

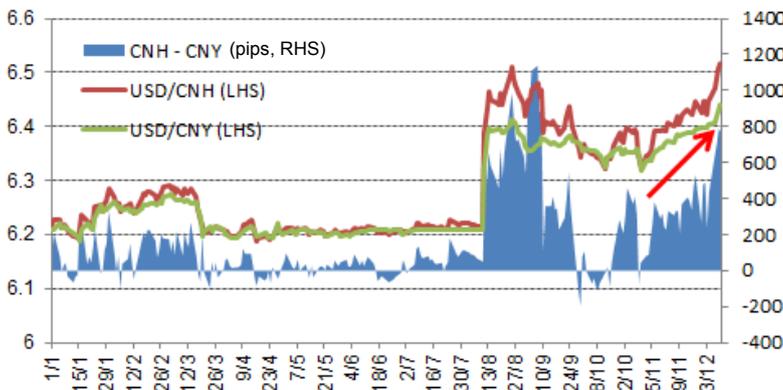
# Interim Flash Report for USD/CNH Futures To Hike or Not to Hike

11 December 2015

## Highlights

- The spread between the offshore CNH and onshore CNY exchange rate climbed to almost 800 pips on 9 December, a one-month high
- The recent widening of spreads between CNH and CNY could be attributable to the increased divergence between US and China macroeconomic policy
- Following the divergence of onshore and offshore exchange rates, the open interest of HKEx's USD/CNH futures was 17,163 contracts (US\$1.72 billion notional) on 10 December 2015, the highest in 21 months

### CNH - CNY Spread Widened Again Recently

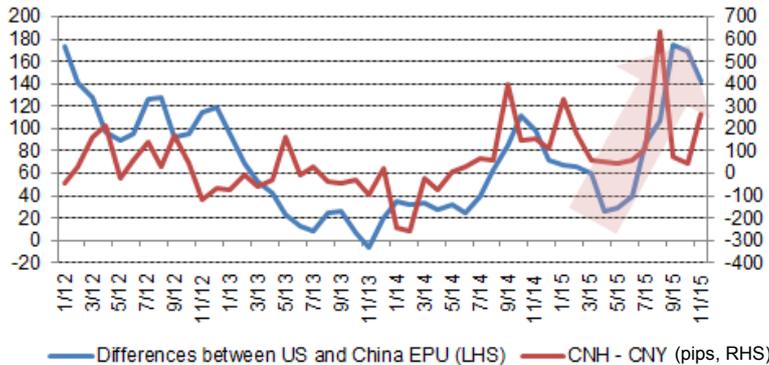


Since early November, the spread between the offshore CNH and onshore CNY exchange rate has trended up. On 9 December, it climbed to a one-month high of almost 800 pips. Back in mid-October, the two exchange rates were close to convergence.

RMB exchange rates, both onshore and offshore, fell ahead of the IMF's Special Drawing Rights (SDR) vote on 30 November, and the weakening trend continued after the SDR inclusion.

Market participants are closely observing how far the Chinese government will let its currency decline.

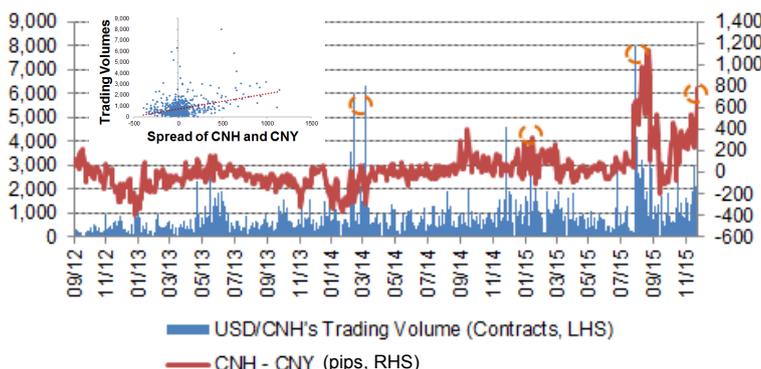
### Differences in Economic Policy Uncertainty Lead Spreads of CNH and CNY



According to a recent BIS study, differences in the macroeconomic fundamentals of onshore and offshore markets have an important role in CNH-CNY pricing differentials. The recent divergence could be attributable to the increased divergence between the US and China macroeconomic policy:

- China's economy grew by 6.9 per cent in the third quarter (Q3), the weakest rate since the global financial crisis, and that raised pressure on policymakers to step up their monetary policy measures. Moreover, the PBoC reportedly took action to dampen cross-border arbitrage flows recently, which led to tighter offshore liquidity conditions driving up the spread further.
- The US economy grew by 2.1 per cent in Q3, up from an estimated 1.5 per cent announced earlier, and that eased the way for a central bank rate hike in mid-December.

### HKEx RMB Futures Provides Best Liquidity When CNH and CNY Spread is Widening



In past periods of CNH-CNY divergence, HKEx's USD/CNH futures contracts provided the best liquidity and strongest market depth (see chart).

Since the start of December, HKEx's USD/CNH futures have had an average daily volume (ADV) of 2,114 contracts (US\$211 million), double the ADV of the previous month. Open interest also picked up before reaching 17,163 contracts (US\$1.72 billion notional) on 10 December, the highest in 21 months.

With increased divergence in CNH and CNY exchange rates, which reflects near-term US and China policy uncertainty as well as depreciation risks, HKEx's USD/CNH futures contracts are a very efficient way to manage related risk.

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

If you have any question, please contact us at:

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