

Monthly Highlights

- USD 1.03 billion in contract value of USD/CNH Futures was traded in May 2015, with an average daily notional value of USD 54 million.
- Non Market Makers contributed 68 per cent of contract volume, comparable to that in April 2015.
- Open interest was at 8,394 contracts (USD 0.8 billion notional) as of 29 May 2015.
- In times of macroeconomic news releases, HKEx's USD/CNH Futures market provides liquidity.

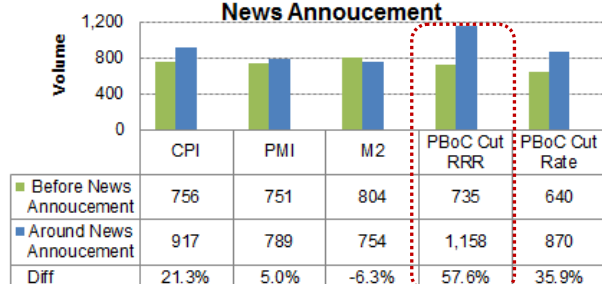
HKEx's USD/CNH Futures contract continues to be the most liquid and transparent listed RMB futures contract in the global marketplace. The contract has proved to be especially useful before news is released because investors can use the contract to hedge against a big currency move due to an unexpected number or to take a position when they expect a figure that differs significantly from the consensus forecast.

HKEx's USD/CNH futures have two trading sessions: the day trading session (DT) from 9:00 am to 4:15 pm Hong Kong Time (HKT) and the after-hours trading session (AHFT) from 5:00 pm to 11:45 pm HKT. The AHFT arrangement enables users in multiple time zones (Asia, Europe and US) to manage RMB currency risk.

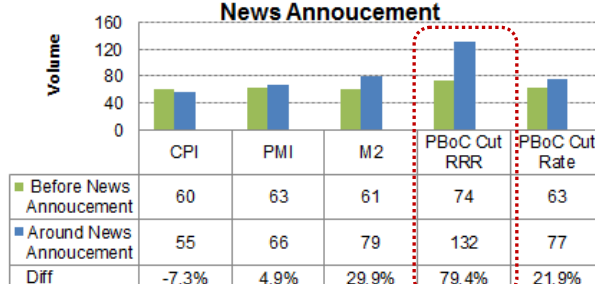
China's macroeconomic and central bank policy news tends to be among the most important catalysts for short-term movements in the USD/CNH market. Macroeconomic news, including CPI and PMI, is announced regularly based on a schedule. Central bank policy news, such as announcements of changes to required reserve ratios, comes without official warning. Greater RMB use is exposing international investors to both kinds of news. We looked at the changes in trading volume (both DT and AHFT) of HKEx's USD/CNH Futures

Macroeconomic News in China	Frequency	Announcement Schedule	Obs
CPI	Monthly	Released at 9:30 am on the 9th or 10th of the month (but on the 15th for October)	14
PMI	Monthly	Released at 9:00 am on the 1st of the month	13
M2	Monthly	Released at 10:00 am on the 12th—16th of the month	14
PBoC cut RRR	Infrequent	9/6/2014, 4/2/2015, 20/4/2015	3
PBoC cut Rate	Infrequent	21/11/2014, 2/3/2015, 8/5/2015	3

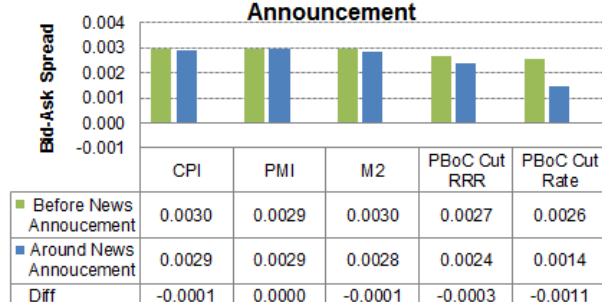
Volume Differences (DT): 3d Window around News Announcement vs. 10d Window before News Announcement



