

Highlights

- **When CNH volatility increases, HKEx's USD/CNH Futures market provides liquidity**
 - Trading volume for HKEx's USD/CNH futures grows as CNH volatility increases
 - Orders of up to 50 contracts were executed in recent periods of increased volatility
 - Market liquidity is supported by deep pool of Exchange Participants

HKEx's USD/CNH Futures contract continues to be the most liquid and transparent listed RMB futures contract in the global marketplace. The contract has proved to be especially useful in times of heightened market volatility as witnessed recently and in March of this year, when there was a positive correlation between USD/CNH Futures' trading volume and offshore RMB, or CNH, volatility.

In second week of December, CNH reached its weakest level against the US dollar in nearly four months amid talk of looser monetary policy in Mainland China, leading to speculation there would be further depreciation. On 9 December, The USD/CNH spot price fell 0.6 per cent to 6.1988, capping a combined 0.75 per cent drop over two days (8 December – 9 December) and the biggest two-day depreciation since 2007. On that same day, the volume of HKEx's USD/CNH futures hit an 8-month high of 4,608 contracts. The futures' record high was on 19 March of this year, when 6,318 contracts were traded after the PBOC announced the widening of its daily RMB trading band from 1 per cent to 2 per cent. Between 17 March and 21 March, CNH depreciated 0.79 per cent to 6.2045 per US dollar.

A closer look at the market environment shows that the 10-day historical volatility of the USD/CNH spot price increased substantially in the past month, rising from 0.97 per cent on 21 November to 2.52 per cent on 10 December. During the same period, the intraday price fluctuation jumped from 0.0077 to 0.0307. As the volatility of the offshore RMB's spot price increased, the trading volume of HKEx's USD/CNH futures contracts also picked up. A simple correlation analysis between the futures volume and the 10-day historical volatility (intraday price fluctuation) of the USD/CNH spot price shows a significant positive correlation coefficient of 0.63 (0.86) for the 14 November to 10 December period .

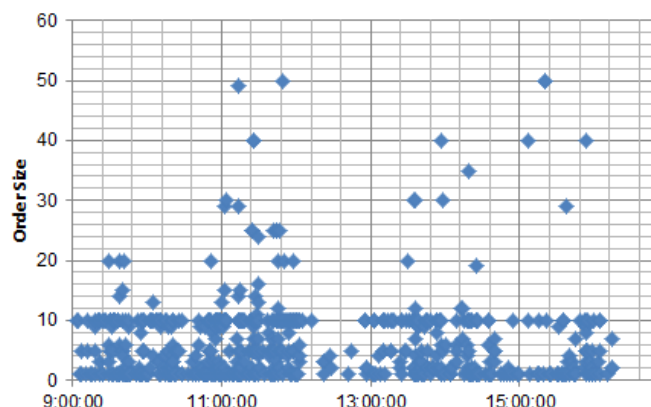
A good measure of the liquidity of a futures market is the individual trade size during periods of unusual market volatility. As the chart on the right shows, there were several individual trades of 40 or 50 contracts when CNH depreciated substantially against USD on 9 December, demonstrating the liquidity of HKEx's USD/CNH futures market .

One of the factors behind the market's liquidity is the 79 Exchange Participants (EPs) that have met the requirements for trading HKEx's USD/CNH futures. They include six Market Makers and their collective client base is large and diverse.

