



HKEx's London Metal Mini Futures

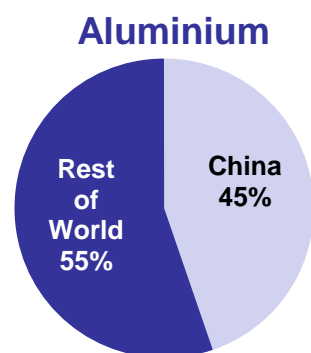
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November 2014



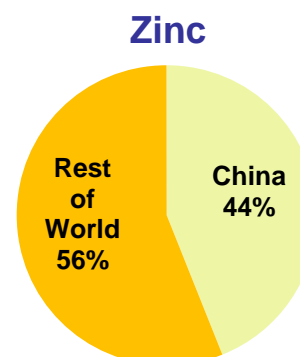
Part I: What are the New Commodities Contracts?

Why Metals?

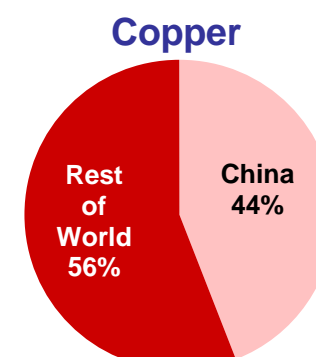
	Aluminium	Zinc	Copper
Major Users	<ul style="list-style-type: none"> ➢ Construction ➢ Packaging ➢ Transportation ➢ Automotive 	<ul style="list-style-type: none"> ➢ Construction ➢ Automotive ➢ Batteries 	<ul style="list-style-type: none"> ➢ Construction ➢ Electronics ➢ Automotive
China % of World Consumption	45%	44%	44%
YOY Growth in 2013	8%	11%	11%



