



Media Workshop on HKEx's RMB Products RMB Currency Futures

Trading Division
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Overview of Offshore RMB Market

Key Milestones in Development of Offshore RMB Market in Hong Kong



Statistics[^]

Personal RMB Business

- RMB deposit-taking, cheque, credit / debit card and remittance services

RMB Deposit RMB563 bn (as of end of Jul 2012)

RMB Bond Market

- 1st RMB bonds by Mainland financial institution (CDB)
- 1st RMB sovereign bond (MOF)
- 1st RMB bond by overseas corporate (McDonald's)
- 1st RMB bond by Mainland non-financial institution (Baosteel)

Bond Issuance >RMB100 bn (Year 2011)

RMB Trade Settlement

- Pilot scheme kicks off in five pilot Mainland cities
- Expanded to 20 provinces and cities in the Mainland
- Further expanded to entire Mainland

RMB1,915 bn (Year 2011)

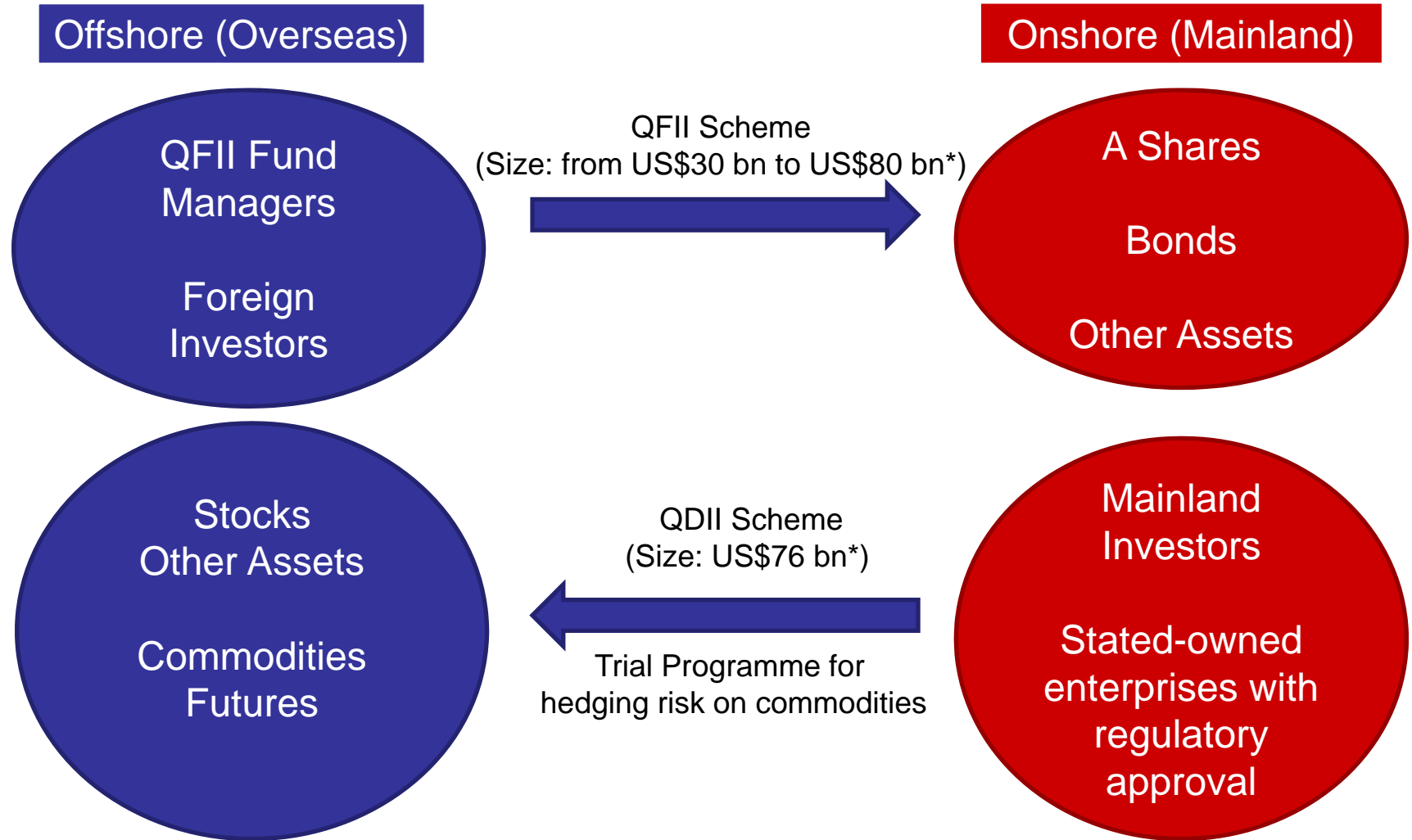
RMB Investment

- RMB ODI and RMB FDI*
- RMB Gold ETF
- RQFII scheme
- RQFII A-share ETFs
- RMB REIT

