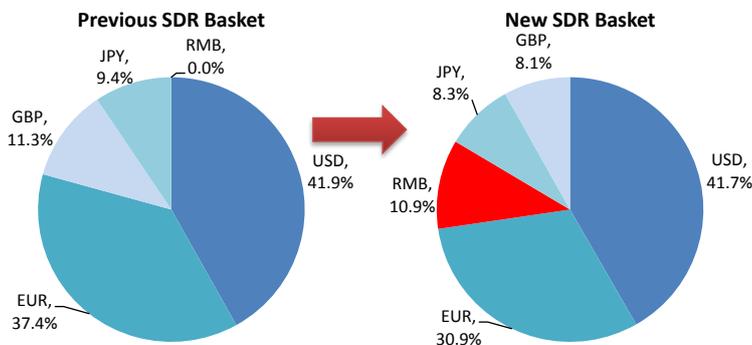


Interim Flash Report for USD/CNH Futures: The Renminbi's SDR Inclusion

1 December 2015

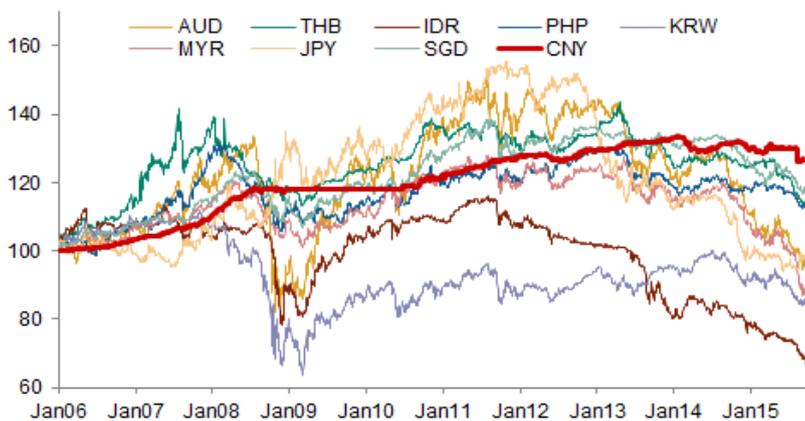
Highlights

- On 30 November 2015, the International Monetary Fund's (IMF) Executive Board decided to include RMB in an exclusive group of currencies that make up the basket of the IMF's Special Drawing Rights (SDR).
- The SDR inclusion is essentially an endorsement by the IMF of the RMB's internationalisation process. This could lead to increase in RMB allocation by major central banks and investors.
- Based on market estimation, the expected demands for RMB assets as official reserves holdings could increase up to US\$111 or US\$234 billion.
- CNH/CNY volatility will increase as a result of the RMB SDR inclusion.
- HKEx's USD/CNH futures contract recorded a turnover of 3,007 contracts (US\$301 million notional) on 30 November 2015, the highest since early September.



On 30 November 2015, the International Monetary Fund's (IMF) Executive Board decided to include RMB in an exclusive group of currencies that make up the basket of the IMF's Special Drawing Rights (SDR). The SDR inclusion is essentially an endorsement by the IMF of the RMB's internationalisation process, which is regarded to be very significant to RMB's convertibility and China's capital controls. It puts the RMB at par to the likes of the US dollar (USD), Euro (EUR), Japanese Yen (JPY) and British Pound (GBP).

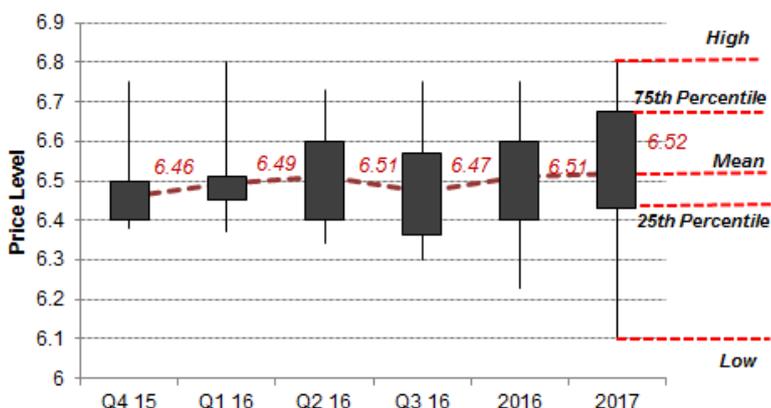
Currencies against USD (rebased from 2006)



Over a 10-year timeframe, the RMB had been on a relatively steady, appreciating trend.

This is essential to gain market share as an alternative funding & reserve currency.

Market Forecasts for the Price Level of USD/CNH

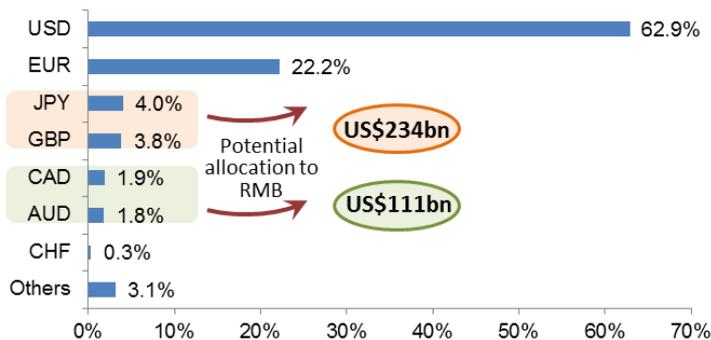


Following the SDR inclusion, the market expects the USD/CNH rate to remain relatively stable in the short to medium term.

