HKEX 香港交易所

INSIDE FIXED INCOME AND CURRENCY MONTHLY NEWSLETTER

April 2016

Issue No 16

MONTHLY HIGHLIGHTS

- Following the RMB exchange rate reform to develop a managed float regime with reference to a basket of currencies, HKEX plans to launch new cash-settled RMB currency futures in Q2 2016, subject to regulatory approval.
- HKEX's Chief China Economist, Dr Ba Shusong, thinks that in a world of increasingly correlated global markets the Mainland should take a more proactive role in international economic and financial governance.
- In the Expert Corner, Ms Paige Tan of Interactive Data (Asia) provides a brief analysis of policy bank bonds' characteristics and pricing behaviour.

FROM THE CHIEF CHINA ECONOMIST'S VANTAGE POINT

MAINLAND FINANCIAL RISKS IN PERSPECTIVE

Dr Ba Shusong, Chief China Economist, HKEX

In the work reports presented at the recently closed National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) sessions in March 2016, the State Council reiterated the importance of a good start for the 13th Five-Year Plan and the state's commitment to reduce industrial capacity, inventories, leverage and costs while strengthening the economy's weakest areas. Premier Li Keqiang also highlighted the importance of preventing financial risks from spilling over into other areas. As transformation of the Mainland economy accelerates, the Mainland's financial system will inevitably come under pressure. What are the overall financial risks facing the Mainland? What kinds of financial reforms should be introduced to assist growth and transformation? HKEX's Chief China Economist Dr Ba Shusong has some thoughts on related matters.

The Mainland's financial system structure is closely related to its economy. While the Mainland's economic growth, which plummeted sharply from 11.9 per cent in the first quarter of 2010 to 6.9 per cent in 2015, is testing the bottom, capacity reduction has only just begun in upstream and mid-stream heavy industry. In the financial system, adjustments will be driven by the structural adjustment of the economy and changes in growth rates.

The Mainland's financial system has been under considerable pressure in the past three years due to the expansion and contraction of shadow banking, the explosive growth of Internet finance and accompanying problems, China Securities Finance Corporation's intervention in the stock market to end turmoil, continuing expansion of the high-interest-rate insurance policy market, narrowing interest rate spreads between deposits and loans and weak profit growth for banks. In addition to cyclical factors, the Mainland's financial system is responsible for some of the risk associated with economic transformation and growth contraction. Economic transformation, therefore, requires the backing of financial reforms and transformation. The top priorities are: enrich the range of direct financing tools; establish a multi-tier capital market; improve the basic trading rules and regulations for the capital market; and meet the financing needs of innovative businesses. These should be followed by a steady opening of the financial market, a broader range of investors, development of a wider variety of financial products and the formation of a more diverse investor structure to stabilise the market. Thirdly, reforms of financial regulation should be speeded up so that a united regulatory framework can be established.

Globally, financial risk has become very inter-related since September 2015. Increasing financial market volatility and linkages accelerate the spread of market turbulence. The Mainland is now part of this process. According to our calculations, A shares' correlation to the Nikkei index, the Hang Seng Index and the FTSE indices increased considerably after the financial crisis. For example, between 2000 and the end of 2006, the correlation coefficient between the Dow Jones Industrial Average and the Shanghai Composite Index was only 0.19, but since 2011 (up to 16 March 2016), it has hit 0.43.

In a world of increasingly correlated global markets, volatility in one market is easily exaggerated, causing market fluctuations to accelerate. In times of market turmoil, over-adjustment appears to be the norm. Against a background of asynchronous repair of balance sheets by major economies, increased market correlation only means greater vulnerability for the global market. Inappropriate handling and inadequate coordination may turn one single local risk event into global market turmoil. A good example is the US central bank's rate hike in 2015.

(continued on page 9)

CHINA MACRO UPDATE

Chart of the Month: Currency Sensitivities to RMB Movement

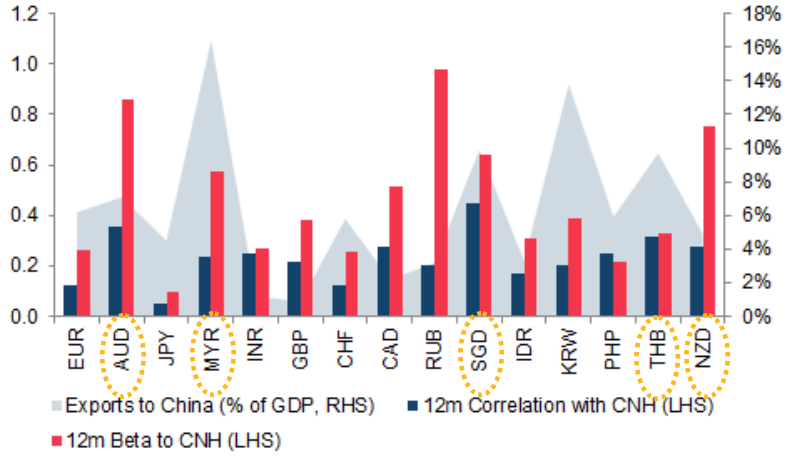


Fig 2: Macro-Economic Climate Index

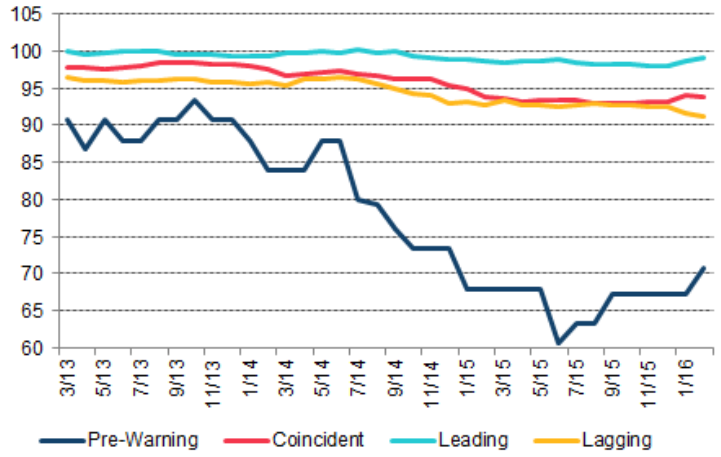


TABLE 1

China Key Economic Indicators	Current	Prior	Chg	Next Release Date
Real GDP (yoy %)	6.7	6.8	↓	15/07/2016
CPI (yoy %)	2.3	2.3	→	10/05/2016
PPI (yoy %)	-4.3	-4.9	↑	10/05/2016
Industrial Production (yoy %)	6.8	5.9	↑	14/05/2016
FAI (yoy %)	10.7	10.2	↑	14/05/2016
Foreign Investment (yoy %)	7.8	1.8	↑	08/05/2016
CFLP Manufacturing PMI	50.1	50.2	↓	01/06/2016
PBOC Bankers Confidence Index	38.1	37.9	↑	TBC
PBOC Bankers Loan Demand Index	62.7	56.8	↑	TBC
CEMAC Leading Economic Index	99	98.12	↑	03/05/2016
Exports (yoy %)	11.5	-25.4	↑	08/05/2016
Imports (yoy %)	-7.6	-13.8	↑	08/05/2016
M2 Money Supply (yoy %)	13.4	13.3	↑	10/05/2016
Retail Sales (yoy %)	10.5	11.1	↓	14/05/2016
Consumer Confidence Index	117.8	118.1	↓	25/05/2016
Regulated Reserve Ratio (%)	17.5	18	↓	Infrequent
Official Foreign Exchange Reserves (USD bn)	3212.58	3202.3	↑	07/05/2016
Three-Month SHIBOR (%)	2.90	2.79	↑	Continuous
10-Year Gov't Bond Yield (%)	2.92	2.87	↑	Continuous
CNY/USD Exchange Rate	6.4565	6.4628	↓	Continuous

