

Azerbaijan shows renminbi hand

CURRENCIES

SWF says it plans \$1.8bn investment

Currency moves to reserve status

By Jack Farthy in Baku

The sovereign wealth fund of Azerbaijan plans to invest up to \$1.8bn in renminbi this year, in what would be one of the largest investments in the Chinese currency to be made public as it rapidly moves towards reserve currency status.

Shahmar Movsumov, the chief executive of Sofaz,

the \$37bn State Oil Fund of Azerbaijan, told the Financial Times the fund was applying for permission from Chinese regulators to access renminbi assets and hoped to start investing by the end of the year.

“It’s one of the currencies that are becoming important, so why not invest?” he said. “We are in the process of getting all the necessary preparations.”

The move highlights the internationalisation of the renminbi as Beijing opens up greater access to the currency. The renminbi was the seventh most widely used currency for international payments in April

with 1.4 per cent of transfers, compared with 0.6 per cent in January 2013.

Central banks and sovereign wealth funds hold \$11.7tn in assets, according to International Monetary Fund data. But the large majority of declared holdings are in dollars and euros, and Standard Chartered estimates that they hold just Rmb300bn (\$48bn), less than 0.5 per cent of total reserves.

Analysts assume that many central banks have bought small quantities of renminbi, but only a handful – including Australia, Chile and Nigeria – have confirmed such moves.

The Reserve Bank of Australia plans to put 5 per cent of its reserves in renminbi bonds, and Nigeria’s central bank holds about 10 per cent of its assets in the currency. Central banks in Japan and Malaysia also hold renminbi assets.

Sofaz had decided at the end of last year to increase its exposure to currencies other than the dollar, euro and pound from 5 to 10 per cent, Mr Movsumov said.

1.4%

Proportion of international payments in the unit in April

The fund had yet to invest its allocation to “other currencies”, he said. “Whatever we have spare by the end of this year we will allocate to renminbi.”

Asked which renminbi assets he intended to invest in, he said the fund was “open to everything”.

Sofaz, the 28th-largest SWF, has grown rapidly thanks to rising oil prices in the past decade. Kazakhstan’s oil fund has assets of \$71bn while the Russian equivalent holds \$87bn.

Since 2012 Sofaz has moved into real estate, buying properties in London, Paris, Moscow and Seoul, and has started investing in

public and private equity and gold.

SWFs are among the biggest investors in China’s public markets. Norway’s oil fund, the Kuwait Investment Authority and Singapore’s Temasek hold the largest quotas, which allow them to buy renminbi-denominated assets.

Qatar and Abu Dhabi also have sizeable quotas, while some funds have also mandated local managers to invest in renminbi debt.

“There is no reward for taking a long-term position in bonds today,” said Mr Movsumov.

Additional reporting by Josh Noble in Hong Kong