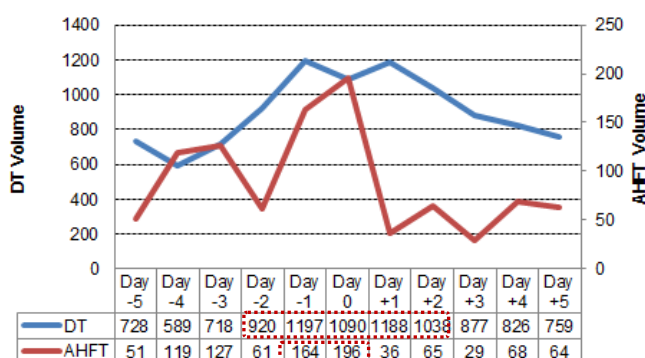
Volume Differences (AHFT): 3d Window around News Announcement vs. 10d Window before News Announcement



Bid-Ask Spread: 3d Window around News Announcement vs. 10d Window before News Announcement



News Announcement Effect: PBoC Cut RRR



around macroeconomic news announcements for the period from 7/4/2014 to 31/5/2015 to see how investors reacted and to what extent trading was affected.

As shown in the first two charts, investors tend to trade more futures contracts around macroeconomic news announcements. Volumes increased for all the news periods we looked at except for the DT periods around the time M2 was announced and the AHFT periods around the time CPI was announced. The most significant volume increases were observed around the time of headlines that said, "PBoC cut RRR" (57.6 per cent volume increase for DT and 79.4 per cent volume increase for AHFT).

A good measure of the liquidity of a futures market is the bid-ask spread. We observed no significant changes in bid-ask spreads before and around the news. The spreads were relatively stable, in the range of 0.0026 to 0.0030. Moreover, the bid-ask spreads around the time of the "PBoC cut RRR" and "PBoC cut Rate" headlines actually decreased by 0.0003 to 0.0011 on average.

To further explore how the trading volumes evolved around news of PBoC RRR cuts, we investigated the trading volumes during the window of 5 days before the news to 5 days after the news. Firstly, we saw a spike in volume around the in both DT and AHFT. Secondly, for DT, the volume tended to increase substantially 2 days before the news and momentum was maintained until 2 days after the news, while for AHFT, the volume increased only 1 day before the news and dropped suddenly after the news.

These findings show that when there is macroeconomic or central bank policy news, investors can expect good liquidity in HKEx's USD/CNH futures market. So when economic uncertainty increases, HKEx's USD/CNH futures are the best way to manage exposure to the USD/CNH FX market, or to capitalise on trading opportunities.

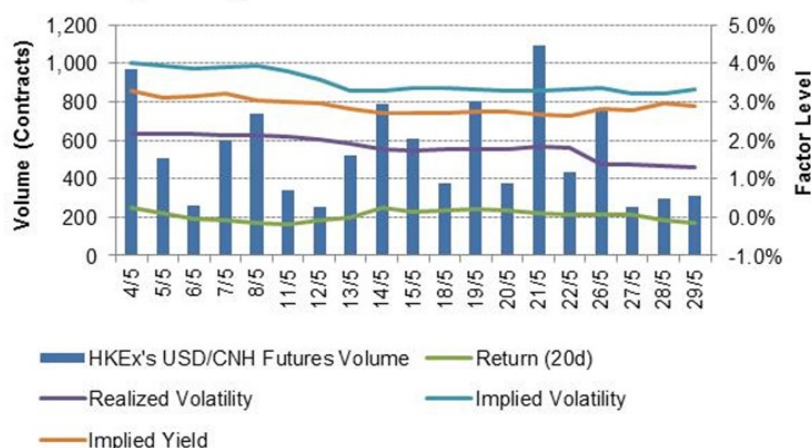
HKEx's USD/CNH Futures Market Statistics

USD/CNH Futures Turnover and OI



- In May 2015, a total of USD1.03 billion in contract value was traded, with an average daily notional value of USD54 million.
- Non Market Makers contributed 68 per cent of contract volume, comparable to that in April 2015

Key Driving Factors of USD/CNH Futures Volume



The following have been identified as the key driving factors behind the CNH futures volume:

- Cumulative return of CNH/USD,
- Realised volatility (20d),
- Implied volatility (USD/CNH 1Y ATM Implied Volatility from Bloomberg)
- 12 month forward implied yield