CHART OF THE MONTH

- Based on a simple correlation analysis, a number of currencies look more exposed to RMB risk than others. Singapore dollar (SGD), Australian dollar (AUD), Thai baht (THB), New Zealand dollar (NZD), and Malaysian ringgit (MYR) have higher correlation coefficients to CNH, suggesting greater sensitivity to further CNH movement down the road. From a more fundamental perspective, these currencies with a higher sensitivity to CNH are among the top exporters to the Mainland as a result of increased integration in the global manufacturing supply chain.

REGULATORY/POLICY DEVELOPMENTS

- According to a statement issued by the China Foreign Exchange Trading System (CFETS) on 1 April 2016, designated market markers for swaps and forwards will be allowed to offset their currency swap positions directly with other counterparties on a trial basis. The mutual liquidation of swap positions appears to be aimed at allowing banks and other financial institutions to conduct more derivatives trades. At present, companies must go to the market operator to liquidate derivative positions.
- According to two documents published by the People's Bank of China (PBOC) on its website on 14 April 2016, foreign central banks are not subject to quota restrictions for their investments in the Mainland's interbank bond and forex markets, and they are allowed to remit funds without regulatory approval, a further step to open up the Mainland's interbank market. Details of the implementation have not been announced.

MACRO ECONOMIC UPDATE

- Credit risk is rising on the Mainland as it faces a growing array of factors challenging financial market stability, PBOC vice governor Chen Yulu warned on 23 April 2016. Chen cited continuing pressures on the economy and said the central bank is responding with efforts to improve the monetary policy framework while closing regulatory loopholes.

MARKET/PRODUCT DEVELOPMENTS

- HKEX will launch new cash-settled RMB currency futures in Q2 2016, subject to regulatory approval. Following the RMB exchange rate reform to develop a managed float regime with reference to a basket of currencies, the additional RMB currency futures will serve as risk management tools for market participants to hedge RMB currency risk against the euro (EUR), Japanese yen (JPY) and AUD. In addition, to complement its existing physically-delivered USD/CNH futures, HKEX will introduce USD-denominated cash-settled CNH/USD futures in Q2 2016.

KEY RESEARCH REPORTS/CONFERENCES

- According to financial results reported recently by Mainland-listed companies, 980 companies suffered a combined FX loss of RMB48.7 billion last year. That was almost 13 times their combined FX loss in 2014. Although firms are increasingly aware of the exchange-rate risks they face, many are unprotected from rising volatility due to the high cost of hedging and insufficient liquidity in the OTC market as well as accounting restraints on Mainland.

Sources: Bloomberg, WIND (29 Apr 2016)

RMB FX MARKET DYNAMICS

OFFSHORE USD/RMB

- In April 2016, CNY fixings moved between 6.4579 and 6.5120, and CNH was trading 0.4 per cent lower vs the US dollar from a month ago, as the RMB market remained broadly stable and the USD continued to be the main driver of the CNH spot market.
- The one-month OTC USD/CNH options' implied volatility continued to drop in April, falling from 5.24 per cent to as low as 3.94 per cent as the PBOC reconfirmed the Mainland's aim to keep the RMB "basically stable" against a basket of currencies in a statement to the IMF's International Monetary and Financial Committee meeting.

Fig 3: Onshore/Offshore RMB Price Range

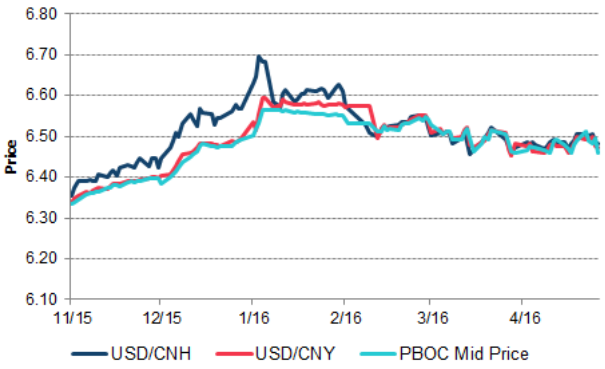


Fig 4: Implied Volatilities of OTC USD/CNH ATM Options

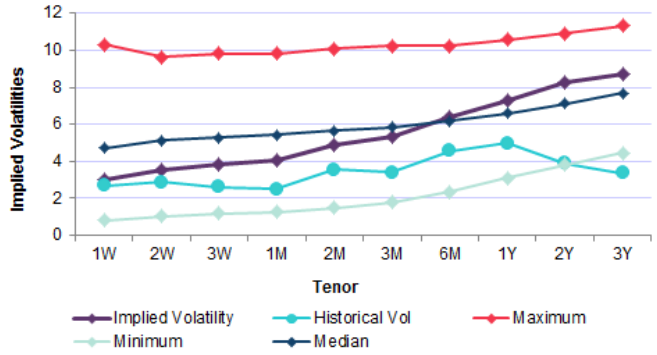
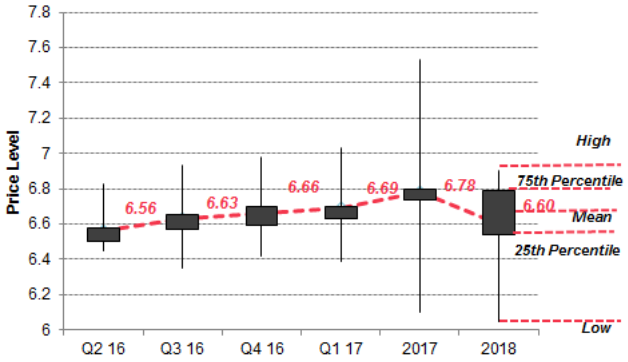


Fig 5: Market Forecasts for the Level of USD/CNH



HKEX'S USD/CNH FUTURES

PRODUCT HIGHLIGHTS

- Average daily volume of HKEX's USD/CNH futures was 1,271 contracts (US$127.1 million notional) in April 2016. Open interest was 26,844 contracts (US$2.6 billion notional) as of the end of April 2016.
- Trading volume was high in the Jun-16, Dec-16, and Jun-17 contracts, which accounted for 66 per cent of total volume in April 2016. Open interest was concentrated in the Jun-16, Dec-16, and Mar-17 contracts, which accounted for 77 per cent of total open interest at the end of April 2016.