World total demand: 45.24mt



World total demand: 12.28mt



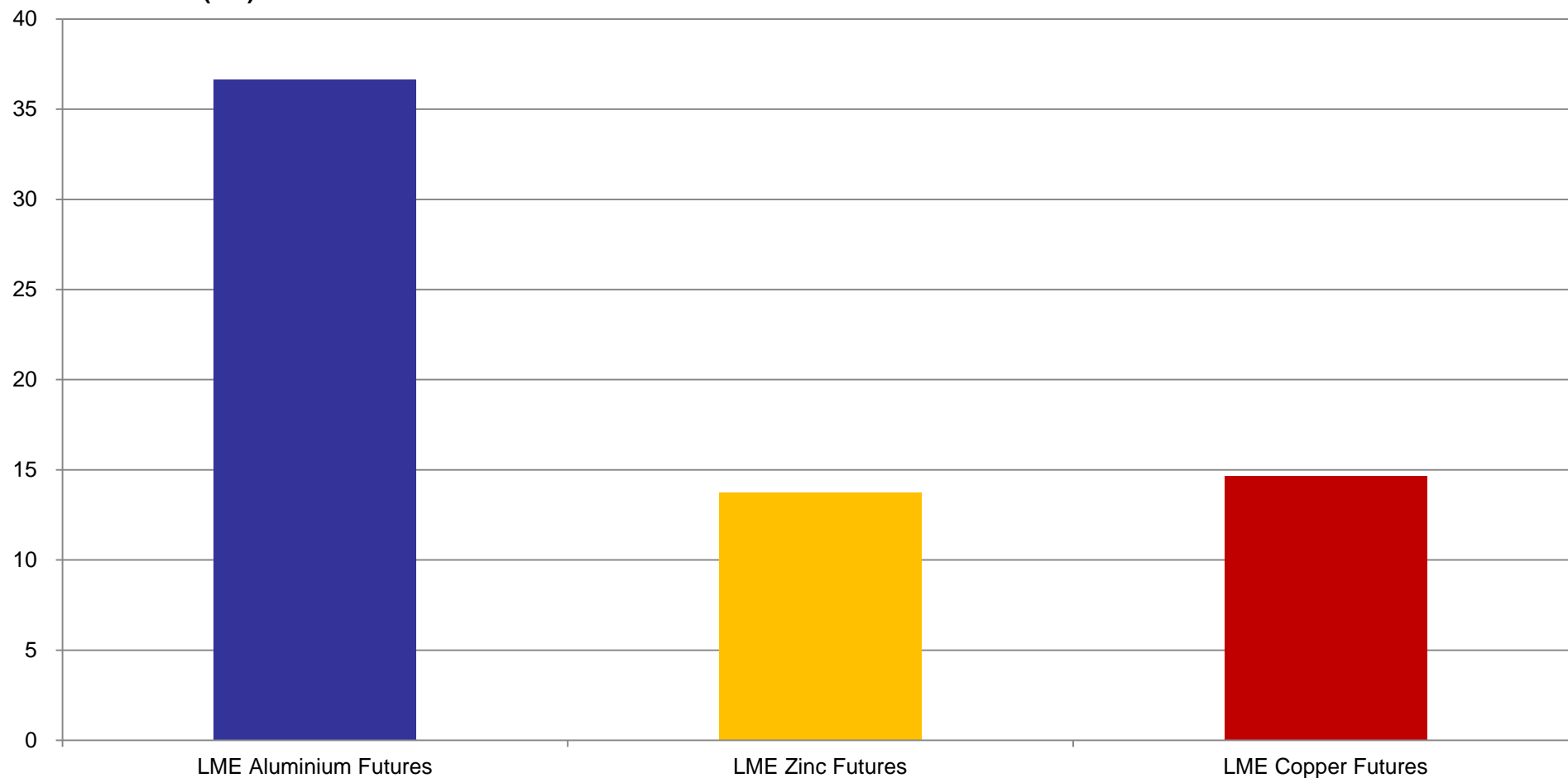
World total demand: 20.06mt

LME's Three Most Liquid Contracts



2014 YTD

No. of Contracts (mn)



Aluminium, Zinc and Copper are LME's three most liquid contracts

Contract Specifications

London Metal Mini Futures



Item	London Aluminium Mini	London Zinc Mini	London Copper Mini
Underlying Commodity	High Grade Primary Aluminium as defined in the LME Rules	Special High Grade Zinc as defined in the LME Rules	Copper – Grade A as defined in the LME Rules
Contract Size	5 tonnes / contract		
Trading Currency	RMB		
Contract Months	Spot Month and the next eleven calendar months		
Trading Hours	9:00am to 4:15pm (day trading session) 5:00pm to 1:00am the next morning (after-hours trading session)		
Trading Platform	HKATS		
Tick Size	RMB 5 / tonne		RMB 10 / tonne
Last Trading Day (LTD)	The LTD determined by the LME for the Aluminium/Zinc/Copper Futures Contract (i.e. usually two business days before the third Wednesday of the Spot Month)		
Final Settlement Day (FSD)	The second HK Business Day after the LTD		
Final Settlement Price (FSP)	Shall be a whole number, determined by the Clearing House; shall be the Official Settlement Price determined and published by the LME for its the Aluminium/Zinc/Copper Futures Contracts, and converted to RMB equivalent using the spot USD/RMB fixing published by the Treasury Markets Association in Hong Kong at 11:15 a.m. HKT on the LTD		
Settlement Method	Cash settled contract of difference		
Trading Fee (per side)	RMB 3		RMB 5

Contract Highlights

Contract Size

- 5 tonnes

Contract Structure

- Monthly Expiry Contracts

Settlement Type

- Cash Settlement

Block Trade

- Available (Min. Threshold - 50 lots)

Accessible products

Contract Highlights



Final Settlement Price

- LME Official Settlement Price – 2nd Ring Close

Trading Hours

- HK Time
09:00 – 16:15 (T session) and 17:00 – 01:00 (T+1 session)
- UK (BST)
02:00 – 09:15 (T session) and 10:00 – 18:00 (T+1 session)

Last Trading Day

- 2 Business Days before the 3rd Wednesday of the Spot Month

Currency

- CNH

Designed to connect China & rest of the world

Key Features Comparison



Key Features	HKFE* London Al/Zn/Cu Mini Futures	LME Standard Al/Zn/Cu Futures
Contract Size	5 tonnes/contract	25 tonnes/contract
Contract Type	Monthly Contract	Prompt Date Structure
Trading Currency	RMB (using TMA CNH pricing)	USD
Trading Platform	HKFE - HKATS	<ul style="list-style-type: none"> ➤ Ring ➤ LMEselect ➤ Inter-office telephone market
Settlement Method	Cash settled	Physical delivery