RQFII Quota RMB70bn (as of end of Apr 2012)

*ODI – Overseas Direct Investment, FDI – Foreign Direct Investment [^]Source: HKMA and CSRC

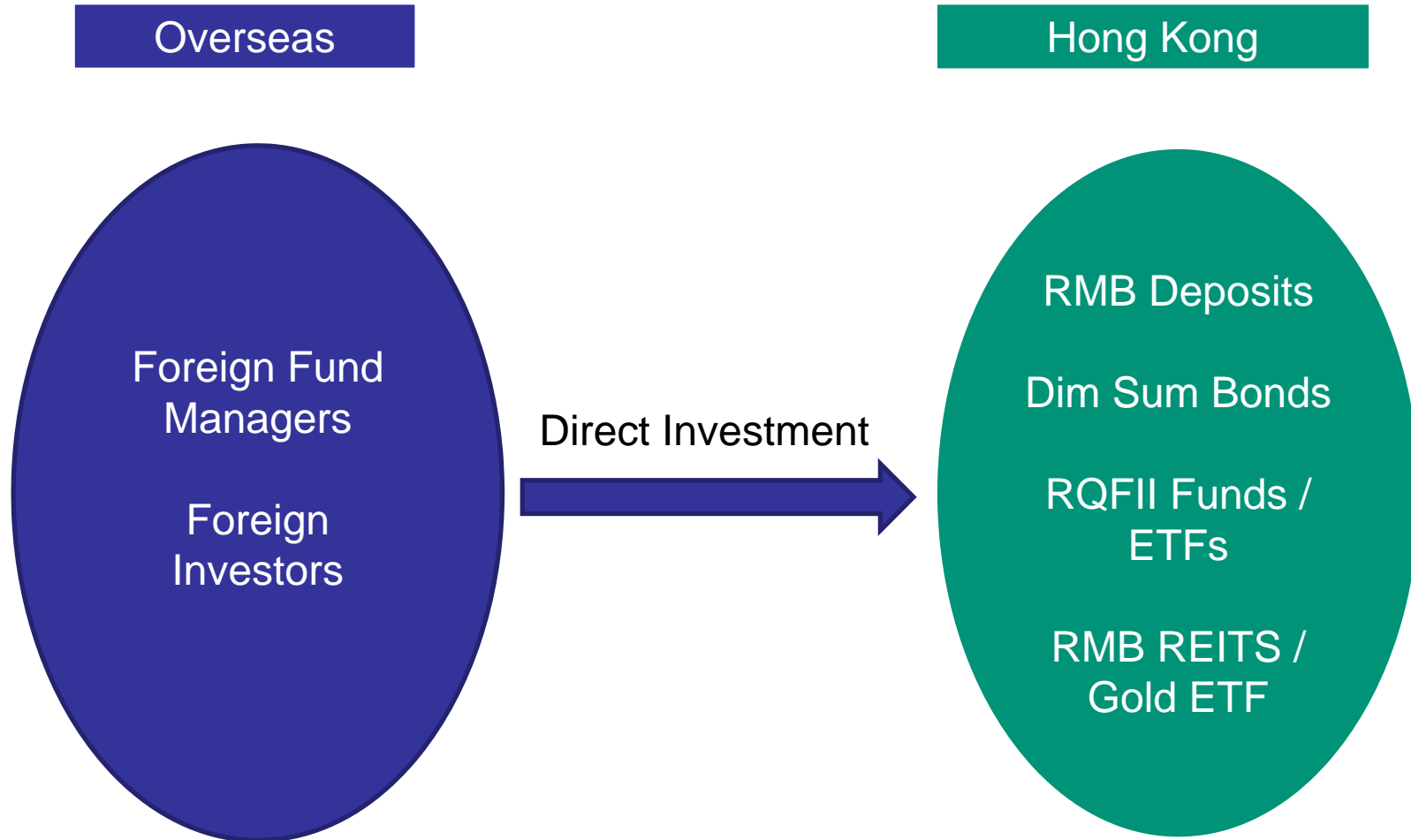
Demand to Hedge RMB Currency Risk



RMB Currency Futures tap the demand to hedge RMB currency risk

