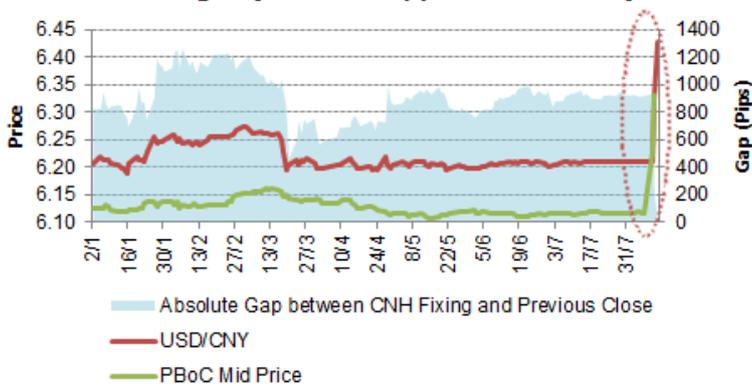


Highlights

- The RMB in the offshore market continued to depreciate by more than 2 per cent on 12 August.
- The trading volume of HKEx's USD/CNH futures contracts hit an all-time high of 8,061 contracts (US\$ 806.1 million notional) on 12 August 2015.
- Increase in risk reversals indicating further depreciation in the near future has created hedging needs for investors to managing RMB exposures via HKEx's USD/CNH futures market, which tends to provide liquidity during volatile market environments.

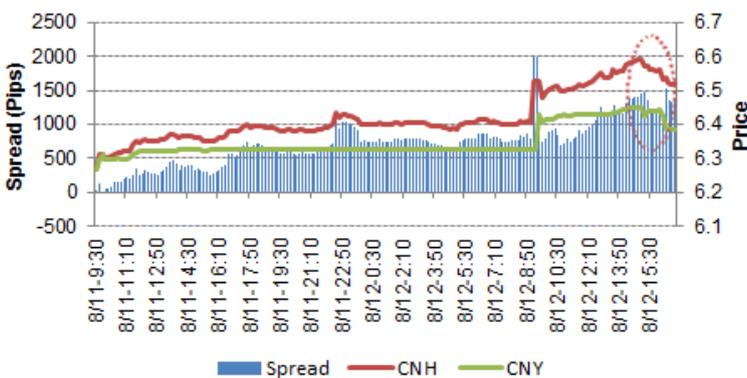
Absolute Gap between CNY Fixing and Previous Trading Day Close Dropped Substantially



PBoC's new daily fixing framework is based on the previous day's closing rate in conjunction with supply/demand factors and movements in other currencies, which is more market driven.

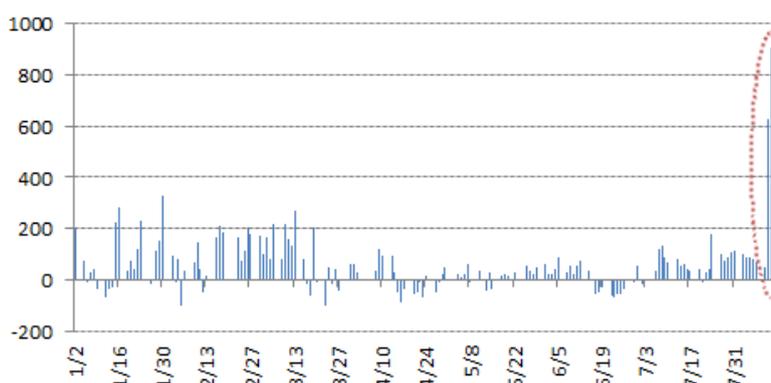
The absolute gap between RMB fixing and the previous trading day close has dropped substantially from around 900 pips to 56 pips following the PBoC's move.

Onshore and Offshore RMB FX Markets Show Some Divergence at Close



Onshore and offshore markets showed some divergence at close. HKEx's after-hour futures trading (AHFT) market for USD/CNH futures could provide indicators about how the offshore market interacts with the onshore one.

Divergence between Onshore and Offshore RMB has Widened Significantly



The spread between the onshore and offshore RMB FX rate has widened significantly during the last two days.

Whether the divergent trend continues is something to pay close attention to in the future.

RMB Carry Trade Deteriorated Substantially Following PBoC Move



RMB carry trade performance has been flattening since 2014, and deteriorated substantially following yesterday's PBoC move. The onshore CNY/USD carry trade return index has dropped to 1,056 and the offshore CNH/USD carry trade return index has dropped to below 1,000.

China's sudden devaluation of the RMB may cut into the common trading practice in which speculators borrow overseas at low rates and then invest in higher-yielding assets denominated in RMB.

HKEx's USD/CNH Futures Volume vs. Risk Reversals



Risk reversal is the difference in volatility (delta) between similar OTC USD/CNH call and put options, which conveys market information used to make trading decisions.

Responding to the PBoC action on 11 August, risk reversals jumped from 1.2 per cent to all-time high of 4.1 per cent. As the risk reversals remain significantly skewed to USD-CNY calls indicating depreciation pressure on the RMB in the near future, there are increasing hedging needs for managing RMB exposure.

Indeed, the trading volume of HKEx's USD/CNH futures contracts hit an all-time high of 8,061 contracts on 12 August. When USD/CNH volatility increases, HKEx's USD/CNH futures market provides liquidity.

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

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