Complementary products with LME

* Hong Kong Futures Exchange, a part of HKEx Group

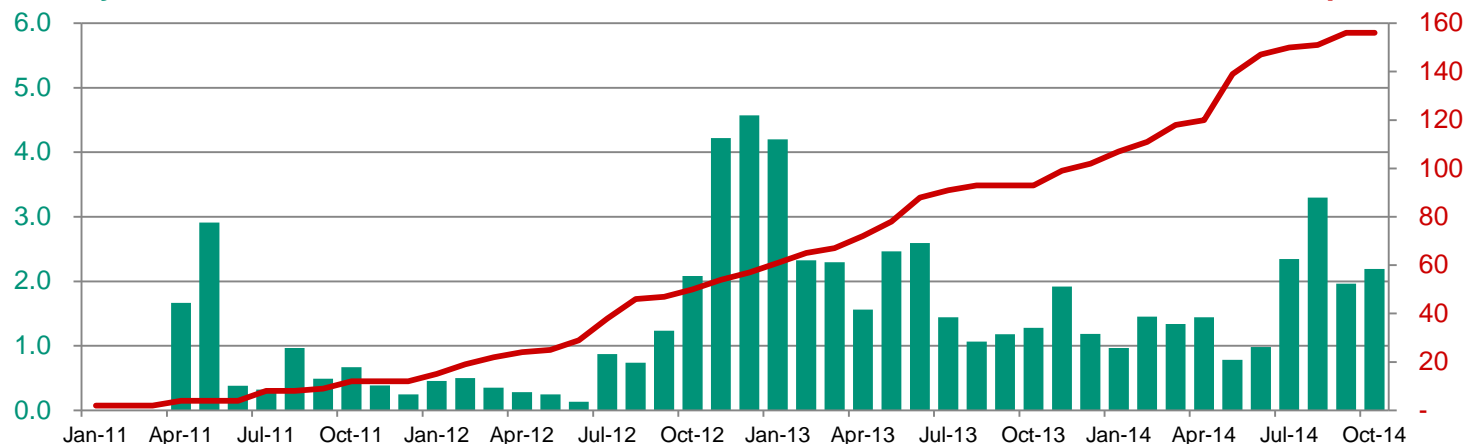
Overview of HKEx's RMB Business



Securities Products

RMB Bonds Oct 2010	132
RMB REIT Apr 2011	1
RMB ETF Feb 2012	20
RMB Equity Oct 2012	1
Deriv. Warrant Dec 2012	2

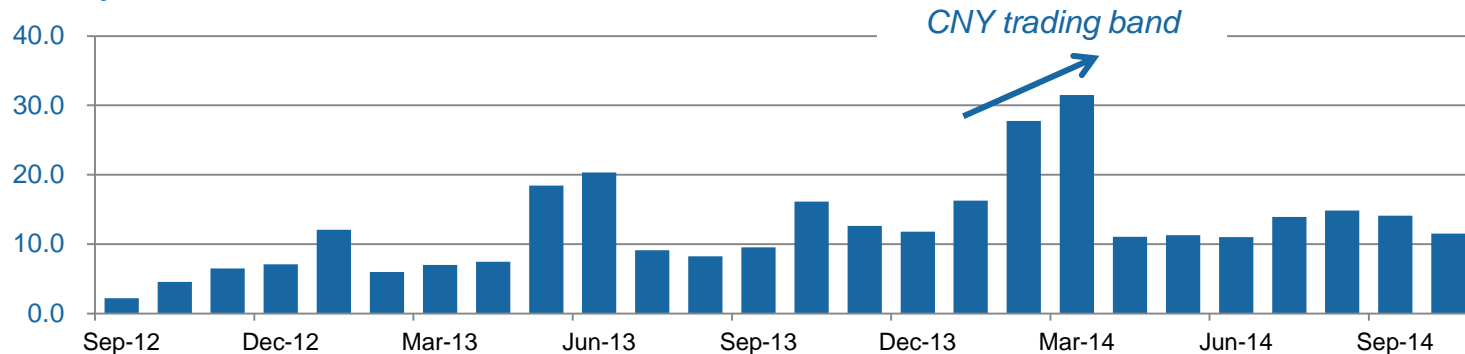
Monthly Turnover, RMB bn.



Derivatives Products

CNH / USD Futures Sep 2012
LME Mini Cu / Al / Zn Launch on 1 Dec 2014

Monthly Contracts Traded, thousands



HKEx already has 156 RMB cash products – dominated by RQFII ETFs – and one CNH futures contract

HK Lifted Daily RMB 20,000 Conversion Cap



HK Residents Have Been Able to Convert HKD to CNH Freely since 17 Nov 2014

"The removal of the daily conversion limit will facilitate HK residents' participation in the Shanghai-Hong Kong Stock Connect as well as other investments and transactions denominated in the yuan."