Fig 6: USD/CNH Futures Turnover and Open Interest

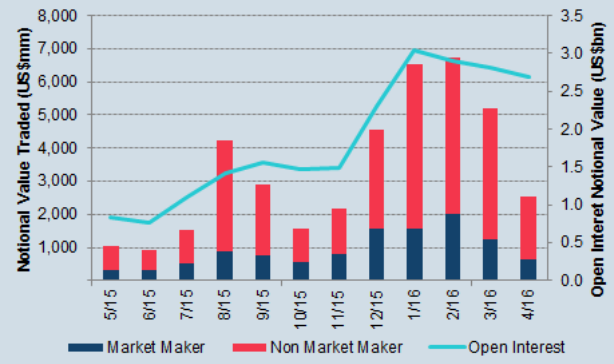


Fig 7: HKEX USD/CNH Futures Contract Provides Best Liquidity in Volatile Market

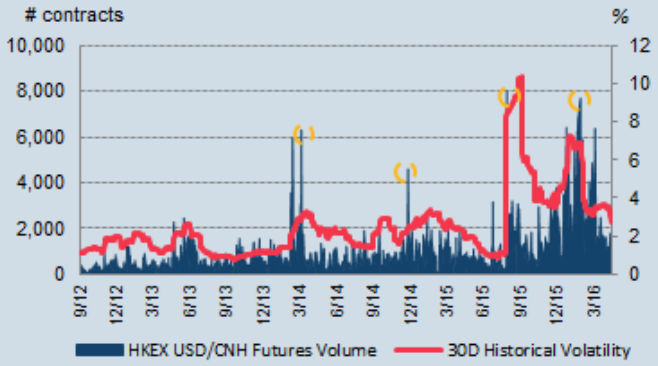


Fig 8: Breakdown of Volume by Contract Month (4/2016)

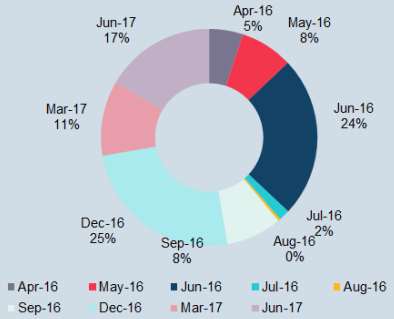
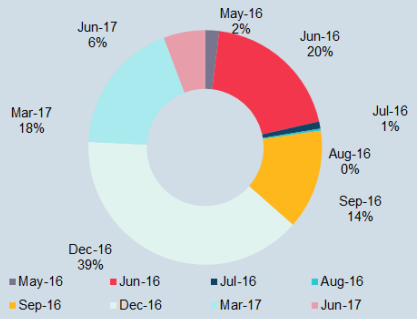


Fig 9: Breakdown of OI by Contract Month (29/4/2016)



Sources: Bloomberg, WIND (29 Apr 2016)

OFFSHORE RMB AGAINST OTHER CURRENCIES

EUR/CNH

- The CNH was trading 0.5 per cent lower against the EUR in April 2016 from a month ago as better than expected Eurozone jobs data supported the European currency. The German unemployment rate held steady at a record low in April 2016, while the number of jobless showed the sharpest drop since January 2016.
- The implied volatility of 3m OTC options continued to drop, falling to 8 per cent in April 2016.
- On the FX radar, the fundamental and risk factors were well below their historical average.

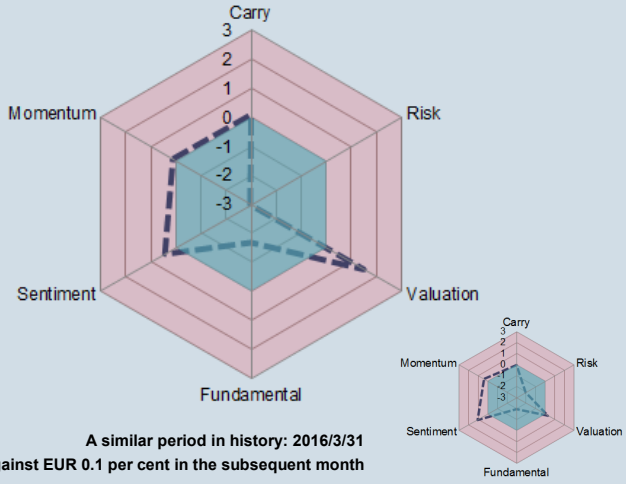
Monthly

-0.5%

Implied Volatility

8.1%

Fig 10: FX Radar*



A similar period in history: 2016/3/31

The CNH depreciated against EUR 0.1 per cent in the subsequent month

Fig 11: FX Volatility (3M Implied, %)

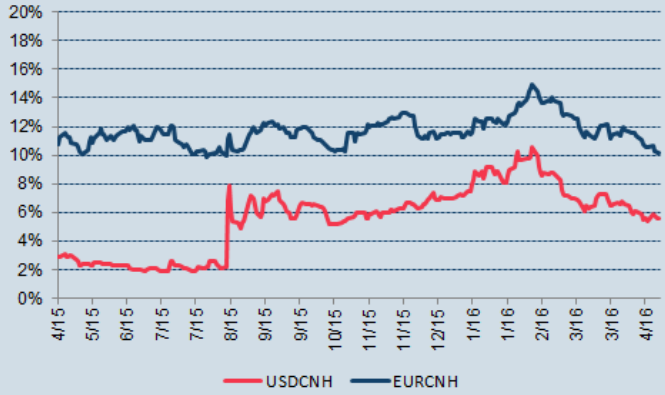
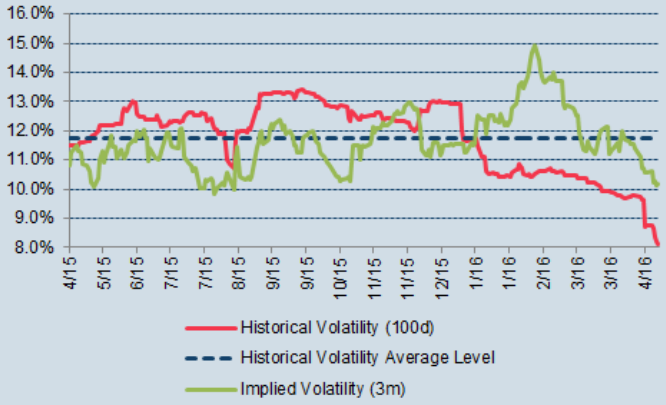


Fig 12: Historical Volatility vs Implied Volatility



AUD/CNH

- The CNH was trading 0.1 per cent lower against the AUD in April 2016 from a month ago. The Australian Business Review reported on 29 April 2016 that the producer price index fell 0.2 per cent in the March quarter of 2016, dragging the annual producer price inflation rate down to 1.2 per cent, from 1.9 per cent in the fourth quarter of 2015, further raising the prospect of a rate cut from the Reserve Bank of Australia.
- On the FX radar, the fundamental factor was well below its historical average, while the momentum, valuation, and sentiment factors were above their historical average.