*As of April 2012

Demand to Hedge RMB Currency Risk



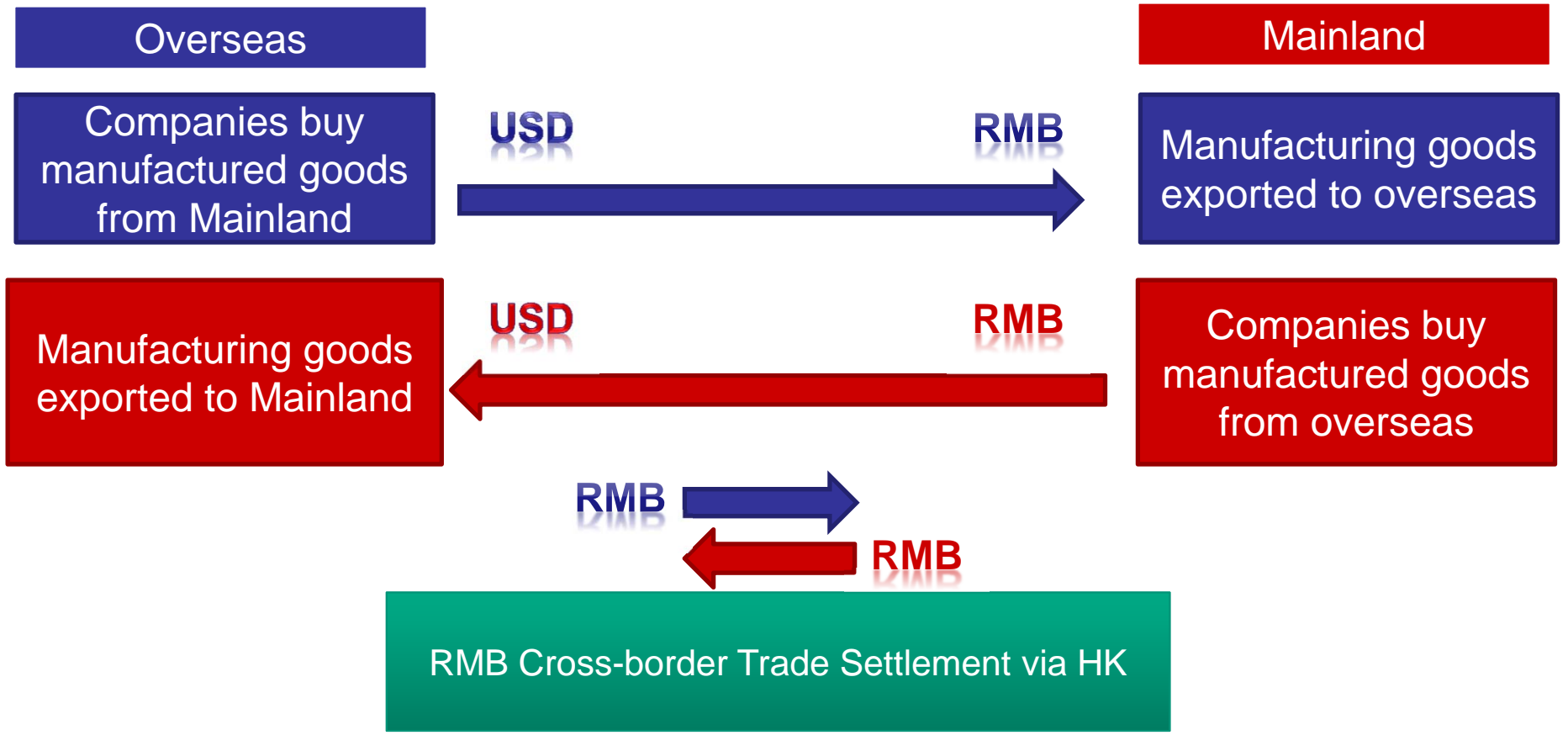
RMB Currency Futures tap the demand to Hedge RMB currency risk

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Demand to Hedge RMB Currency Risk