- HKMA CE Norman Chan

- **Remove currency barrier for HK retail players wishing to participate in London Metal Mini Futures**
- **Allow HK residents effectively tap into the offshore RMB deposit pool of RMB1.1 trillion**
- **Further promote the status of the territory as an offshore RMB business center**

Easier for local retail players to trade London Metal Mini Futures

Why RMB?

1

To match increasing RMB exposure of underlying physical contracts

2

To utilise growing offshore RMB liquidity pool in Hong Kong

3

To ease margin financing for trading companies with offshore RMB

4

To set up RMB pricing in the Asian Time Zone

Establish RMB benchmark for metals in the Asian Time Zone

Why TMA CNH Pricing Will be Used



1. What is the TMA?

- HK Treasury Market Association
- 18 Contributing Banks
- Regulated by Hong Kong Monetary Authority

2. What is the TMA CNH Price?

- Serves as the benchmark for the exchange rate of USD against CNH in Hong Kong
- Published at 11:15a.m. every Hong Kong business day from Monday to Friday except public holidays
- Most liquid point of CNH

3. How is the TMA CNH Price calculated?

- Average of the middle of bid/offer spreads
- Excluding highest three
- Excluding lowest three

4. How will the TMA CNH Price be used to settle the London Metal Mini Futures?

- Last trading day of London Metal Mini Futures
- Use the TMA CNH Price to convert the LME Official Settlement Price from USD to RMB

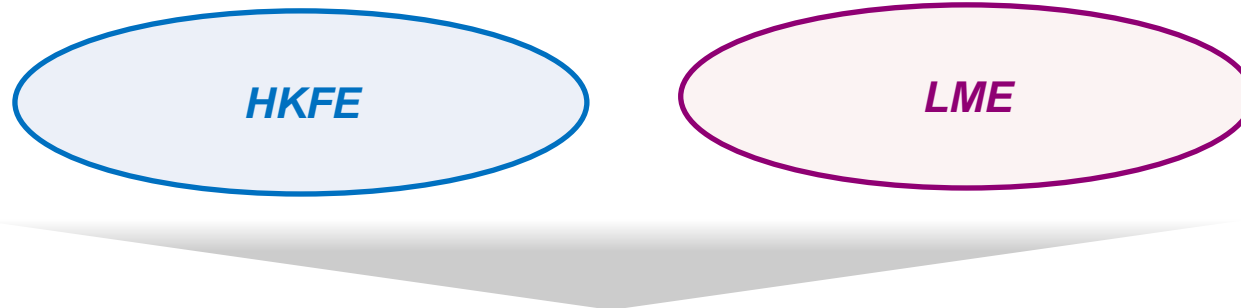
TMA CNH price is the way to settle London Metal Mini Futures

Part II: How will HKEx Support the London Metal Minis?

HKFE/LME Reciprocal Membership Arrangement Objectives



HKEx Group Commodities Platforms



- Encourage participation in the London Metal Mini Futures from traditional LME brokers and vice versa
- Lower upfront costs for the members as they participate in Asia Commodities businesses
- Promote London and Hong Kong as commodities centers

Demonstrate HKEx's commitment to support ongoing investment in HKEx commodities platforms

HKFE/LME Reciprocal Membership Arrangement Overview



Exchange	Promotion Period	Membership Fee Waiver	Eligible Applicants
HKFE	Regulatory approval date until 31 December 2015	<ul style="list-style-type: none"> Trading right (one-off) : HK\$500,000¹ First year subscription fee : HK\$6,000 	Any LME member or affiliate of an LME member
LME		<p>For category 1-5:</p> <ul style="list-style-type: none"> Application processing fee (one-off) US\$4,000 First year subscription fee, as applicable². 	Any HKFE Participant or affiliate of an HKFE Participant

*Disclaimer: applicants who become HKFE Participants under this reciprocal arrangement may not be considered as exchange participants for the purposes of the Legislative Council Ordinance, subject to further approval of the Hong Kong government

Programme already has SFC approval

¹ For the HKFE one-off trading right fee, eligible applicants will pay a nominal fee of HK\$1 instead of HK\$500,000

² The annual subscription fee for each category of LME membership information is available from <http://www.lme.com/trading/fees/2015/>

