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# China, Japan to Back Direct Trade of Currencies

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By Toru Fujioka - Dec 25, 2011 8:50 PM CT

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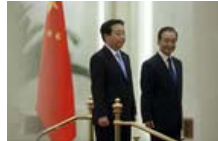
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Japan and China will promote direct trading of yen and yuan without using dollars and will encourage the development of a market for companies involved in the exchanges, the Japanese government said.

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Yoshihiko Noda, prime minister of Japan, left, is greeted by Wen Jiabao, prime minister of China, during a welcoming ceremony at the Great Hall of the People in Beijing. Photographer: Nelson Ching/Bloomberg

Japan will also apply to buy Chinese bonds next year, allowing the investment of renminbi that leaves China during the transactions, the Japanese government said in a statement after a meeting between Prime Minister Yoshihiko Noda and Chinese Premier Wen Jiabao in Beijing yesterday. Encouraging direct yen- yuan settlement should reduce currency risks and trading costs, Japan's government said.

China is Japan's biggest trading partner with 26.5 trillion yen (\$340 billion) in two-way transactions last year, from 9.2 trillion yen a decade earlier. The pacts between the world's second- and third-largest economies mirror attempts by fund managers to diversify as the two-year-old European debt crisis keeps global financial markets volatile.

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Yoshihiko Noda, Japan's prime minister, is on a two-day official visit to China. Photographer: Nelson Ching/Bloomberg

"Given the huge size of the trade volume between the Asia's two biggest economies, this agreement is much more significant than any other pacts China has signed with other nations," said Ren Xianfang, a Beijing-based economist with IHS Global Insight Ltd.

China also announced a 70 billion yuan (\$11 billion) currency swap agreement with Thailand last week as part of a plan outlined in October to promote the use of the yuan in the Association of Southeast Asia Nations and establish free trade zones. Central

banks from Thailand to Nigeria plan to start buying yuan assets as slowing global growth has capped interest rates in the U.S. and Europe.

## Offshore Yuan

The yuan traded in Hong Kong's offshore market gained 0.5 percent offshore last week and touched 6.3324 per dollar, the strongest level since trading started in July 2010. Its discount

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to the [exchange rate](#) in Shanghai narrowed to 0.1 percent, from a record 1.9 percent on Sept. 23.

The yuan gained 0.05 percent in [Shanghai](#) to 6.3330 per dollar today and was little changed at 6.3450 in Hong Kong. It strengthened 4.3 percent this year, the best-performing Asian currency excluding the yen. The currency is allowed to trade 0.5 percent on either side of that rate. The yuan is a denomination of the renminbi.

### Biggest Trading Partner

Japan exported 10.8 trillion yen to China in the year through November, and imported 12 trillion yen, according to Ministry of Finance data. The deficit with China widened to 1.2 trillion yen, from 418 billion yen in January-to-November 2010. About 60 percent of the trade transactions are settled in dollars, according to Japan's [Finance Ministry](#).

Finance Minister [Jun Azumi](#) said Dec. 20 buying of Chinese bonds would help reveal more information about financial markets in China. Noda said in September 2010, when he was finance minister, that Japan should be able to invest in China given that its neighbor buys Japanese debt. Japan holds \$1.3 trillion of foreign-currency [reserves](#), the world's second largest after China's \$3.2 trillion.

Investing in Chinese debt has become easier for central banks as issuance of yuan-denominated bonds in [Hong Kong](#) more than tripled to 112 billion yuan (\$18 billion) this year and institutions were granted quotas to invest onshore. Japan will start to buy "a small amount" of China's bonds, a Japanese government official said on condition of anonymity because of the ministry's policy, without elaborating.

China sold the second-biggest net amount of Japanese debt on record in October as the yen headed for a postwar high against the dollar and benchmark yields approached their lowest levels in a year. It cut Japanese debt by 853 billion yen, Japan's Ministry of Finance said on Dec. 8.

Separately, the [Japan Bank for International Cooperation](#), JGC Corp., Mizuho Corporate Bank Ltd., the Export-Import Bank of [China](#) and other Chinese companies will establish a \$154 million fund to invest in environment-related businesses such as recycling and energy, the Japanese government said.

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