USD/CNH Futures Prices and Average Bid-Ask Spread

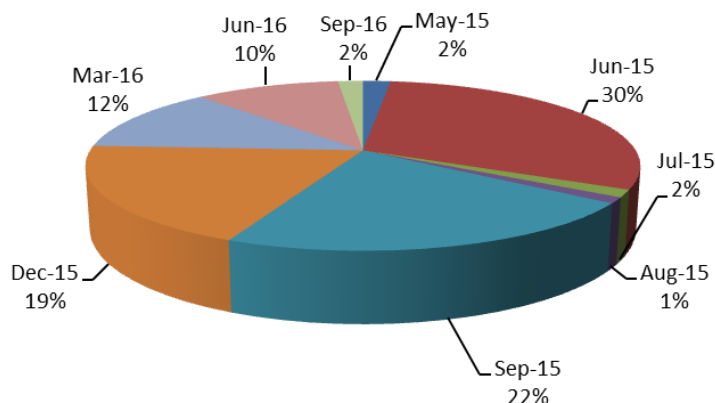
Contract Month	29 May Closing	Average Bid/Ask Spread*
May-15	-	0.0018
Jun-15	6.2088	0.0016
Jul-15	6.2215	0.0025
Aug-15	6.2353	0.0024
Sep-15	6.2478	0.0018
Dec-15	6.2837	0.0020
Mar-16	6.3207	0.0019
Jun-16	6.3567	0.0019
Sep-16	6.3909	0.0023

- During the day session, the average bid-ask spread of the June 2015 contract was 0.0016.

*Average Bid/Ask Spread between 9:30 am and 4:00 pm during the month

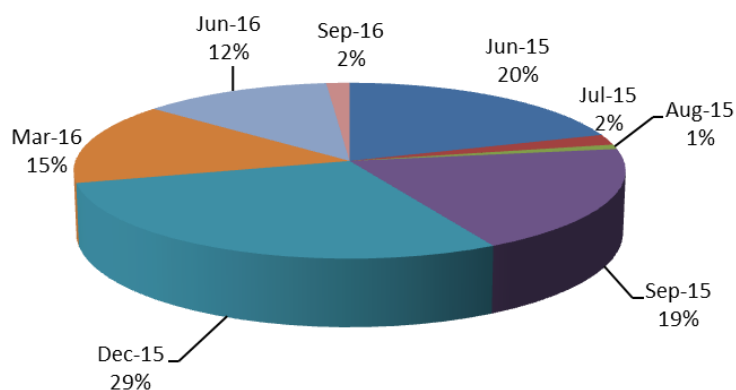
HKEx's USD/CNH Futures Market Statistics

Breakdown of Volume by Contract Month (5/2015)



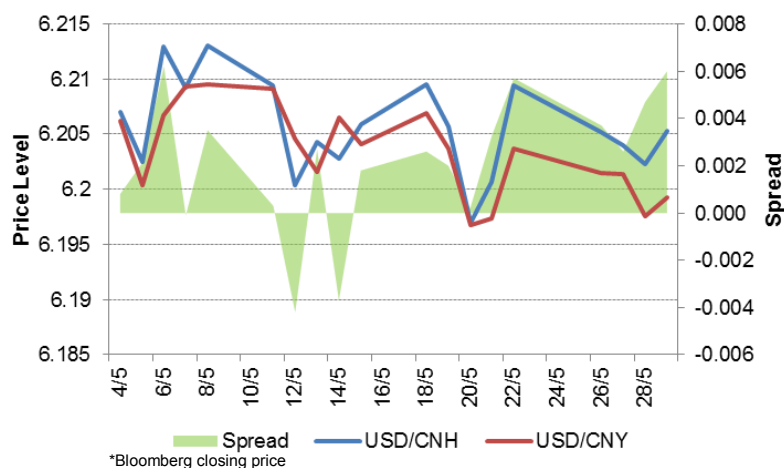
- Trading volume was highest in the June 2015 contract and subsequent quarter-month contracts

Breakdown of Volume by Open Interest (29/5/2015)