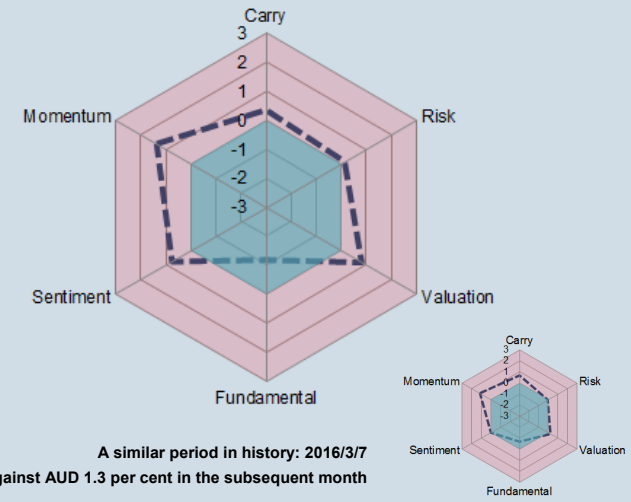
Monthly

-0.1%

Implied Volatility

12.3%

Fig 13: FX Radar*



A similar period in history: 2016/3/7

The CNH depreciated against AUD 1.3 per cent in the subsequent month

Fig 14: FX Volatility (3M Implied, %)

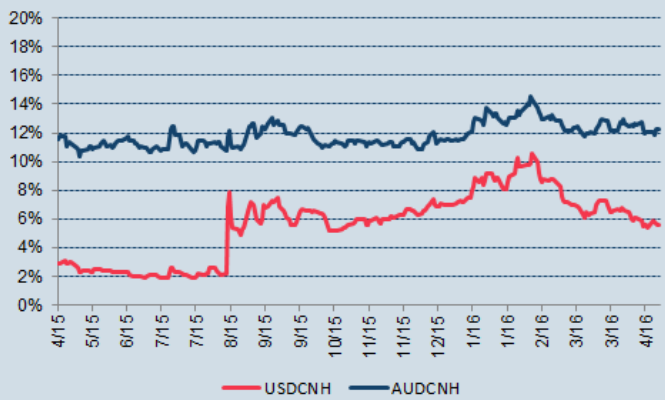
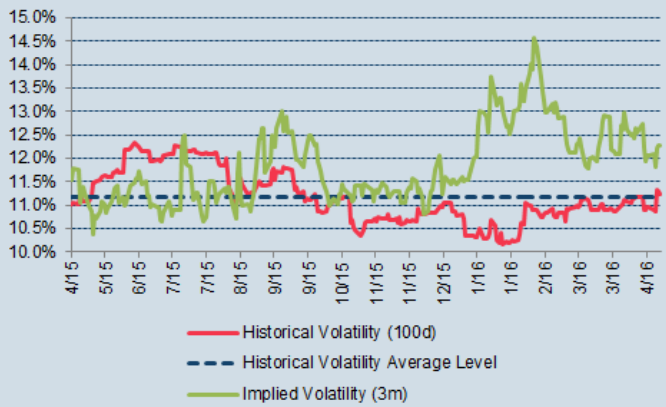


Fig 15: Historical Volatility vs Implied Volatility



Sources: Bloomberg, WIND (29 Apr 2016)

* For detailed information, please see appendix

JPY/CNH

- The CNH was trading 5.2 per cent lower against the JPY in April 2016 from a month ago. The JPY/CNH increased to its highest point in a year to trade at 6.043 on 29 April 2016. The Bank of Japan's (BOJ) decision on 28 April 2016 to keep monetary policy steady disappointed a section of the market betting on further stimulus, and that pushed the yen sharply higher against the CNH.
- The historical volatility increased to 12 per cent in April 2016.
- On the FX radar, all risk factors except for the carry factor were above their historical average.

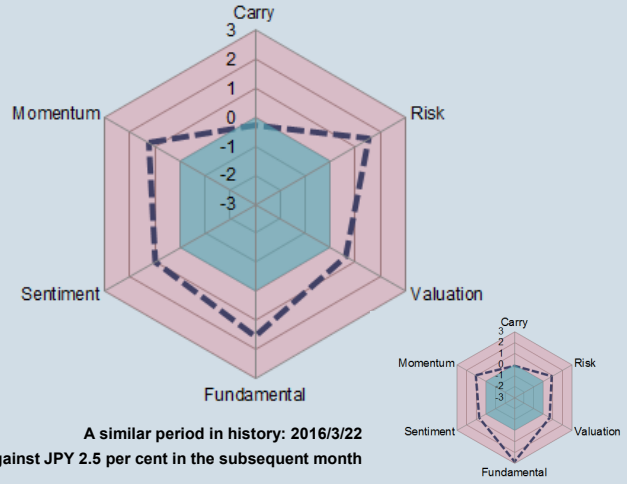
Monthly

-5.2%

Implied Volatility

12.6%

Fig 16: FX Radar*



A similar period in history: 2016/3/22

The CNH depreciated against JPY 2.5 per cent in the subsequent month

Fig 17: FX Volatility (3M Implied, %)

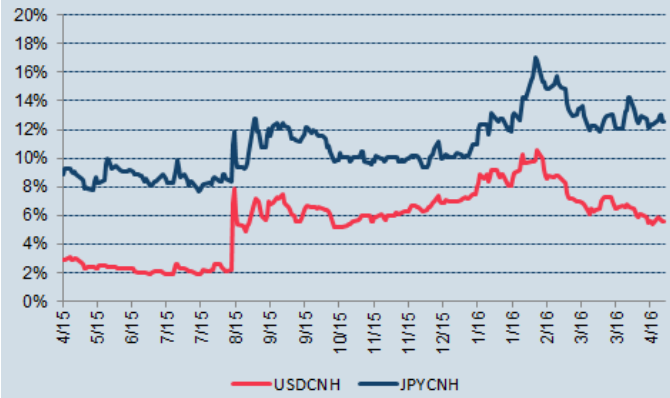
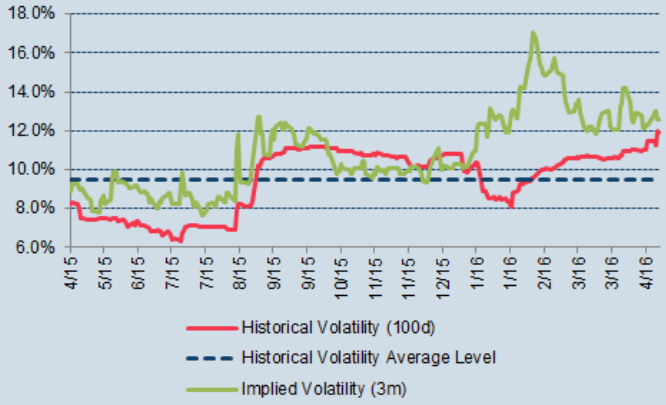


Fig 18: Historical Volatility vs Implied Volatility



INR/CNH

- The CNH was trading 0.1 per cent higher against the Indian rupee, or INR, in April 2016 from a month ago, as the INR/CNH rate struggled to gain momentum.
- The implied volatility of 1m OTC options continued to decrease, falling to less than 7 per cent in April 2016.
- On the FX radar, the sentiment and risk factors were below their historical average, while the fundamental factor was above its historical average.

