (Monday and Thursday respectively).



# Economic Diary & Forecasts

## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
<b>April</b>						
Mon 3 <sup>rd</sup>		<b>Chn</b> Caixin Manufacturing PMI (Mar.)	(09.45)	51.6	51.5	50.5
Wed 5 <sup>th</sup>		<b>HK</b> Ching Ming Festival (National Holiday)	-	-	-	-
		<b>Chn</b> Tomb Sweeping Festival (National Holiday)	-	-	-	-
Thu 6 <sup>th</sup>		<b>Chn</b> Caixin Services PMI (Mar.)	(09.45)	55.0	55.0	54.0
Fri 7 <sup>th</sup>		<b>Chn</b> Foreign Exchange Reserves (Mar., USD)	-	+3133b	-	-
		<b>HK</b> Good Friday (National Holiday)	-	-	-	-

### Selected future data releases and events:

#### April

Mon 10 <sup>th</sup>		<b>HK</b> Easter Monday (National Holiday)
Tue 11 <sup>th</sup>		<b>Chn</b> Inflation Data (Mar.)
Thu 13 <sup>th</sup>		<b>Chn</b> Trade Data (Mar.)
Also expected during this period:		
9 <sup>th</sup> – 15 <sup>th</sup>		<b>Chn</b> M2 Money Supply (Mar.)
		<b>Chn</b> Net New Lending (Mar., RMB)
		<b>Chn</b> Aggregate Financing “AFRE” (Mar., RMB)
11 <sup>th</sup> – 18 <sup>th</sup>		<b>Chn</b> Foreign Direct Investment (Mar., RMB)
TBC		<b>Chn</b> Vehicle Sales (Mar.)
TBC		<b>Chn</b> PBOC Depository Corp. Survey (Mar.)

## Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2022	2023f	2024f	2025f
Official GDP	0.0(+2.9)*	(3.4)	(7.6)	(4.9)	(6.2)	(3.0)	(5.5)	(5.0)	(4.5)
GDP (CE CAP-derived estimates)	-3.4(-5.9)*	(2.1)	(9)	(5.2)	(10.2)	(-3.1)	(6.5)	(4.5)	(4.0)
Consumer Prices	(+1.0)**	(1.9)	(1.5)	(1.6)	(1.8)	(2.0)	(2.0)	(2.0)	(1.0)
Producer Prices	(-1.4)**	(-1.3)	(-2.9)	(-0.7)	(0.3)	(4.1)	(-1.0)	(0.5)	(0.0)
Broad Credit (AFRE)	(+9.9)**	(10.1)	(10.2)	(10.4)	(10.5)	(9.6)	(10.5)	(8)	(10.5)
Exports (US\$)	(-6.8)***	(-11.1)	(-15.8)	(-18.1)	(-8.9)	(7.0)	(-13.5)	(-0.5)	(2.5)
Imports (US\$)	(-10.2)***	(3.4)	(-3.4)	(-9)	(-0.4)	(1.1)	(-2.5)	(3.5)	(0.5)
RMB/\$ <sup>†</sup>	6.87	6.85	6.90	6.80	6.70	6.95	6.70	6.50	6.40
7-day PBOC reverse repo <sup>†</sup> %	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-year Loan Prime Rate <sup>†</sup> (LPR) %	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65
1-year MLF Rate <sup>†</sup> %	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-year Government Bond Yield <sup>†</sup> %	2.87	2.88	3.10	3.15	3.20	2.85	3.20	2.90	2.60
RRR (major banks) <sup>†</sup> %	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75	10.75
CSI 300 Index <sup>†</sup>	4,039	4,040	4,285	4,530	4,770	3,872	4,770	5,110	5,468
Hong Kong GDP	(-4.2)*	(1.6)	(3.6)	(8)	(9.3)	(-3.5)	(5.5)	(7.5)	(4.5)
Hang Seng Index <sup>†</sup>	20,309	20,310	20,900	21,445	22,000	19,781	22,000	26,000	30,000

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics \*Q4; \*\*Feb.; \*\*\*Jan. & Feb., <sup>†</sup> End of period



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