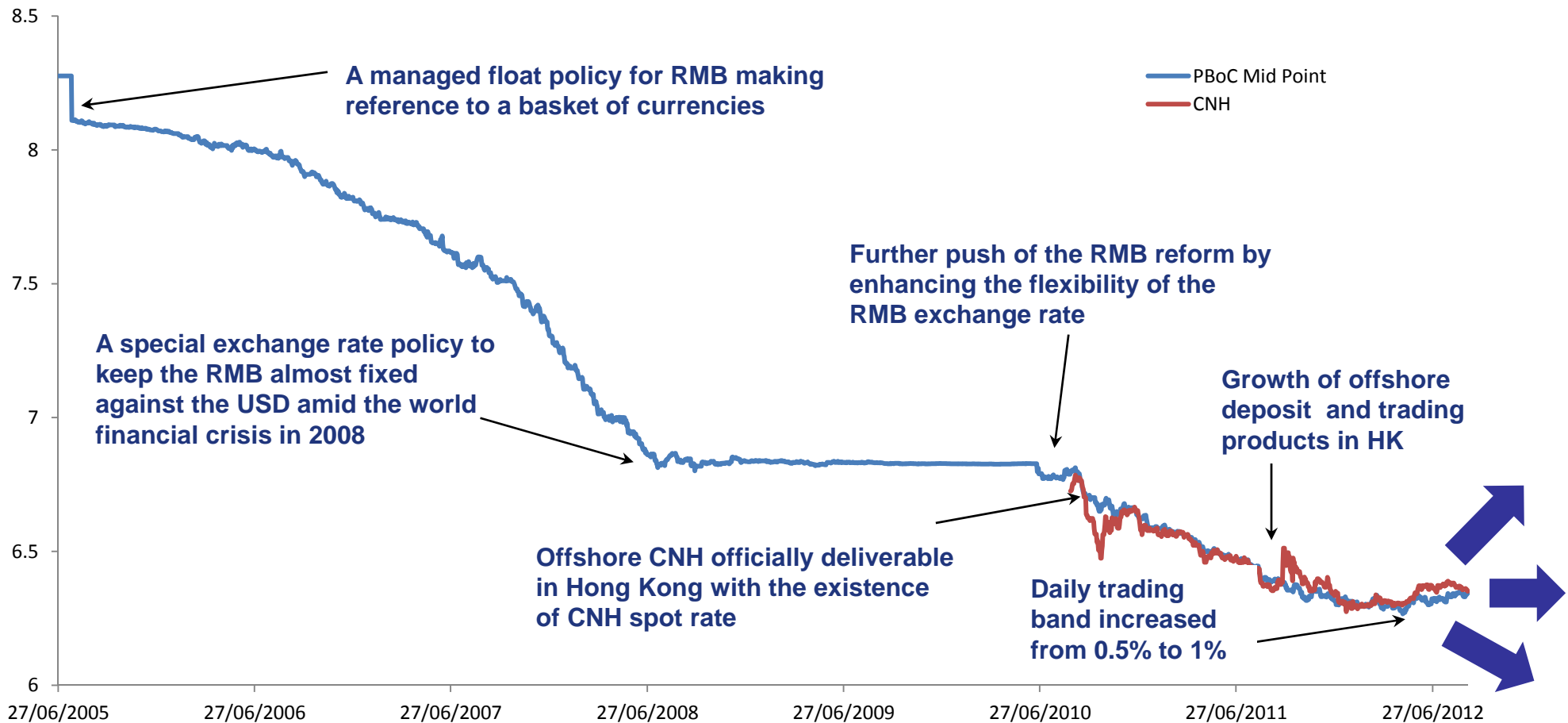
Trade Finance and Cross-border Trade Settlement in RMB



RMB Currency Futures tap the demand to Hedge RMB currency risk

Trend of RMB Spot Rate

PBOC Official Exchange Rate (USD/RMB) & Offshore RMB Spot Rate (USD/CNH)
 (Period : 27-June-2005 to 30-August-2012)

