

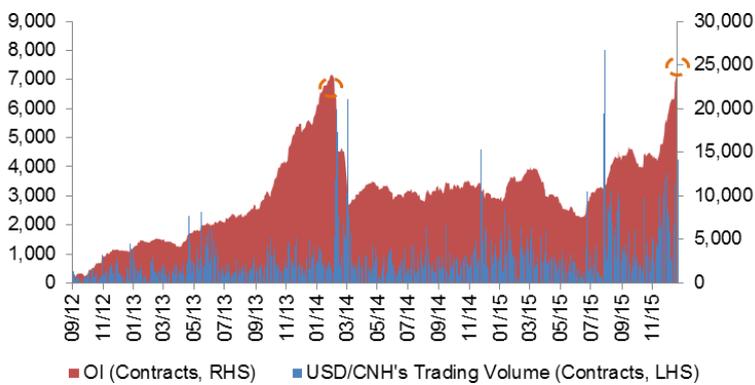
Interim Flash Report for USD/CNH Futures Record High in Open Interest

5 January 2016

Highlights

- HKEx's USD/CNH futures reached a record open interest level of 25,250 contracts as of 5 January, and a month-on-month increase of 98 per cent in turnover in December, attributable to increasing market participation.
- Two-way volatility and market force-driven pricing are consistent with the commitment to accelerate RMB convertibility and marketisation.
- The spread between the offshore CNH and onshore CNY rate climbed to over 1,200 pips on 5 January, reflecting near-term China FX policy uncertainty as well as depreciation risks.

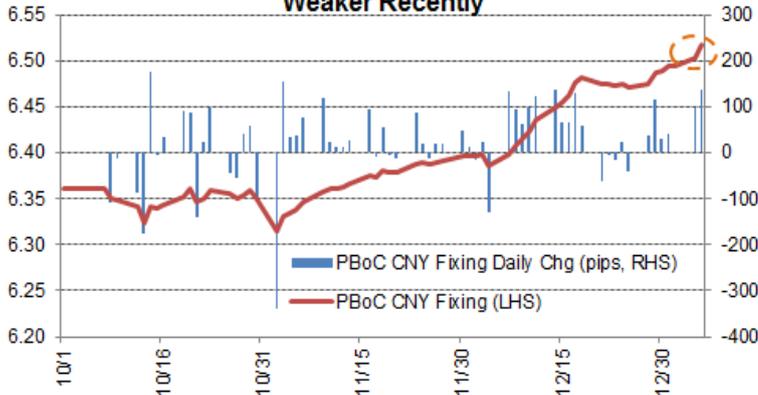
OI of HKEx USD/CNH Futures Reached to a Record High of 25,250 Contracts as of 5 Jan



HKEx's USD/CNH futures reached a record open interest level of 25,250 contracts (notional value of US\$2.5 billion) as of 5 January 2016, surpassing the previous record back in February 2014. HKEx's USD/CNH futures market has by very far the highest open interest level among other exchanges in the world. In addition, the contract's average daily volume swelled to 2,071 contracts in December 2015, up 98 per cent from the previous month, corresponding to a daily notional value of \$207 million.

The total number of institutions providing brokerage service on HKEx's USD/CNH futures to end clients grew continuously to 90. The increasing client participation, together with higher market volatility, contributed to the increasing turnover and open interest of the contract.

The PBoC Continued to Set the Fix for the RMB Weaker Recently

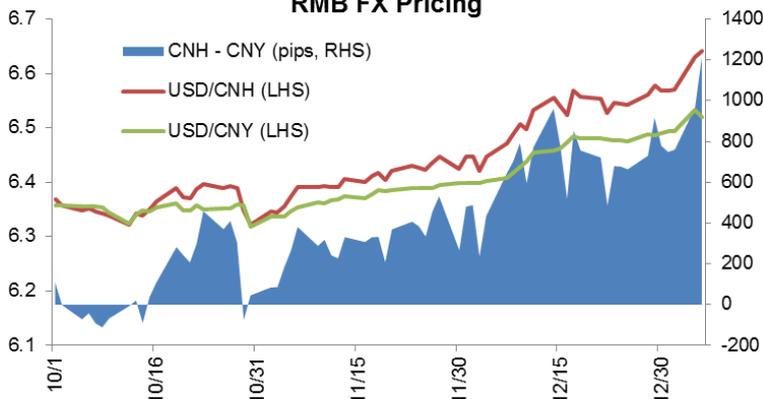


On 4 January, China set the daily reference rate for the RMB below 6.5 against the US dollar, the lowest in more than four years. Following a recent move to measure the RMB against a trade weighted basket of currencies instead of only the USD, the PBOC was seen to be more tolerant of a weakening RMB.

4 January also marked the beginning of extended trading hours to 11:30pm of the onshore RMB market. The extended hours of onshore market was matched by the HKEx's after-hours futures trading, which can serve as an efficient risk management tool for investors.

The recent PBOC moves are consistent with China's commitment to accelerate the convertibility of the RMB.

Widening Gap Between Onshore and Offshore RMB FX Pricing



Since early November, the spread between the offshore CNH and onshore CNY exchange rate has trended up. On 5 January, it climbed to over 1,200 pips, the highest in four years. Such increased divergence reflects near-term China FX policy uncertainty and depreciation risks.

The return from the cross-border arbitrage trade of long CNY and short CNH has become less attractive recently, as the offshore borrowing cost spiked further to PBOC's recent actions to dampen cross-border arbitrage flows.

Return from Long CNY and Short CNH

Trailing 12m	1.2%
Trailing 6m	1.4%
Trailing 3m	1.7%
Trailing 1m	1.0% ↓

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

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