According to market forecast data from Bloomberg, the USD/CNH rate will most likely stay within the range of 6.4 to 6.5 before the first quarter of 2016.

As China continues to demonstrate further progress in the marketisation of its exchange rate policy, the RMB daily trading band is expected to be widened further from the current level in due course, and the volatility in RMB FX rate could increase accordingly.

Currency Composition of Official Foreign Exchange Reserves (COFER): World-Allocated Reserves by Currency

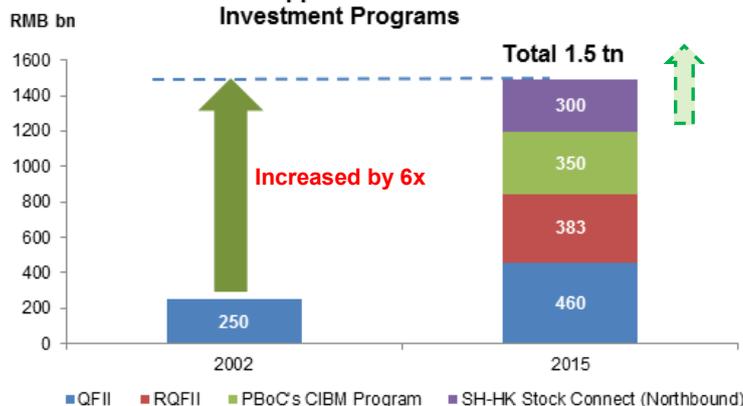


According to IMF Currency Composition of Official Foreign Exchange Reserves (COFER) data, as of Q4 2014, 53 per cent of the world's total reserves of US\$11.6 trillion, or US\$6.15 trillion, are reported to be allocated in USD, EUR, JPY, GBP, CHF, CAD, and AUD.

- Applying CAD and AUD as mid-term benchmarks (1.8 per cent), the potential allocation to RMB amounted to about US\$111 billion
- Applying JPY and GBP as long-term benchmarks (3.8 per cent), the potential allocation to RMB amounted to about US\$234 billion

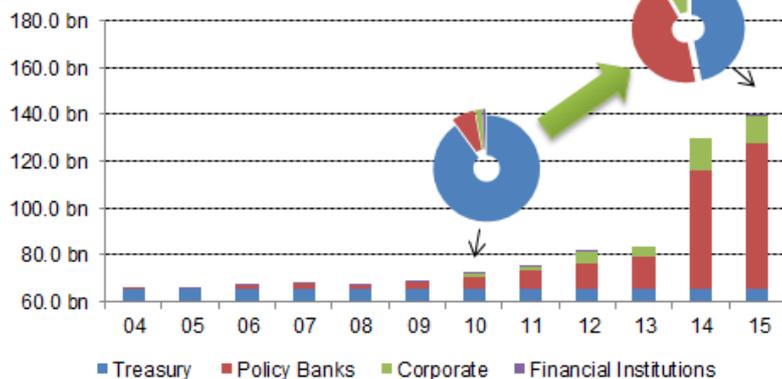
Based on the above market estimations, further to RMB's inclusion into the SDR, the expected market demands for RMB assets as official reserves holdings could increase up to US\$111 billion or US\$234 billion.

China's Quota Approved for Cross-Border Investment Programs



The quota approved for China cross-border investment programs has increased six-fold since 2002. This highlights the strong momentum of cross-border investment capital flows into China's onshore capital markets, which could be further expanded after the RMB's SDR inclusion.

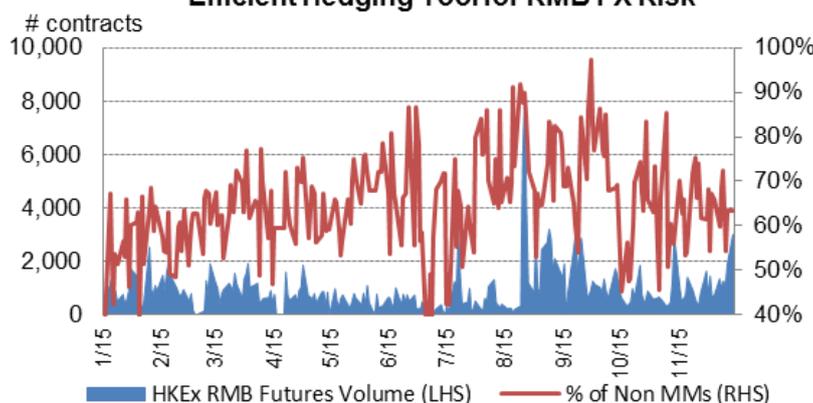
Increasing Foreign Institutions' Holding of Onshore Bonds



Foreign institution holdings of onshore bonds are on the rise. Foreign institutional investors, including foreign banks and offshore institutions, held RMB889.6 billion (US\$139 billion) in interbank bonds by the end of October, up 93 per cent from five years ago, according to data from China Central Depository & Clearing (CCDC). Foreign institutions also diversified further their onshore bond holdings from treasury into other bond categories such as policy bank bonds and corporates.

The RMB's inclusion to SDR removes the obstacles in the decisions of many central banks to hold RMB assets. This could in turn trigger a buying spree by central banks and sovereign wealth funds alike of the 188 world economies.

HKEx's USD/CNH Futures Contract Provides an Efficient Hedging Tool for RMB FX Risk



On 30 November, HKEx's USD/CNH futures contract recorded a turnover of 3,007 contracts (US\$300 million notional), the highest since early September.

The turnover was attributable to a diversified and wide participation from the market, with non-market makers contributing more than 65 per cent of contract volume.

For more information about the USD/CNH futures Contract Specifications,
please visit: <http://www.hkex.com.hk/rmbcurrencyfutures>

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