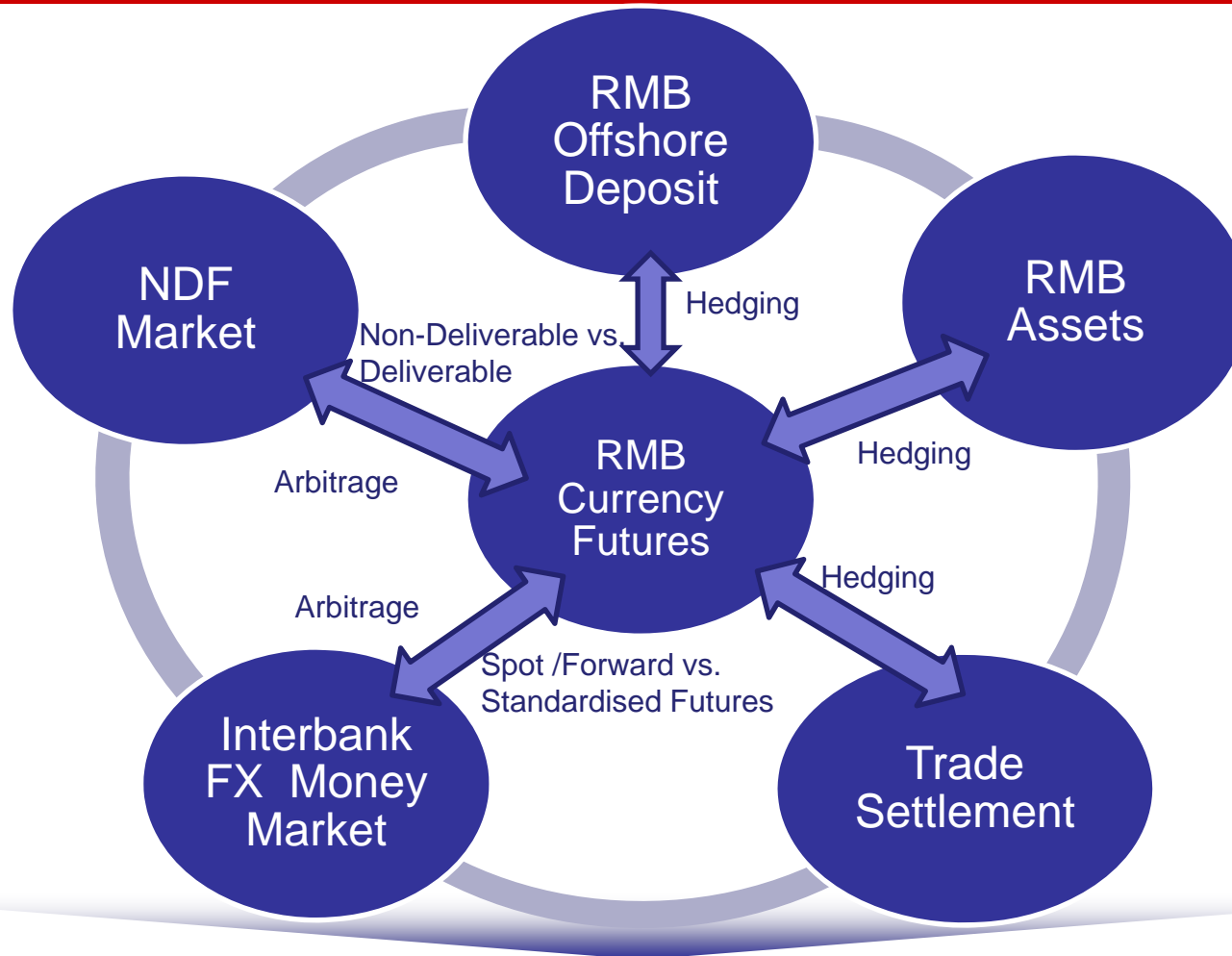


Trend of Offshore RMB NDF and Deliverable Forward

Offshore 12 month RMB NDF, Deliverable Forward and Spot Rate
(Period : 1-January-2011 to 30-August-2012)



RMB Currency Futures Useful as a Risk Management Tool

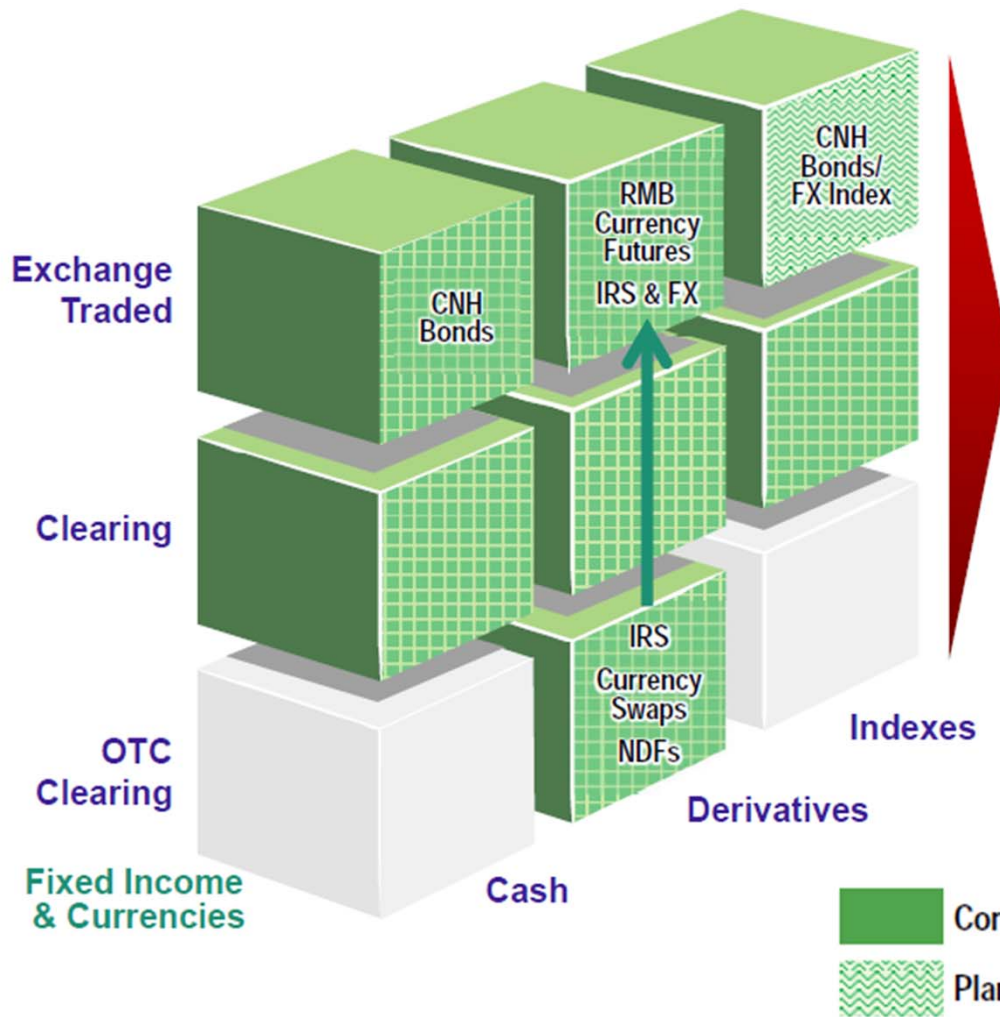


RMB Currency Futures will encourage a virtuous cycle of development to advance the chain of CNH product development in HK

2

HKEx's Fixed Income and Currencies Strategy

Fixed Income and Currencies Strategy



Organic Business Model

- Market entry leveraging on
 - Offshore RMB
 - OTC clearing as an enabler
- Currency futures as the first derivatives product

Key Growth Drivers

- RMB internationalisation – liquidity
- Mainland banks' risk management
- Development of benchmarks

Organic development from small base. Offshore RMB and OTC clearing for Mainland banks to drive growth

3

RMB Currency Futures Features

What are RMB Currency Futures?



