

HAS THE RMB STABILISED OR DEPRECIATED?

The TR/HKEX RMB Currency (RXY) Indices have plateaued since the mid-August 2016 and have remained range-bound for the last few months. The TR/HKEX RXY Global CNH Index gained 0.29% in October 2016 (the index rises when the off-shore RMB (CNH) appreciates), and the China Foreign Exchange Trade System (CFETS) RMB Index finished the month with a 0.09% gain. The indices flattened despite the fact that the RMB depreciated against the USD during the same period of time. So what has actually happened over the last month and what has affected the indices the most?

IS THE USD THE CULPRIT?

The CNH and on-shore RMB (CNY) depreciated 1.48% and 1.49% respectively against the USD in October 2016. In the absence of major negative news from China, and on the contrary, the euphoria regarding the inclusion of the RMB in the Special Drawing Rights basket by the International Monetary Fund, excluded a “domestic” Chinese factor from the RMB depreciation story last month. Meanwhile, the USD trade-weighted index (DXY) rose 3.15%, driven by the market consensus of another possible rate hike in the United States before the end of the year.

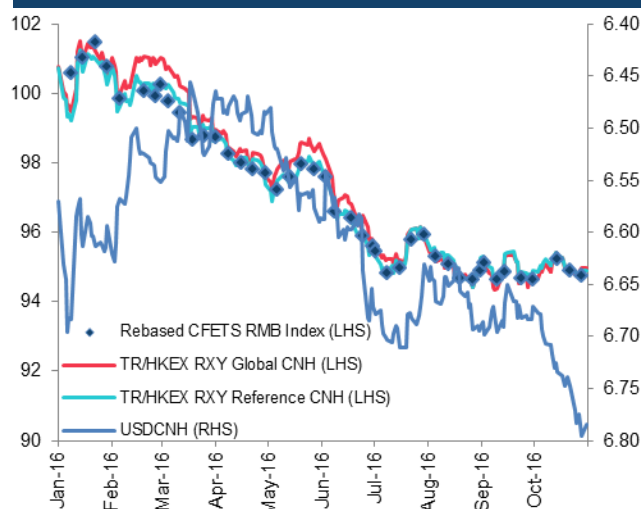
In October 2016 the correlation of the USDCNH spot rate and the DXY index was 0.95, one of the highest in this year. (Their correlations were high in May 2016 and June 2016 too, but at that time, the DXY index appreciated on the back of the flight to a safe haven ahead of the BREXIT referendum, and the USD itself was influenced by other currencies (EUR, GBP) and therefore, the correlation between the CNH and the USD, although high, was not driven by a US factor).

**THE TR/HKEX RMB CURRENCY (RXY) INDICES –
MARKET-DRIVEN RMB BENCHMARKS**

The October 2016 episode clearly demonstrated that the reliance on a bilateral exchange rate in determining a currency performance could be misleading and proved once again the importance of looking at the trade-weighted currency indices. The TR/HKEX RMB Currency (RXY) Indices measure the RMB against China’s most important trading partners’ currencies and therefore, limit the influence of any single counterparty currency to its respective weighting in the index.

The USD, which has the weighting of 24.69% in the TR/HKEX RXY Global CNH Index, put strong downward pressure on the latter in October, but its overall performance was offset by the contributions from other constituent currencies, especially from the JPY, KRW, and GBP, which continued to depreciate over the last month. As a result, **TR/HKEX RXY Global CNH (CNY) rose 0.29% (0.27%) in October, suggesting the RMB stabilised last month.**

Chart 1. The CFETS RMB Index and the two TR/HKEX RXY Indices versus USDCNH spot rate



Note: The CFETS RMB Index was rebased on 30 November 2015 to the same level as the TR/HKEX RXY Reference CNY Index

