China Offers Russia Help With Currency Swap Suggestion

By Bloomberg News - Dec 22, 2014

Two Chinese ministers offered support for Russia as President Vladimir Putin seeks to shore up the ruble without depleting foreign-exchange reserves.

China will provide help if needed and is confident Russia can overcome its economic difficulties, Foreign Minister Wang Yi was cited as saying in Bangkok in a Dec. 20 report by Hong Kong-based Phoenix TV. Commerce Minister Gao Hucheng said expanding a currency swap between the two nations and making increased use of yuan for bilateral trade would have the greatest impact in aiding Russia, according to the broadcaster.

While the offer won’t relieve the main sources of pressure on the ruble -- capital outflow tied to plunging oil prices and sanctions linked to Russia’s annexation of Crimea from Ukraine -- the currency gained 3.1 percent against the dollar by 12:37 p.m. in Moscow. The Micex Index was little changed, and the yield on Russia’s 10-year bond fell 30 basis points to 13.3 percent, according to data compiled by Bloomberg.

“In the current conditions, any help is very welcome,” Vladimir Miklashevsky, a strategist at Danske Bank A/S, said by e-mail. “Yet, it can’t substitute the losses of the Russian banking system and economy from western sanctions.”

Strategic Importance

Russia, the biggest energy exporter, saw its currency tumble as much as 59 percent this year. Putin asked business leaders last week to report on plans to sell foreign currency revenues and to engage in responsible foreign exchange operations, Vedomosti newspaper reported today. Former Economy Minister Alexei Kudrin said Russia was entering a full-fledged economic crisis.

A Chinese Commerce Ministry news official, who asked not to be named as part of the rules, said his department declined to comment on the Phoenix TV report, and a faxed question to the Chinese central bank went unanswered. President Xi Jinping last month called for China to adopt “big-country diplomacy” as he laid out goals for elevating his nation’s status as the world’s second-largest economy.

“Many Chinese people still view Russia as the big brother, and the two countries are strategically important to each other,” said Jin Canrong, Associate Dean of the School of International Studies.
at Renmin University in Beijing, referring to the Soviet Union’s backing of Communist China in its first years. “For the sake of national interests, China should deepen cooperation with Russia when such cooperation is in need.”

**Swap Line**

China and Russia signed a three-year currency-swap line of 150 billion yuan ($24 billion) in October, an agreement that can be expanded with the consent of both parties. The People’s Bank of China published a chart detailing how such an agreement works in a microblog dated Dec. 19 and the official People’s Daily newspaper said today that the explanation was provided to address concerns the nation could suffer losses if Russia used the facility to obtain funds.

“As all we pay out and receive in return are renminbi, we don’t have to bear exchange-rate risks,” the PBOC said in the microblog, using an alternative name for the yuan. The swap amount can be adjusted to allow for changing circumstances and prevailing exchange rates, rather than pre-determined, are used, it said.

China is promoting the yuan as an alternative to the dollar for global trade and finance and the PBOC has signed currency-swap agreements with 28 other central banks to encourage this. The nation’s foreign-exchange reserves of $3.89 trillion are the world’s largest and compare with Russia’s $374 billion.

**“Irreplaceable Partner”**

“Russia is an irreplaceable strategic partner on the international stage,” according to an editorial today in the Global Times, a Beijing-based daily affiliated with the Communist Party. “China must take a proactive attitude in helping Russia walk out of the current crisis.”

Still, “China’s help for Russia will be limited,” the editorial said. While China can offer capital, technical and market support, it can’t address Russia’s economic structure and excessive reliance on energy exports, the editorial said.

China signed a three-decade, $400 billion deal to buy Russian gas earlier this year. Oil imports from Russia hit an all-time high in November, according to China’s General Administration of Customs.

Russia isn’t in talks with China about any financial aid, said Dmitry Peskov, a spokesman for President Putin, on Dec. 20.

**Argentina**

Russia wouldn’t be the first country in financial strife to turn to China for support this year. Argentina’s central bank utilized a cross-currency swap with the PBOC to stem a slide in the peso, which dropped 24 percent against the greenback this year as the government defaulted on dollar

bonds. The peso has weakened 0.3 percent this month following a similar decline in November.

A similar move by Russia could help stabilize the ruble, according to Jan Dehn, the London-based head of research at Ashmore Group Plc, which manages about $70 billion in emerging-market assets. It would also bolster Chinese efforts to make the yuan a global reserve currency, he wrote in a Dec. 18 report.

To contact Bloomberg News staff for this story: Fion Li in Hong Kong at fli59@bloomberg.net; Xin Zhou in Beijing at xzhou68@bloomberg.net; Anna Andrianova in Moscow at aandrianova@bloomberg.net

To contact the editors responsible for this story: James Regan at jregan19@bloomberg.net Michael Winfrey, Scott Rose