- RMB currency futures are futures contracts based on the exchange rates between RMB and other currencies (HKEX's first RMB currency futures contract is based on the currency pair USD / CNH)
- CNH [i.e. CNY(HK)] refers to the RMB circulated in Hong Kong
- The first deliverable RMB currency futures contract traded on an exchange
- Open and transparent market for all investors
- Cleared and settled through HKFE Clearing Corporation Limited (HKCC), a central counter-party, so counter-party risk is mitigated

Why is there a need for RMB Currency Futures?



- HKEx's RMB Currency Futures are offshore risk management tool for RMB currency risk
- Investors and companies may be subject to RMB currency risk for the following situations:
 - Buy USD denominated assets while base currency is RMB (e.g. Mainland institutions, foreign commodities, foreign bonds, overseas property, etc)
 - Invest in A-shares market by converting foreign currencies to RMB
 - Handle import and export business between Mainland and foreign companies – payable and receivable amount in USD versus RMB
 - Direct investment in Mainland China

Contract Specifications of RMB Currency Futures - USD/CNH Futures



Item	Contract Feature
Contract Size	USD 100,000
Trading Code	CUS
Quotation Style	RMB per USD (e.g. RMB 6.2486 per USD)
Minimum Fluctuation	RMB 0.0001 (4 decimal places)
Contract Months at launch date (17 Sep)	Oct, Nov, Dec 2012 Jan, Mar, Jun, Sep 2013 Total 7 contract months
Settlement Method and Settlement Currency	Delivery of US dollar against RMB with full principal amount at the Final Settlement Price
Trading Hours	9:00 am - 4:15 pm (No lunch break) (Trading hours on the Last Trading Day are from 9:00 a.m. to 11:00 a.m.)

Contract Specifications of RMB Currency Futures - USD/CNH Futures



Item	Contract Feature
Final Settlement Day	Third Wednesday of the Contract Month
Last Trading Day	Two Hong Kong Business Days prior to the Final Settlement Day
Final Settlement Price	Spot USD/CNY(HK) fixing published at 11:15 a.m. on the Last Trading Day by Hong Kong Treasury Markets Association (TMA) (Website: https://www.tma.org.hk/en_market_info.aspx)
Position Limit	8,000 net contracts (i.e. USD 800 mil) in all Contract Months combined; No more than 2,000 open contracts (i.e. USD 200 mil) in the spot month contract during the last five trading days up to expiration
Large Open Position	500 open contracts, in any one Contract Month
Holiday Schedule	The product will be open for trading according to Hong Kong holiday schedule

Fee Structure



Fee Item	Details
Exchange Fee	RMB 8.00
Commission Levy	Nil
Brokerage Commission	Negotiable

Market Making Scheme

Market Makers Provide Continuous Quotes (CQ) as follows

Assigned Contract	All contract months
Maximum Bid/Offer Spread	Not greater than 0.0030 or 30 minimum fluctuations
Minimum Quote Size	Not less than 10 contracts (USD 1 mil)
Trading Requirement	Provide CQ for not less than 70% of the trading hours in each calendar month

Benefits in Trading RMB Currency Futures



Hedge or gain RMB exchange rate risk flexibly

- Investors can hedge or take on RMB exposure with USD/CNH futures. There is no restriction on the use of CNH, so the CNH market is a good reflection of supply and demand.

Principal exchange at expiry facilitating currency payment arrangement

- USD/CNH futures will be settled at expiration by exchanging principal.

Transparent pricing

- USD/CNH futures are traded on HKEX's electronic derivatives trading platform, so market participants can enjoy transparent pricing in a fully transparent and centralised trading environment.

Benefits in Trading RMB Currency Futures



Level playing field in an open trading platform

- Individual traders, banks, hedge funds and corporations have equal access to the same trading platform and the same prices.

Counterparty risk minimised

- Trades are cleared and settled by HKFE Clearing Corporation Limited, an HKEx subsidiary, acting as central counter-party in every transaction of Exchange Participants.

Continuous two way liquidity provided by market makers

- Market makers provide continuous two sided markets throughout the trading day to enhance liquidity.

Leverage

- USD/CNH Futures contracts are traded on a margin basis, so only a small fraction of the total exposure is required upfront. Capital cost in trading and hedging is reduced.