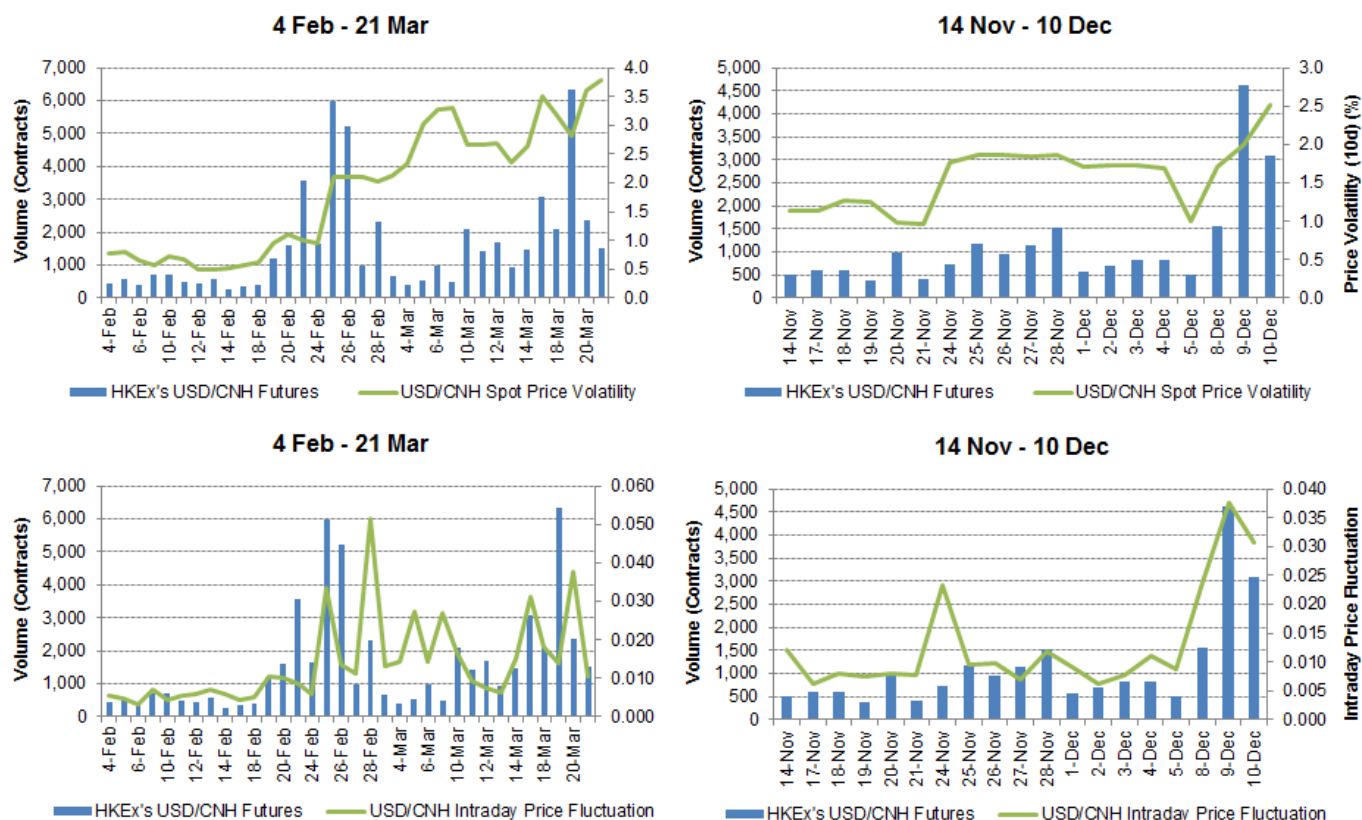
In times of heightened market volatility, investors can expect good liquidity in HKEx's USD/CNH futures market. So when RMB makes big moves, HKEx's USD/CNH futures are the best way to manage exposure to the underlying market, or to capitalize on trading opportunities .

Correlation Coefficient	4 Feb - 21 Mar	14 Nov - 10 Dec
HKEx's USD/CNH Futures Volumes and RMB Spot Price	0.35	0.63
HKEx's USD/CNH Futures Volumes and RMB Intraday Price Fluctuation	0.40	0.86

Executed Trades of HKEx's USD/CNH Futures on 9 December



HKEx's USD/CNH Futures Volumes vs. USD/CNH Volatility (in 2014)



For more information about the USD/CNH Futures Contract Specifications, please visit: <http://www.hkex.com.hk/eng/prod/drprod/rmb/cnhspecs.htm>

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