

Digital Yuan: A Positive for RMB Internationalization and its Share in Global Trade Settlements

Executive Summary

China's national digital currency, known as digital yuan, is a Digital Currency Electronic Payment ("DCEP") and could be seen as an e-version of its official currency, yuan or renminbi (also expressed as "RMB"). It is issued by the central bank, People's Bank of China ("PBOC"), and endorsed by the Chinese government just like the yuan currently in circulation. In other words, digital yuan is the liability of PBOC. According to PBOC, DCEP is powered by blockchain¹ technology, and can be used without internet connection or a bank account to access funds.

By May 2020, China has already filed more than 120 patent applications for digital yuan, more than any other country in the world.

According to a Chinese state media, the digital currency will be distributed to second-tier providers, including state-owned banks and online payment providers, such as Alipay and WeChat Pay, which are authorized to transfer digital currency to digital wallets of individuals and businesses for making payments.

Exhibit A: Different Generations of RMB Currency

	Currency form	Transfer method	Privacy	Independent existence
RMB 1.0	paper, coin	Physical transfer and third-party transfer	Completely anonymous and hard to trace	Totally independent
RMB 2.0	e-Money	Online instruction and third-party transfer	Names recorded, so it is easy to trace	Dependent on third-party e-account
RMB 3.0	digital currency	Online or offline and point-to-point transfer	Controlled anonymous, tracing names	Partially independent

Source: Public Information

Pilot programs have so far been launched in Beijing, Shenzhen, Xiong'an, Chengdu, Suzhou and others. In addition, Beijing 2022 Winter Olympic Games sites will be included. Another confirmed city is Hong Kong. On 4 December 2020, Hong Kong Monetary Authority ("HKMA") said that the PBOC and HKMA were preparing to test cross-border payments using digital yuan.

PBOC announced that around 4 million separate transactions, totaling over 2 billion yuan (about US\$299.07 million), have been processed through DCEP in China as at the end of last November using multiple payment methods, namely bar code, facial recognition, and tap-to-go transactions. Early participants in pilot and trial programs in the above-mentioned and other cities in China include e-commerce giants such as JD.com (JD), multinational corporations like McDonald's (MCD), Starbucks (SBUX), and Subway as well as local residents.

¹ A system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system

IMPORTANT DISCLOSURES

Cedrus Investments Ltd. (“Cedrus”) does and seeks to do business with companies covered in research reports distributed by Cedrus. Investors should consider this report as only a single factor in making their investment decision.

For additional information, please send an e-mail to information@cedrusinvestments.com

For private circulation only. This report is prepared by Cedrus and is for informational purposes only and is not intended to be, nor should it be construed to be, an advertisement or an offer or a solicitation of an offer to buy or sell any securities. The information herein, or upon which opinions have been based, has been obtained from sources believed to be reliable, but no representations, express or implied, or guarantees, can be made as to their accuracy, timeliness or completeness. The information and opinions in this report are current as of the date of the report. We do not endeavor to update any changes to the information and opinions in this report. Unless otherwise stated, all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice.

The information provided in this research report is not provided to and may not be used by any person or entity in any jurisdiction where the provision or use thereof would be contrary to applicable laws, rules or regulations of any governmental authority or regulatory or self-regulatory organization or clearing organization or where Cedrus is not authorized to provide such information.

This report does not take into account the specific investment objectives, financial situation, and the particular needs of any specific company that may receive it. Before acting on any information in this report, readers should consider whether it is suitable for their own particular circumstances and obtain professional advice related to their own investment needs and objectives. The value of securities mentioned in this report and income from them may go up or down, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future terms are not guaranteed, and a loss of original capital may occur.

Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of Cedrus or its affiliates. The compensation for the analysts who prepare reports is determined exclusively by senior management. Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of Cedrus as a whole, of which investment banking, sales and trading are a part.

Cedrus does engage in investment banking. Cedrus does trade securities on a principal basis; however, Cedrus’ research analysts are prohibited from owning securities they cover through Research Reports.

Copyright 2021 Cedrus Investments Ltd. All rights reserved. Any unauthorized use or disclosure prohibited.