Applications - Basic Principles



Buy or Sell?

USD/CNH Futures Contracts	Price
Dec-2012	6.3600 (1 USD = RMB 6.3600)

Investor View

RMB to *Appreciate*

Action

Sell 10 Contracts (Dec-12) @ 6.3600

Anticipated Outcome

Close Out Contracts in Dec @6.3200

6.3600



6.3200

Profit / Loss
Gain RMB 40,000*
 * $(6.36 - 6.32) \times \$100,000 \times 10 \text{ contracts}$

Applications - Basic Principles



Buy or Sell?

USD/CNH Futures Contracts	Price
Dec-2012	6.3600 (1 USD = RMB 6.3600)

Investor View

RMB to *Depreciate*

Action

Buy 10 Contracts (Dec-12) @ 6.3600

Anticipated Outcome

Close Out Contracts in Dec @ 6.4000

6.4000



6.3600

Profit / Loss
 Gain RMB 40,000*
 * (6.40-6.36) x \$100,000 x 10 contracts

Applications – Example 1

Applications – Hedging for Companies Using RMB to Buy Commodities in USD

Hedging	
User	Mainland company which buys overseas commodities in USD
Outlook	Anticipates appreciation of RMB over the next 6 months
Risk Exposure	The gain in overseas commodities may be reduced by RMB appreciation
Strategy	Sells USD/CNH Futures contract for protection from RMB appreciation

Applications – Example 1



No Hedging Case

Now

Converts RMB 6.36 mil to USD @ 6.3600 and uses USD 1 mil to buy overseas commodities



6 Months Later

Sells overseas commodities and gets USD 1.02 mil

 Converts back to RMB @ 6.1600 and gets RMB 6.28 mil*

* USD 1.02 mil x 6.16 = RMB 6.28 mil

Hedging Case

Now

Converts RMB 6.36 mil to USD @ 6.3600 and uses USD 1 mil to buy overseas commodities

Sells 10 USD/CNH Futures contracts @ 6.3800



6 Months Later

Sells overseas commodities and gets USD 1.02 mil

 Converts back to RMB @ 6.1600 and gets RMB 6.28 mil

Closes out @ 6.180 and gains RMB 0.2 mil profit*

Total amount = RMB 6.48 mil#

* Profit of USD/CNH Futures = (6.38 – 6.18) x 100,000 x 10 contracts = RMB 0.2 mil

RMB 6.28 mil + RMB 0.2 mil = RMB 6.48 mil

Applications – Example 1

Comparison

	No hedging case (Without USD/CNH Futures)	Hedging case (With USD/CNH Futures)
Profit/Loss (RMB)	Loss 0.08 mil	Gain 0.12 mil
Investment return for RMB 6.36 mil (%)	-1.25	1.88

Summary: RMB currency risk can be reduced and enhanced the investment return.

Applications – Example 2

Applications – Hedging for Companies Paying RMB and Receiving USD

Hedging	
User	Company which buys products from Mainland companies in RMB and sells them to overseas markets
Outlook	Anticipates appreciation of RMB against USD over the next 6 months
Risk Exposure	Products costs may increase and hurt profit margin
Strategy	Sells USD/CNH Futures contract for protection from higher product costs

No Hedging Case

Now

Expects USD/CNH after 6 months to be 6.3000

Expects to receive USD 1 mil for payment 6 months later

Agrees to pay RMB 6.3 mil 6 months later



6 Months Later

USD/CNH = 6.2000

Receives USD 1 mil

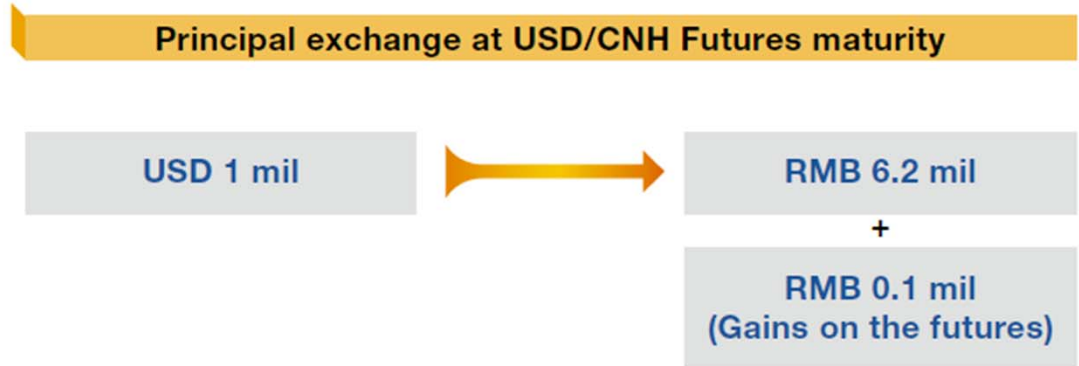
Converts to RMB 6.2 mil

Summary: RMB 0.1 mil short of the agreed payment.

