

CHINA'S COMMODITIES MARKET THE PAST AND PRESENT



Co-head of Market Development,
HKEX

China's commodities market development: history

Phase 1:

Planned Economy (1953~1978)

Phase II:

Reform Initiation (1978~1988)

Phase III:

Market Formation (1988~1993)

Phase IV:

Regulatory Re-structure (1993~2000)

Phase V:

Regulatory-led Development (2000~current)

- 1. Production & consumption driven by central planning
 - 2. Nationwide economic reform fostered growth of market forces
 - 3. Fast growth ofunregulated exchanges & brokerage companies

50 exchanges by 1993 320 futures brokerages by 1993

1997

 State Council published "Regulations on Administration of Futures Trading"(期货 交易暂行管理条例)

1998~1999

 State Council published "Notice Concerning Further Re-structure and Standardisation of Futures Market"

4.CSRC established & consolidated its role as key regulator in futures market

Reduced to 3 exchanges by 1999 Reduced to 12 products by 1999 5.Regulatory-led market development & internationalisation

Over 150 futures brokerages

46 products by May 2016

Have come a long way: from an unregulated mass 25 years ago to three major commodities futures exchanges and the co-existence of spot and futures markets today



3 Major Commodities Futures Exchanges dominating different products

Three Major Commodities Futures Exchanges



SHFE

<u>Products</u>: metals, energy,

petrochemicals

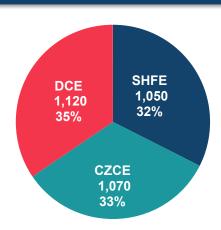
DCE

<u>Products</u>: soft commodities, metals, petrochemicals

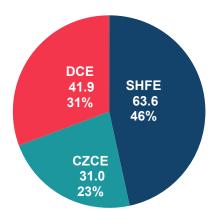
CZCE

<u>Products</u>: soft commodities, petrochemicals, industrials, energy

Turnover in 2015 ¹ (million contracts)



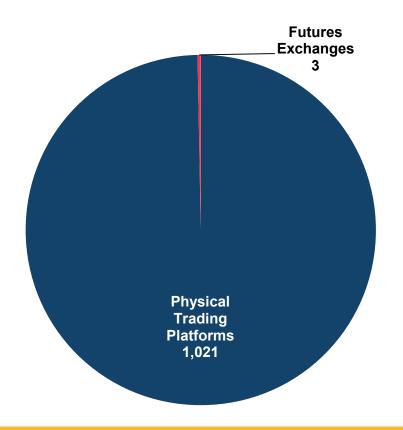
Turnover in 2015 ¹ (trillion RMB)





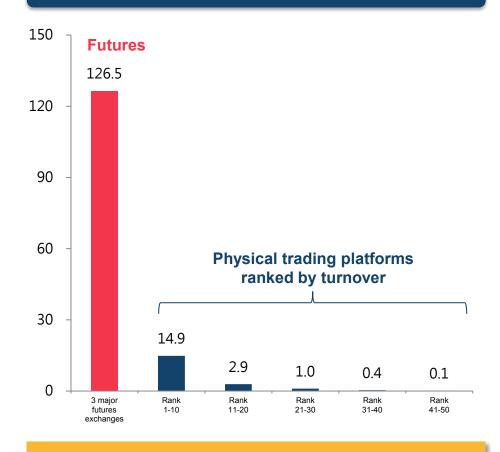
Spot trading platforms in China: numerous, small & highly fragmented

No. of exchanges/platforms ¹ (2015)



Physical trading platforms: numerous in sheer number...

Turnover Breakdown in 2013 ² (trillion RMB)



...but tend to be small in size, hence turnover highly fragmented



China's commodities market structured as an inverted pyramid

China market

Financial Players

Trading & Financing

Producers, Consumers & Physical Logistics

- Mostly short term speculation: open interest ~ 1 time of ADV
- Settlement of futures merely accounts for ~0.05% of trading volume
- Participants are mostly retail investors and financial speculators
- 150+ futures brokerage firms

International market (e.g. LME)

Financial Players

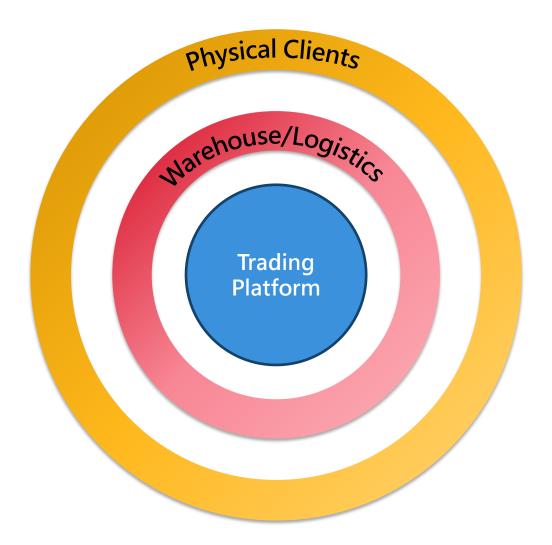
Trading & Financing

Producers, Consumers & Physical Logistics

- Open interest ~ 3-4 times of ADV
- Participants are mostly producers, consumers and traders, accounting for 75% of the trading volume of global non-ferrous metals
- 100+ members are categorised into 5 types, 43,000 end customers
- Covering 35 regions in the world with 650+ warehouse network
- 13 types of metals available for trading via futures, options,
 TAPOs, swaps and mini contracts



Establish a Commodities Trading Platform that services the real economy





Thank You

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