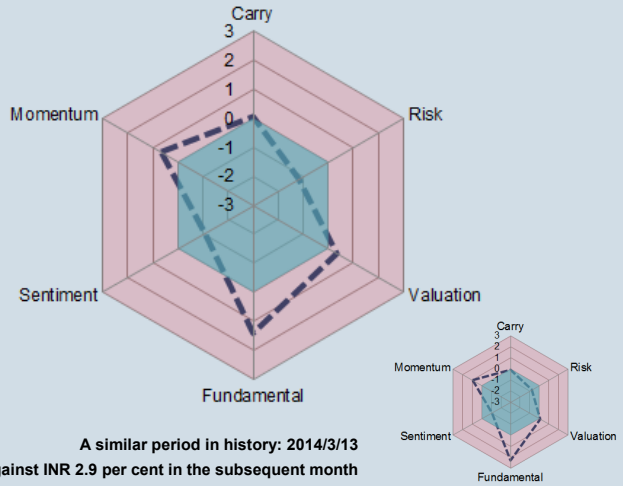
Monthly

0.1%

Implied Volatility

6.8%

Fig 19: FX Radar*



A similar period in history: 2014/3/13

The CNH depreciated against INR 2.9 per cent in the subsequent month

Fig 20: FX Volatility (3M Implied, %)

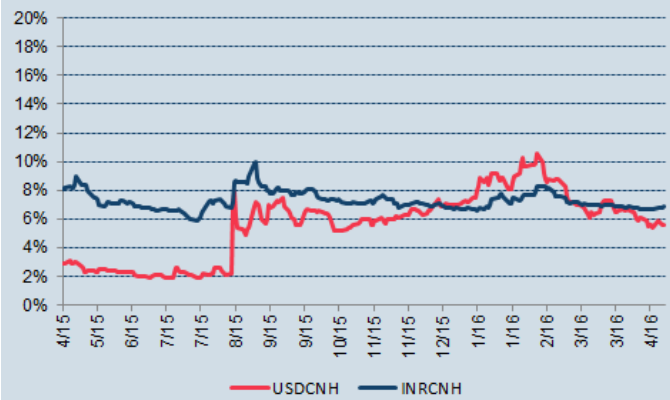
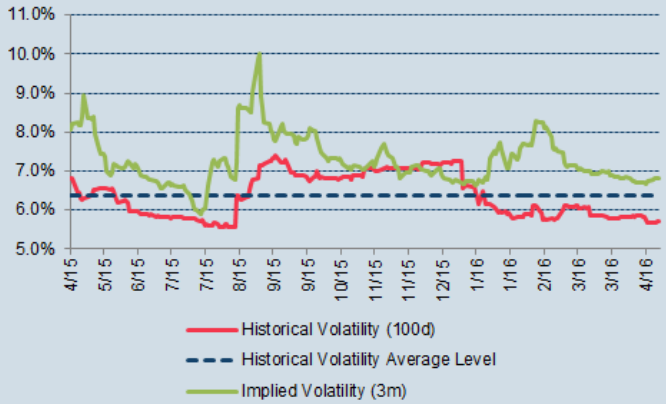


Fig 21: Historical Volatility vs Implied Volatility



Sources: Bloomberg, WIND (29 Apr 2016)

* For detailed information, please see appendix

MYR/CNH

- The CNH was trading back and forth between 1.6436 and 1.6838 against the Malaysian ringgit, or MYR, and ended 0.3 per cent higher in April 2016 from a month ago.
- The historical volatility stabilised at around 12 per cent in April 2016.
- On the FX radar, the fundamental and sentiment factors were well below their historical average, while the momentum factor was above its historical average.

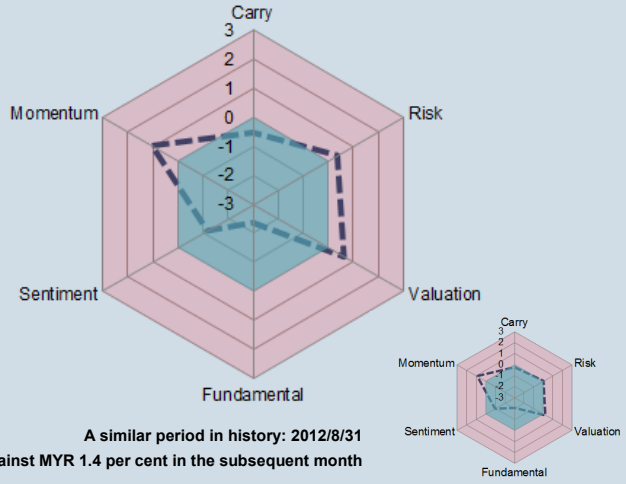
Monthly

0.3%

Implied Volatility

12.4%

Fig 22: FX Radar*



A similar period in history: 2012/8/31

The CNH depreciated against MYR 1.4 per cent in the subsequent month

Fig 23: FX Volatility (3M Implied, %)

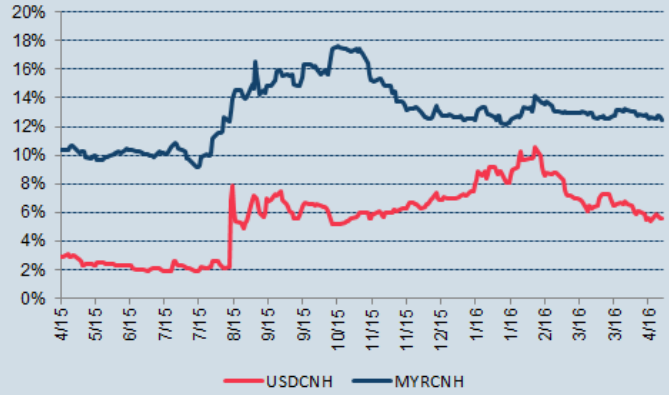


Fig 24: Historical Volatility vs Implied Volatility

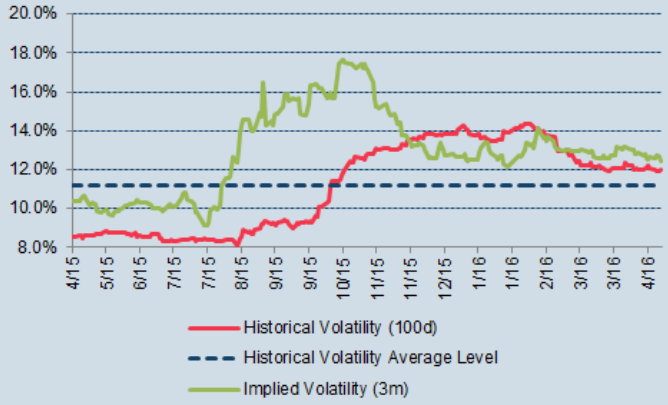


TABLE 2: Summary Table for RMB Currency Pairs

Performance					
	Current Month	Prior Month	Chg	Prior 3 Month	YTD
USDCNH	-0.4%	1.1%	↓	2.0%	1.2%
EURCNH	-1.0%	-3.2%	↑	-3.0%	-3.4%
AUDCNH	0.3%	-5.7%	↑	-6.1%	-3.1%
JPYCNH	-6.1%	-0.3%	↓	-9.3%	-11.8%
MYRCNH	0.5%	-4.5%	↑	-6.4%	-8.3%
INRCNH	0.0%	-0.9%	↑	-0.5%	1.2%