Applications – Example 2

Hedging Case

Now	6 Months Later
Expects USD/CNH after 6 months to be 6.3000	USD/CNH = 6.2000
Expects to receive USD 1 mil for payment 6 months later	Receives USD 1 mil
Agrees to pay RMB 6.3 mil 6 months later	Converts to RMB 6.2 mil
Sells 10 USD/CNH Futures contracts @ 6.3000	USD/CNH = 6.2000 Gains RMB 0.1 mil on the futures



Summary: Risk of RMB exchange rate fluctuation can be mitigated.

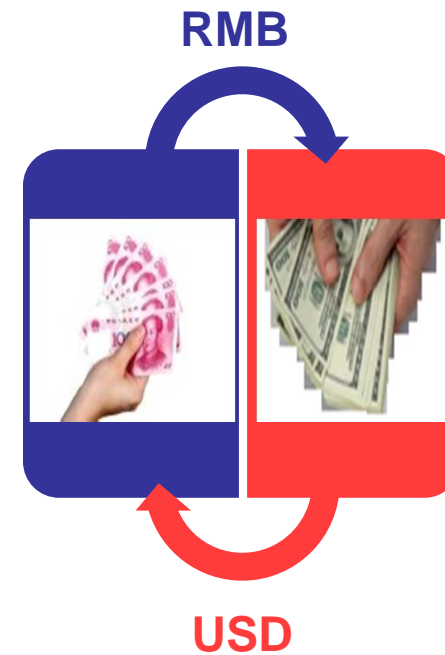
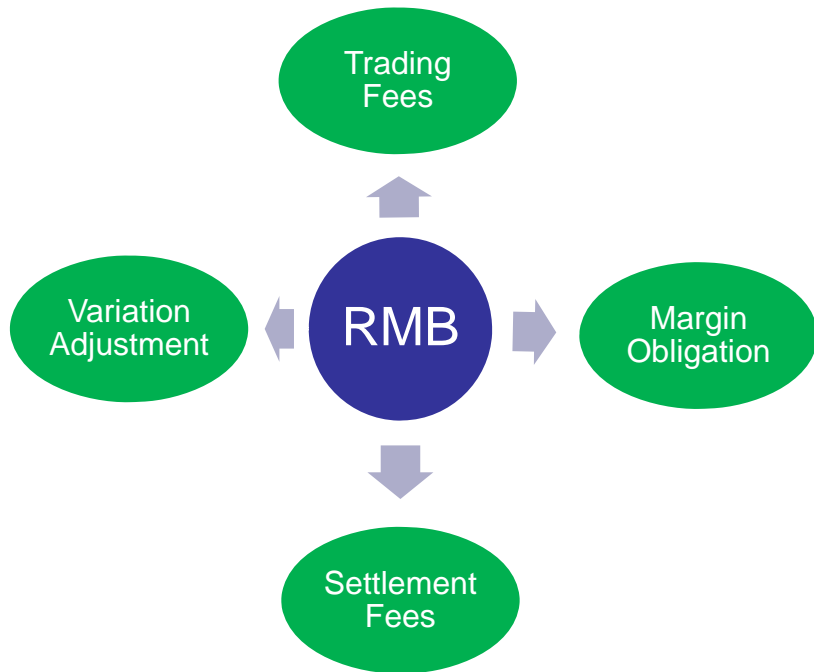
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Clearing and Risk Management

Clearing and Settlement Arrangements

Daily Settlement

Final Settlement



Both RMB & USD are involved in settlement

Final Settlement Process



Last Trading Day (LTD)

LTD + 1

Final Settlement Day (LTD+2)

Trading Hours
(09:00 – 16:15)

Set CQ
~18:00

Day-end Processing
After 18:45

1. **Final Settlement Price will be determined around 11:15 a.m.**

2. **DCASS Report - Delivery obligations**

3. **Buyer – Pay RMB
Seller – Deliver USD**

Delivery and payment obligations will be netted by currency with other settlement obligations

4. **CCMS Report - Settlement amounts**

5. **Any resulting Shortfall to be settled by 9:15 am**

6. **Clearing Participants can withdraw any resulting surplus on Final Settlement Day**

Clearing, Settlement and Risk Management



Settlement Currency

- Variation adjustment, margin obligations, trading and settlement fees will be settled in RMB

Settlement Bank Accounts

- Clearing participants need to maintain house and client bank accounts in both RMB and USD with appointed settlement banks

Final Settlement Process

- Participants are required to settle full principal amount by making and taking deliveries of USD and RMB
- Delivery of USD will be made by short position holders (i.e. sellers) and payment of Final Settlement Value in RMB by long position holders (i.e. buyers) on Final Settlement Day.

Minimum Settlement Currency Requirement

- At least 50% of the margin requirement must be covered by cash in the settlement currency (i.e. RMB)