Chart 2. USDCNH spot rate and DXY index

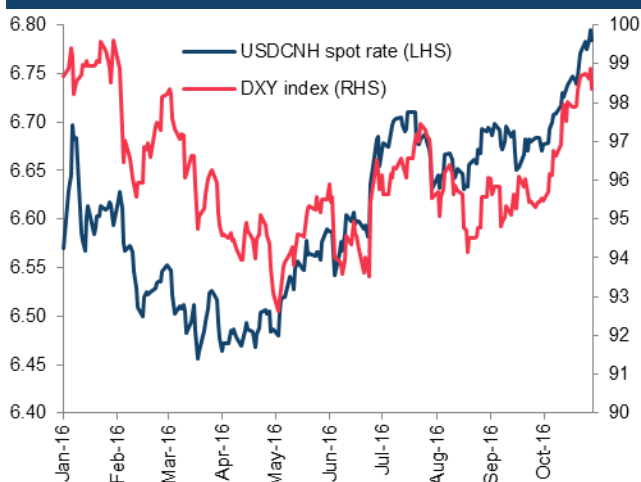
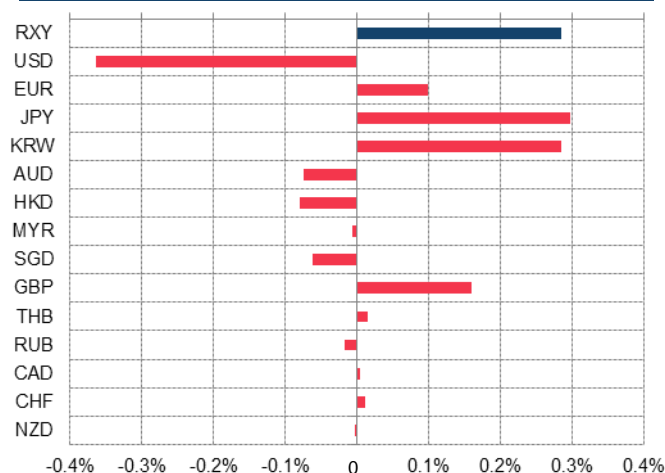


Chart 3. Constituents contribution (%) to the TR/HKEX RXY Global CNH Index performance (October 2016)



TR/HKEX RMB CURRENCY INDICES (RXY)

PRODUCT HIGHLIGHTS

- The RXY indices offer independent, transparent and timely benchmarks for RMB against Mainland China's most important trade partners' currencies.
- The indices are calculated based on WM/Reuters foreign exchange rates (WM/Reuters FX Rates) and managed in accordance with the International Organisation of Securities Commissions (IOSCO) principles for financial benchmarks.
- The RXY indices are designed to be the basis for investment and trading products such as futures, options and exchange traded funds.

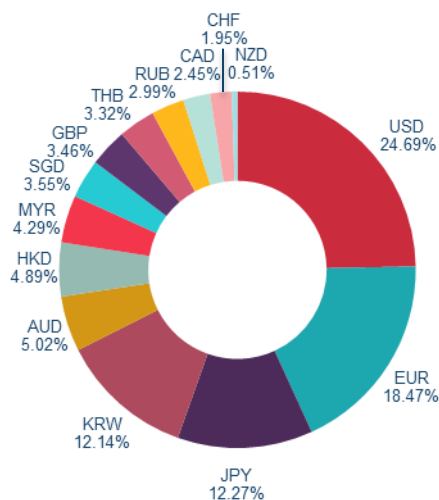
METHODOLOGY

Calculation Method:	Geometric Average
Weighting Method:	Bilateral trade weighted with adjustment for Hong Kong re-exports
Trade Data Source:	UN Comtrade, Hong Kong Census and Statistics Department
Weighting Rebalance:	Annual review. Announcement in June, implementation first business day of Q4
Index Calculation Frequency:	Hourly
FX Rate Data Source:	WM/Reuters FX Rates
Base Date:	100 as of 31 December 2014

For more details, a complete methodology document is available at: financial.thomsonreuters.com/fxindices.

PRIMARY INDEX: TR/HKEX RXY GLOBAL CNH INDEX

Index Weights: Valid Until 29 September 2017



INDEX WEIGHTS

Currency	RXY Global Currency Indices	RXY Reference Currency Indices	CFETS RMB Index
USD	24.69%	28.09%	26.40%
EUR	18.47%	21.03%	21.39%
JPY	12.27%	13.97%	14.68%
KRW	12.14%	0.00%	0.00%
AUD	5.02%	5.72%	6.27%
HKD	4.89%	5.56%	6.55%
MYR	4.29%	4.88%	4.67%
SGD	3.55%	4.04%	3.82%
GBP	3.46%	3.93%	3.86%
THB	3.32%	3.78%	3.33%
RUB	2.99%	3.41%	4.36%
CAD	2.45%	2.79%	2.53%
CHF	1.95%	2.22%	1.51%
NZD	0.51%	0.58%	0.65%

For more information about the RXY indices,

Please visit: <https://www.hkex.com.hk/eng/prod/drprod/rmb/rxy.htm>

If you have any questions, please contact us at:

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