Volatility						
	Implied	Prior	Chg	Historical	Prior	Chg
USDCNH	5.6%	6.5%	↓	4.6%	4.8%	↓
EURCNH	10.2%	11.2%	↓	8.1%	10.0%	↓
AUDCNH	12.3%	12.2%	↑	11.2%	10.9%	↑
JPYCNH	12.6%	12.2%	↑	11.9%	10.6%	↑
MYRCNH	12.4%	12.7%	↓	12.0%	12.0%	↓
INRCNH	6.8%	6.9%	↓	5.7%	5.8%	↓

Sources: Bloomberg, WIND (29 Apr 2016)

* For detailed information, please see appendix

OFFSHORE BOND MARKET DYNAMICS

OFFSHORE RMB BOND MARKET COMMENTS

- There was one primary issue in CNH in April 2016, as Hungary has become the first Eastern European country to issue a RMB-denominated sovereign bond. Selling RMB-denominated sovereign debt can help to establish a benchmark of which Hungarian firms can issue their own RMB bonds.
- RMB deposits in Hong Kong decreased by 5.54 per cent month-on-month to RMB759.4 billion in March 2016. The total remittances of RMB for cross-border trade settlement amounted to RMB370.7 billion in March 2016, compared to RMB279.8 billion in February 2016.

Fig 28: Offshore RMB Deposits vs Outstanding Dim Sum Bonds

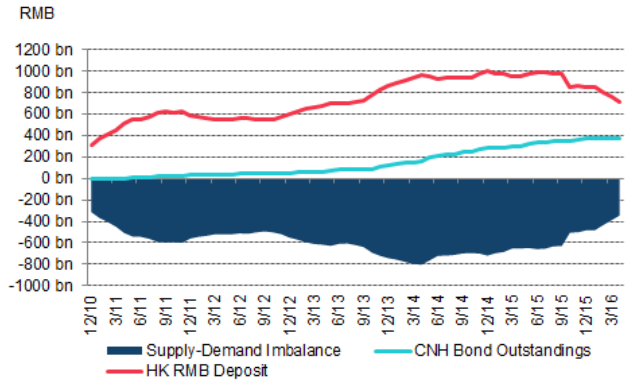


Fig 29: RMB Bond Issuances by Issuer Type

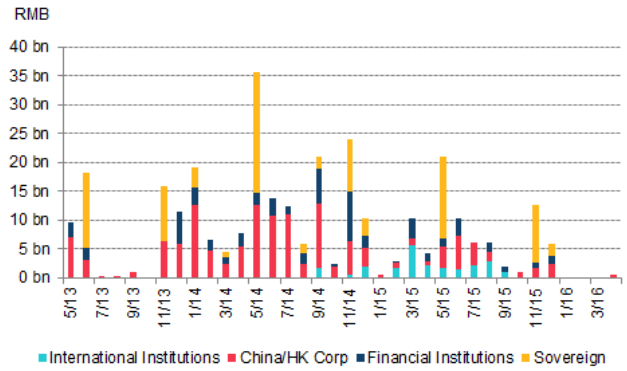
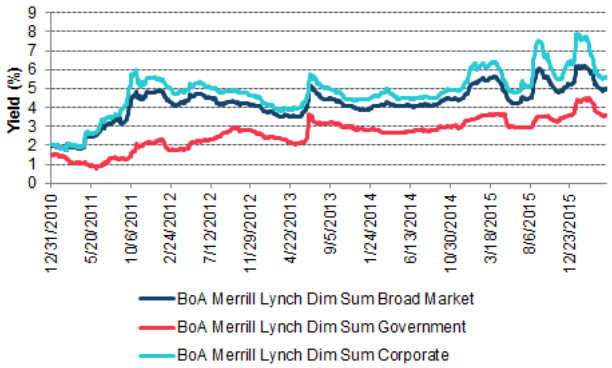


Fig 30: Dim Sum Bond Performance



ONSHORE BOND MARKET DYNAMICS

ONSHORE RMB BOND MARKET COMMENTS

- Onshore bond issuance decreased 17 per cent to RMB 3.4 trillion in April 2016 from RMB4.0 trillion in March 2016. Certificates of deposit accounted for more than 50 per cent of the total decrease in new issuance.
- The onshore/offshore five-year Ministry of Finance (MoF) Treasury Bond (T-Bond) yield spread began to narrow in April 2016. The spread narrowed to less than 1 per cent, as the five-year MoF T-Bonds were trading at 2.86 per cent onshore versus 3.60 per cent offshore towards the end of April 2016.

Fig 31: MoF T-Bond Yield 5Y: Onshore vs Offshore (%)

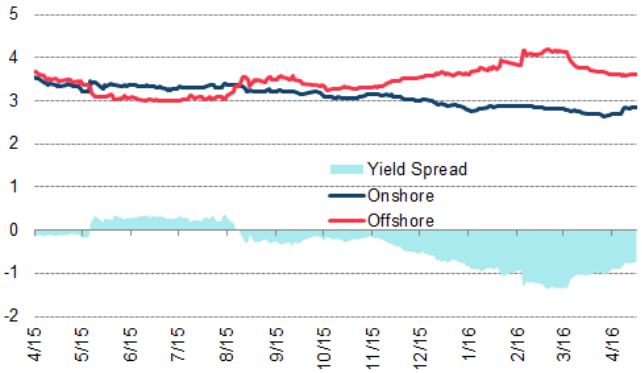


TABLE 3

Key Figures on Interbank Market Cash Bond Transactions (classified as per bond types)

Bond Type	Number of Deals	Trading Value(100M)	Yield to Maturity(%)
Policy Financial Bond	38,187	41,533.71	3.054
Treasury Bond	8,104	9,332.61	2.6442
Medium-term Note	13,576	10,296.63	4.8354
Corporate Bond	11,724	7,268.77	4.5191
CDs	4,442	9,928.79	2.9584
Commercial Paper	15,985	13,620.74	3.6575
Central Bank Paper	32	250.86	2.3780
Others	3,645	4,082.61	4.6801
Total	**95,695**	**96,314.72**	**3.4446**

Fig 32: MoF T-Bond Outstanding Split by Tenor

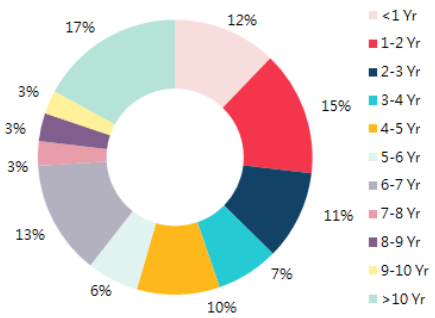


TABLE 4

NAFMII Guidance for Non FI Debt Issuing (as of 2016/4/27)

