

MARKETS 2016 VIDEO SERIES: INCLUSION OF THE RENMINBI IN THE IMF'S SDR

**Simon Derrick, BNY Mellon Chief Currency Strategist
December 2015**

Does it matter that the CNY (Chinese Yuan Renminbi) is to be included in the IMF's Special Drawing Rights (SDR)?

The inclusion of the Renminbi in the IMF's Special Drawing Rights basket does matter for the foreign exchange markets. Over the past few years one of the biggest drivers for FX markets has been what foreign exchange reserve managers are doing. And therefore, the fact that the Renminbi is being included within the SDR is likely to also encourage foreign exchange reserve managers to include the Renminbi in their reserve baskets as well. Question is how much of a weighting the Renminbi is likely to have. Looking at the numbers that have come out over the course of the last few days from the IMF, we know that the Renminbi is going to have roughly the same weighting as Sterling and Yen within the SDR – it's going to be about 11%. If we factor that through and we look at foreign exchange reserves I think it's probably fair to say that the Renminbi will end up over the course of the next 5 years hovering around somewhere in the region of about 5%. In FX reserves, to put that into hard numbers, given what we know about the size of global FX reserves today, ex-China, that's about \$390 billion of Renminbi that needs to be bought. The other thing that matters is the fact that actually the Euro and Sterling have been significantly downgraded within the SDR basket - a 6 percentage point reduction in the Euro's weighting, and a 3 percentage point reduction in Sterling's weighting. That might already be being reflected in what reserve managers are doing, but nevertheless, it says a lot about the reduced standing of both of those currencies in the eyes of the reserve management community. No doubt that will be reflected in their valuations over time as well.

The statements and opinions expressed by Mr. Derrick during this video and within the accompanying '2016 Preview' document are those of Mr. Derrick as of today's date and do not necessarily represent the views of BNY Mellon and any of its affiliates. Much of the information referenced by Mr. Derrick during this video and within the accompanying documentation comes from publicly available sources that have not been independently verified. Neither BNY Mellon nor its affiliates are acting in an advisory capacity with respect to this material.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY 10286, USA, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818.



BNY MELLON

The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd as intermediary for The Bank of New York Mellon. Not all products and services are offered in all countries.

BNY Mellon Capital Markets EMEA Limited, an indirect wholly owned broker dealer subsidiary of The Bank of New York Mellon Corporation, is an investment firm authorised and regulated by the Financial Conduct Authority UK (FCA) under registration number 580200 and provides services to Professional Clients and Eligible Counterparties but not to Retail Clients (in each case as defined in the FCA Rules) in the European Economic Area. BNY Mellon Capital Markets EMEA Limited is not licensed in any other jurisdiction and accordingly, it does not target, promote or offer its products and services to clients outside of the European Economic Area (EEA) and nothing in this communication shall be construed as intended for any persons outside the EEA or for any non-EEA persons. BNY Mellon Capital Markets EMEA Limited is registered in England with company number 03766757 and operates from its registered office and place of business at 1 Canada Square, London E14 5AL. Past performance is not a guide to future performance of any instrument, transaction or financial structure and a loss of original capital may occur. Calls and communications with BNY Mellon Capital Markets EMEA Limited may be recorded, for regulatory and other reasons.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

Material contained within this video is intended for information purposes only. It is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter, and is not to be used as such. You should contact your independent financial advisor prior to acting on any information mentioned in the video. This is not a financial promotion. No statement or expression is an offer or solicitation to buy or sell any products or services mentioned. To the extent this video may be deemed to be a financial promotion under non-US jurisdictions, it is provided for use by professional investors only and not for onward distribution to, or to be relied upon by, retail investors. This video is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. Similarly, this video may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. The contents may not be comprehensive or up-to-date, and BNY Mellon will not be responsible for updating any information contained within this video. BNY Mellon assumes no liability whatsoever (direct or consequential or any other form of liability) for any action taken in reliance on the information contained in this video. Any unauthorized use of material contained in this video is at the user's own risk. The views expressed herein are those of the speaker(s) only and not necessarily those of BNY Mellon or any of its subsidiaries or affiliates. THIS VIDEO IS NOT TO BE REPRODUCED IN WHOLE OR IN PART WITHOUT THE AUTHORIZATION OF BNY MELLON.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Pershing Prime Services is a service of Pershing LLC, member FINRA, NYSE, SIPC, a wholly owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). Member of SIPC. Securities in your account protected up to \$500,000. For details, please see www.sipc.org.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

This document is intended for private circulation. The information contained herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. Similarly, this material may not be distributed or used for the purpose of making offers or solicitations in any jurisdiction and especially in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of any such distributions, new or additional registration requirements. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction. The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2015 The Bank of New York Mellon Corporation. All rights reserved.



BNY MELLON