

**OVERVIEW**

- The Hong Kong dollar (HKD) interbank market is actively used by banks and financial institutions to raise necessary funding and financing for daily commercial activities.
- Hong Kong Interbank Offered Rate (HIBOR) is the rate at which HKD-denominated instruments are traded between banks in Hong Kong, and is the benchmark for short-term interest rates in the HKD money market.
- Introduced in 1997 and 1998, HKEX's One-Month HIBOR Futures and Three-Month HIBOR Futures contracts provide a set of interest rate products which allow market participants to manage their short-term interest rate exposures more effectively.
- Amid the rate hike cycle of the United States, HKEX's HIBOR Futures provide risk management opportunities against potential HKD interest rate movements.

**TRADING BENEFITS**

- Hedging fluctuations in Hong Kong dollar interest rates
- Front-end yield curve risk management tool
- Transparency and efficiency of standardised exchange-traded contracts
- Limited counterparty risks
- Leveraging effect of futures margining
- Block trade facilities supported by the HKATS

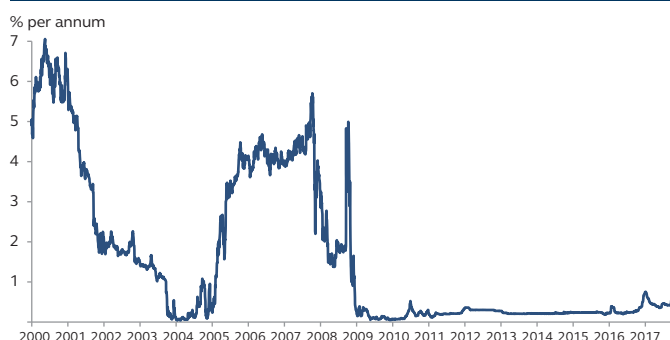
**PRODUCT SPECIFICATIONS**

	ONE-MONTH HIBOR FUTURES	THREE-MONTH HIBOR FUTURES
Underlying Interest Rate	One-Month Hong Kong Interbank Offered Rate	Three-Month Hong Kong Interbank Offered Rate
Contract Size	HK\$15,000,000	HK\$5,000,000
Contract Months	Spot month, next 5 calendar months	Spot month, next 2 calendar months, next 7 quarter months
Contract Value	Contracted Price multiplied by the value of a Minimum Fluctuation multiplied by 100 e.g. 95.50 x (HK\$15,000,000 x 0.0001 x 1/12) x 100	Contracted Price multiplied by the value of a Minimum Fluctuation multiplied by 100 e.g. 95.50 x (HK\$5,000,000 x 0.0001 x 0.25) x 100
Trading Hours (Hong Kong Time)	8:30 am - 12:00 noon & 1:30 pm - 5:00 pm (Trading Hours on the Last Trading Day: 8:30 am - 11:00 am)	
Last Trading Day	Two Business Days before the third (3rd) Wednesday of the Contract Month	
Final Settlement Day	The third Wednesday of the Contract Month (If the third (3rd) Wednesday of such Contract Month is not a Business Day then the Final Settlement Day of the Contract shall be the next Business Day following the third (3rd) Wednesday of the Contract Month)	
Final Settlement Price	One hundred (100.00) minus the one-month HKAB HKD Interest Settlement Rate quoted at approximately 11:15 am on the Last Trading Day, rounded up to the nearest 2 decimal places if the figure in the third decimal place is 5 or above and rounded down to the nearest 2 decimal places if it is below 5 (100.00 - HKAB HKD Interest Settlement Rate = Final Settlement Price)	One hundred (100.00) minus the three-month HKAB HKD Interest Settlement Rate quoted at approximately 11:15 am on the Last Trading Day, rounded up to the nearest 2 decimal places if the figure in the third decimal place is 5 or above and rounded down to the nearest 2 decimal places if it is below 5 (100.00 - HKAB HKD Interest Settlement Rate = Final Settlement Price)
Settlement Method	Cash settlement	Cash Settlement
Initial Margin	HK\$1,202 / contract	HK\$1,981 / contract
Block Trade Threshold	80 contracts	80 contracts
Vendor Tickers	Bloomberg: HJA <CMDTY> Reuters: 0#HB1:	Bloomberg: HRA <CMDTY> Reuters: 0#HIR:

Information as of November 2017. For latest information, please visit the HKEX website at [www.hkex.com.hk](http://www.hkex.com.hk).

**MARKET ANALYSIS**

**One-Month HIBOR Fixing**



**Three-Month HIBOR Fixing**



Sources: HKEX, HKMA

## APPLICATIONS OF HIBOR FUTURES

### • Hedging Interest Rate Movements

Rise in interest rate: borrowers can sell One-Month or Three-Month HIBOR Futures contracts to hedge their borrowing cost. At the renewal of loans, profits from closing out the HIBOR Futures positions can cover part or all of the higher interest charges.

Fall in interest rate: investors can buy One-Month or Three-Month HIBOR Futures contracts to lock in forward deposit rates. At the renewal or arrangement of time deposits, profits from closing out the HIBOR Futures positions can cover part or all of the loss of the lower deposit interest receipts.

### • Directional Trading

Investors expect rise in interest rate: can profit by selling One-Month or Three-Month HIBOR Futures contracts. (If interest rates rise, prices of One-Month or Three-Month HIBOR Futures contracts will decrease)

Investors expect fall in interest rate: can profit by buying One-Month or Three-Month HIBOR Futures contracts. (If interest rates decline, prices of One-Month or Three-Month HIBOR Futures contracts will increase)

### • Spread Trading

Investors can employ yield spread trading when they believe the spread between the One-Month HIBOR Futures and Three-Month HIBOR Futures will change.

HIBOR Futures contracts can also be used to achieve inter-market spread trading between two markets, such as Eurodollar futures against HIBOR Futures.

### • Better Hedging for Forward Rate Agreements (FRA)

By combining One-Month and Three-Month HIBOR Futures contracts with different maturity periods, investors can hedge against a wide array of FRA positions, therefore providing users with a complete set of front-end yield curve risk management tools.

### • HIBOR Strips

HIBOR Strips offer flexibility in placing buy and sell orders and executing trades for a consecutive series of contracts in the HIBOR futures market. Each One-Month HIBOR Strip comprises three consecutive monthly contracts and each Three-Month HIBOR Strip comprises four consecutive quarterly contracts. HIBOR Strips are quoted as 100 minus the implied interest rate (the same as HIBOR Futures). An executed Strip is registered as separate purchases or sales of the comprising HIBOR Futures contracts at the same price as the executed Strip.

Source: HKEX

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#### Risks of Trading Futures

Futures involve a high degree of risk. Losses from futures trading can exceed your initial margin funds and you may be required to pay additional margin funds on short notice. Failure to do so may result in your position being liquidated and you being liable for any resulting deficit. You must therefore understand the risks of trading in futures and should assess whether they are right for you. You are encouraged to consult a broker or financial advisers on your suitability for futures trading in light of your financial positions and investment objectives before trading.

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