Engagement with Hong Kong Brokers



Hong Kong Professional Associations	Target	Date	No. of Attendees
	The Institute of Securities Dealers Ltd	12 July	120
	HK Securities Association	22 July	140
	Hong Kong Securities and Futures Professional Associations	26 Aug	258
	Hong Kong Institute of Financial Analysts & Professional Commentators	5 Sept	50
	Hong Kong Securities & Futures Employees Union	11 Sept	80
	Chinese Securities Association of Hong Kong	22 Sept	24
	Hong Kong Securities Professionals Association Ltd	3 Nov	150
	Hong Kong Securities Association Ltd	8 Nov	50
HKFE Exchange Participants (EPs)	Target	Date	No. of Attendees
	2 briefing sessions for HKFE EPs	17 & 18 Nov	200
	Shenyin Wanguo Futures (H.K.) Ltd	20 Nov	40

We have reached out to 1,112 audience in the Hong Kong broker community

Education at Conferences & Broker Seminars



Conferences	Event	Date	No. of Attendees
	Singapore Metals Night	4 Sept	120
	LME Tokyo Seminar	10 Sept	200
	SHMET Metals Seminar	10 Sept	150
	FOW Singapore 2014	25 Sept	200
	China International Copper Conference	28-31 Oct	120
	China International Lead & Zinc Conference	4-6 Nov	120
	LME Downunder 2014	5 Nov	150
	CESCO Conference 2014	20 Nov	300
	China International Derivatives Forum	3-5 Dec	200
Joint Educational Seminars with Brokers	Event	Date	No. of Attendees
	CITIC Futures and CITIC Securities, Beijing	13 Sept	150
	Yongan Futures and Xin Yongan Futures, Hangzhou	21 Sept	78
	Minsheng Bank, Shanghai	26 Sept	100
	Guangfa Futures, Guangzhou	27 Sept	61
	Haitong Futures, Shanghai	1 Nov	105
	Huatai Great Wall, Guangzhou	15 Nov	100
	Maike Futures, Shanghai	22 Nov	70

We have reached out to 2,224 audience at various conferences and broker seminars

Quote on Screen

- Liquidity Provider Programme



Volume

- Active Trader Programme I & II



Distribution

- Marketing Champion
- Thanksgiving Week

Our incentive programmes are designed to attract initial liquidity & widen market participation

Liquidity Provider Program

Key Requirement	<ul style="list-style-type: none">■ To fulfill minimum required trading time and bid-offer spread on screen
Key Incentives	<ul style="list-style-type: none">■ 100% trading fee rebates upon fulfillment of LP requirements■ Cash rewards for top 5 LPs
Targeted Participants	<ul style="list-style-type: none">■ All market players
No. of Liquidity Providers Signed Up (as of 25 Nov 2014)	<ul style="list-style-type: none">■ 3 Liquidity Providers

Liquidity Provider Programme ensures there are sufficient quotes on screen for market players

Incentive Programmes – Volume



	Active Trader Programme I	Active Trader Programme II
Key Requirement	<ul style="list-style-type: none"> Fulfill minimum required trading volumes (all participants are eligible) 	<ul style="list-style-type: none"> Fulfill minimum required trading volumes (only physical players are eligible)
Key Incentives	<ul style="list-style-type: none"> Trading fee rebates for the programme duration upon fulfillment of the required trading volume 	
Targeted Participants	<ul style="list-style-type: none"> All market players 	<ul style="list-style-type: none"> Physical players
No. of Active Traders Signed Up (as of 25 Nov 2014)	<ul style="list-style-type: none"> 2 Active Traders I 	<ul style="list-style-type: none"> 12 Active Traders II

Active Trade Programme I & II are designed to bring volume and liquidity to the new contracts

Incentive Programmes – Distribution



	Marketing Champion	Thanksgiving Week
Key Requirement	<ul style="list-style-type: none">■ To organize marketing seminars for London Metal Mini futures to their clients	<ul style="list-style-type: none">■ No minimum volume required
Key Incentives	<ul style="list-style-type: none">■ Cash reward or other corporate reward for the top 5 active EPs	<ul style="list-style-type: none">■ 100% trading fee rebate for the first week of product launch
Targeted Participants	<ul style="list-style-type: none">■ All HKFE EPs	<ul style="list-style-type: none">■ All market players

These two programmes are designed to enhance awareness and participation of new contracts

Conclusion



The first batch of base metals futures to be launched in Hong Kong

Enhances HKEx's RMB offering

Supports Asia Time Zone & global hours

Ideal for risk management & arbitrage

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