	1Yr	MoM	3Yr	MoM	5Yr	MoM	7Yr	MoM	10Yr	MoM	15Yr	MoM	20Yr	MoM	30Yr	MoM
AAA+	3.14	↑	3.68	↑	3.94	↑	4.26	↑	4.53	↑	5.07	↑	5.24	↑	5.52	↑
AAA	3.35	↑	3.86	↑	4.14	↑	4.60	↑	4.86	↑	5.39	↑	5.65	↑	5.94	↑
AA+	3.59	↑	4.22	↑	4.61	↑	5.08	↑	5.46	↑	6.02	↑	6.37	↑	6.68	↑
AA	4.15	↑	4.76	↑	5.15	↑	5.74	↑	6.03	↑	6.70	↑	7.06	↑	7.50	↑
AA-	5.51	↑	6.10	↑	6.57	↑	7.44	↑	7.87	↑	8.38	↑	8.76	↑	9.06	↑

Sources: Bloomberg, WIND, NAFMII (29 Apr 2016)

ONSHORE/OFFSHORE SHORT-TERM INTEREST RATE DYNAMICS

ONSHORE/OFFSHORE RMB STIR MARKET COMMENTS

- Hong Kong's overnight Treasury Markets Association CNH HIBOR plunged to –3.725 per cent on March 31 2016, as banks tried to evade the implementation of a reserve requirement ratio and investors rushed to exit short RMB positions.
- The CNY SHIBOR yield curve was flatter at the end of April 2016 than it was at the end of April 2015 (see Figure 34).
- The CNH HIBOR yield curve was steeper at the end of April 2016 than it was at the end of April 2015 (see Figure 35).

Fig 33: CNH Implied Yield vs. USD/CNH

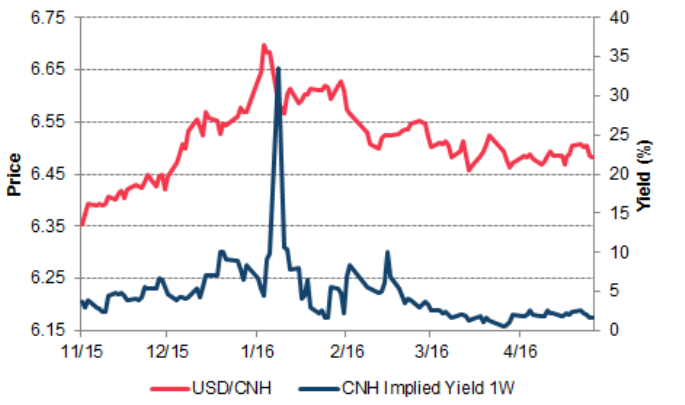


Fig 34: CNY SHIBOR Yield Curves

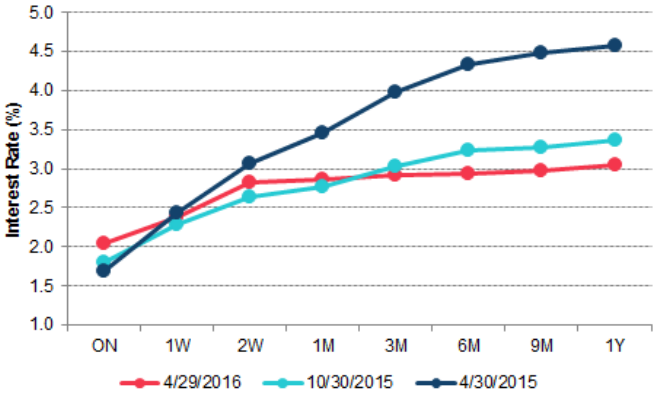


Fig 35: CNH HIBOR Yield Curves

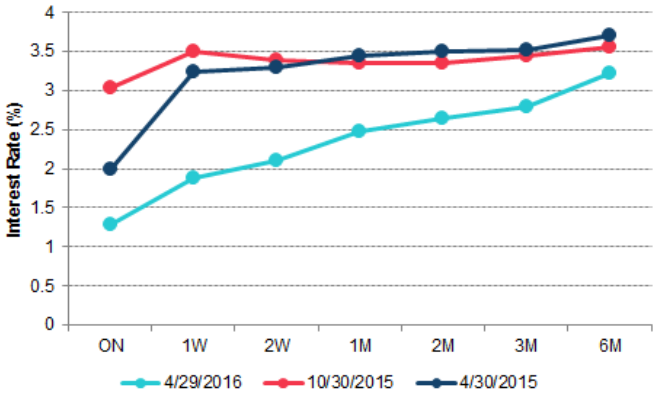


Fig 36: Onshore IRS (7D Repo) Yield Curves

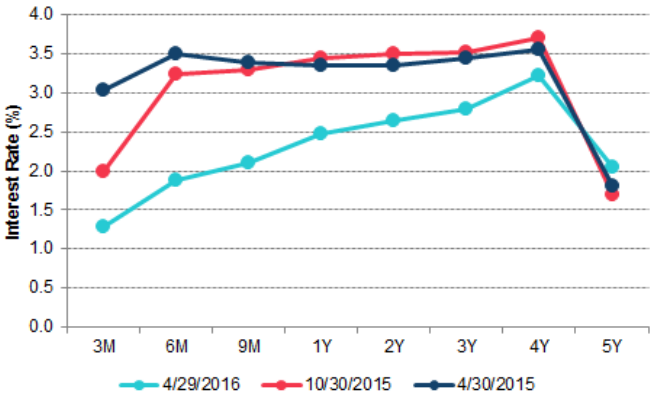


Fig 37: Onshore IRS Trading Notional Principal

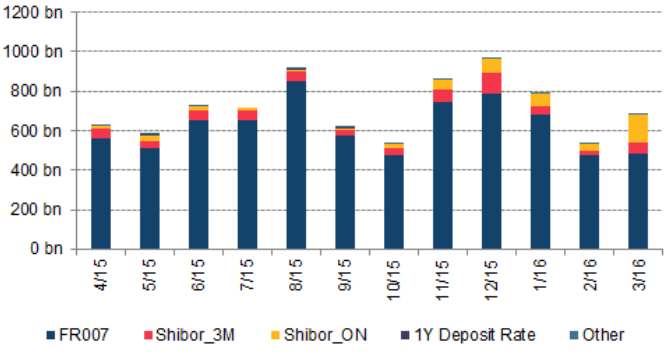


Fig 38: CNY SHIBOR vs CNH HIBOR

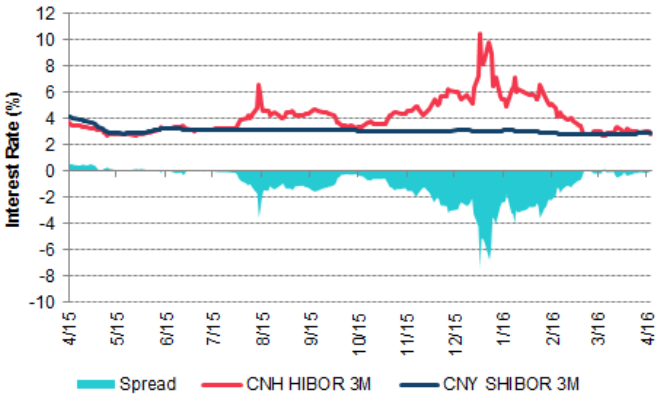
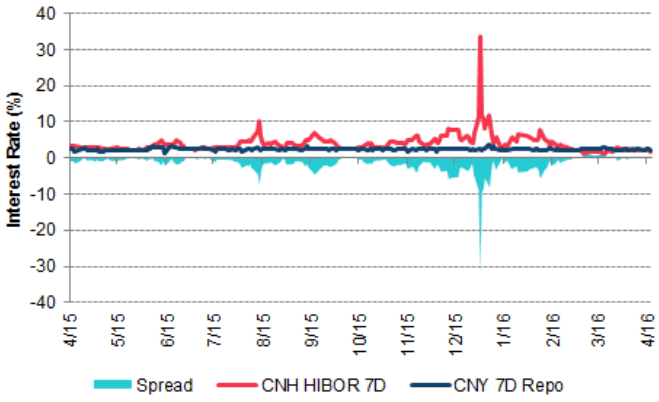


Fig 39: CNY 7D Repo vs CNH HIBOR



(Continued from page 1)

In a closely correlated market, it is crucial for a major economy such as the Mainland to maintain internal balance. An economic and financial system that does not have any major internal structural imbalances will be strong and able to withstand external turbulence. To safeguard against systemic risk that may arise from the globalisation of finance, the Mainland needs to increase its policy coordination with other major economies. Countries differ substantially in economic and financial systems, so greater policy coordination can help avoid the spread of risk to some extent. The Mainland should also take a more proactive role in international economic and financial governance. For example, by fighting for more pricing power in the global commodities markets and in benchmarks that have a significant impact on Mainland economics and finance. It can do that by gradually substituting the RMB for the US dollar as the world's main pricing currency, and by steering trading from the US and Europe's business hours to Asia's business hours.

EXPERT CORNER

CHINA POLICY BANK NOTES

Contributed by Ms Paige Tan, Team Lead Evaluation for Asia-Pacific at Interactive Data (Asia)

Policy banks (POL) play a significant role in the China onshore interbank bond market, where the outstanding issues are similar to the Ministry of Finance (MOF) government bonds. Currently there are three POLs: China Development Bank (CDB), Agricultural Development Bank of China (ADBC) and the Export-Import Bank of China (Chexim). This article aims to provide a brief analysis of POL bonds in terms of their characteristics and pricing behavior.

Quasi Government Status

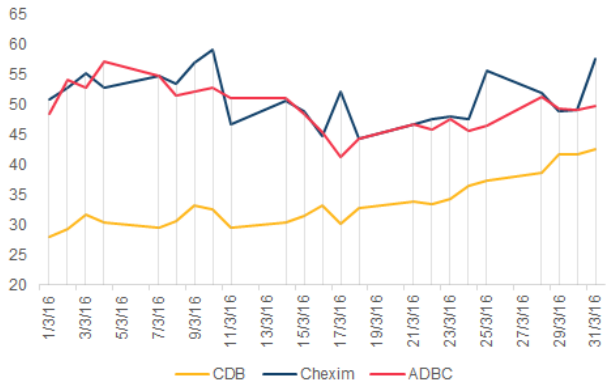
POL bonds, together with Central Bank Notes issued by the People's Bank of China (PBOC), are exempted from a rating requirement in the onshore bond market. In the international market, China POL ratings are equivalent to China's sovereign rating (S&P: AA-, Moody's: AA3, Fitch: A+), based on the extremely high probability of the central government supporting the banks in the event of stress.

POL bonds enjoy a zero-risk weighting on the books of onshore commercial banks as these bonds have the same benefits as MOF bonds. As a side note driven by the government's aim to eventually "commercialise" CDB-- the debate over whether CDB should become a commercial bank or development bank with commercial operations has led to ambiguity in the zero-risk treatment for CDB bonds. For now, bonds issued by CDB before 2015 will remain at a zero-risk weighting in a capital requirement calculation (as per the official statement).

Pricing Behavior

The below tables provide a summary of the spread of POL bonds versus MOF bonds in the secondary interbank bond market. Please note that we have excluded POL subordinated debt and floating rate notes in the below data compilation.

Fig 40: 10yr POL credit spread to 10yr MOF (in bps)



There are three main aspects when assessing the credit spread between POL and MOF bonds:

- Credit

Given the same international rating, domestic rating-exempted features as well as zero-risk weighting in capital requirement calculations for onshore financial institutions, the credit risk of POL bonds is regarded as similar to MOF bonds by the market.

- Liquidity

Currently there are 25 market makers in the interbank market regulated by PBOC. They are required to maintain bid and offer quotes for benchmark MOF, POL and selected high quality credit bonds. Historically, the trading volume of POL bonds rivaled that of MOF bonds. Under normal market conditions, the liquidity of POL bonds can be expected to be commensurate with MOF bonds.

- Tax

For domestic investors, interest income from non-government bonds is subject to 25% corporate income tax, and capital gains are subject to an additional 5% business tax. To date, China has yet to introduce a complete tax system for foreign investors. A general guideline is to apply a 10% tax on coupon income derived from non-government bonds. Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) have historically made a provision of 10% on capital gains (by their custodian banks).

Due to differential tax treatment between MOF and POL investments, the credit spread of POL (to MOF) take account of an element called the implicit tax rate. When the implicit tax rate is higher than the effective tax rate, POL bonds have a higher investment value due to the higher rate of return subtracted from larger credit spreads. In reverse, POL bonds will be overvalued in comparison to MOF bonds when the implicit tax rate is lower than its effective tax rate. Any changes in the existing tax system will lead to a different risk return profile for POL bond investments.

A point to note from the above data compilation is that there is a credit spread difference between the three POLs. Market consensus is that the CDB has always been regarded as the more established policy bank with larger issuance size and greater market depth when compared to ADBC and Chexim.

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Ms Tan holds a Master of Science in International Securities and Banking from the University of Reading. She is also a chartered Financial Risk Manager (FRM) and holds the IFID certificate from the ICMA.

APPENDIX: DEFINING THE FX RADAR

We selected a number of factors that drive RMB currency pairs, including carry (yield spread), risk (volatility), valuation (terms of trade), fundamentals (trade balance), sentiment (risk reversal), and momentum (three-month return). Factor values were normalized based on the most recent one-year data and plotted on our FX radar graph. For example, a factor value of 1 for "carry" indicates that the current yield spread is one standard deviation above its mean over the past year.

The red dotted line represents the prevailing factor dynamics of the specific RMB FX pair. Against the current factor dynamics, we identified the most similar patterns in past history by means of optimization across the six driving factors. The historical price movement of that particular period is shown for reference.

For more information about the USD/CNH Futures,
please visit: http://www.hkex.com.hk/rmbcurrencyfutures

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