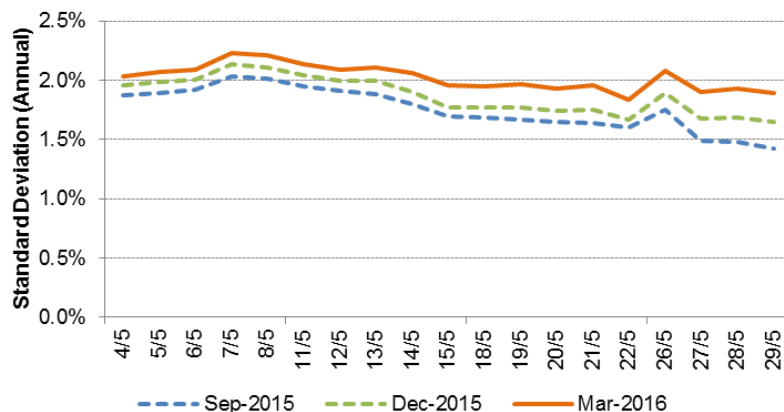
- Open interest was high in the June, September and December 2015 contracts, which accounted for 68 per cent of total open interest at the end of May.

USD/CNH and USD/CNY Spot Prices Trend*



- The spread between the USD/CNH and the USD/CNY widened towards the end of May to around 0.006. The CNH was trading at a discount to the CNY against the USD.

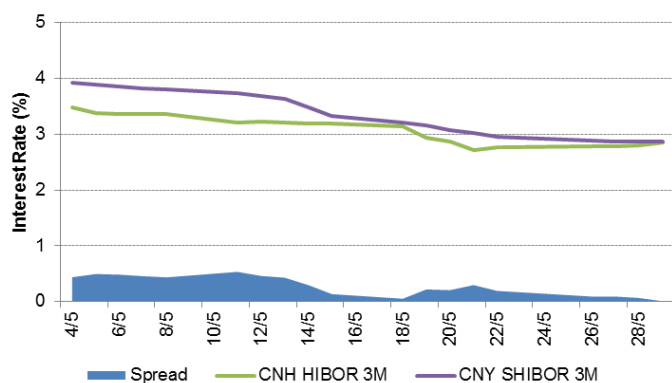
USD/CNH Futures Historical Volatility (20d Rolling)



- Volatility in USD/CNH Futures ranged between 1.3 to 2.2 per cent in May 2015.
- The volatility spreads across far month contracts and front month contracts widened towards the end of May 2015.

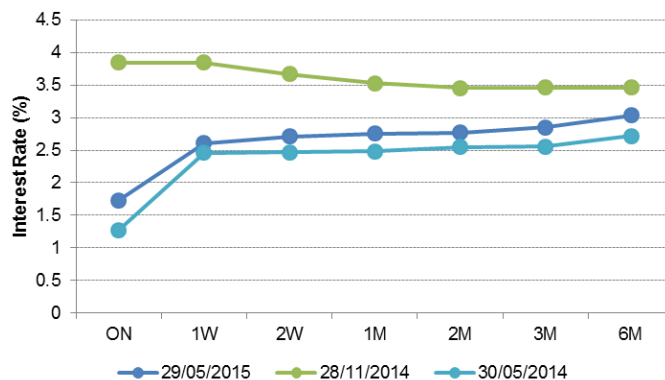
RMB FIC Market Review - Short-Term Interest Rates and Fixed Income

CNY SHIBOR vs. CNH HIBOR



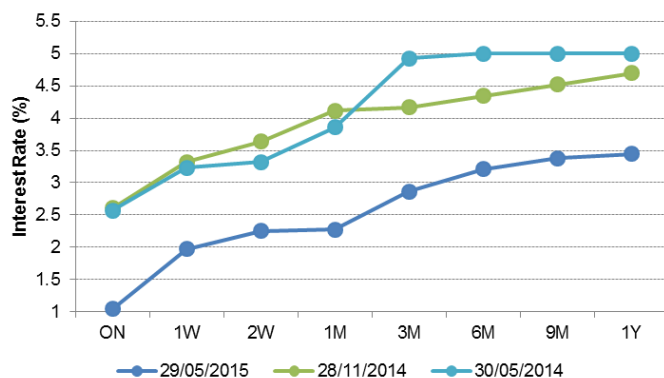
Onshore rates (CNY SHIBOR) remain higher than offshore rates (CNH HIBOR). However, the spread between them was tighter towards the end of May 2015.

CNH HIBOR Yield Curves



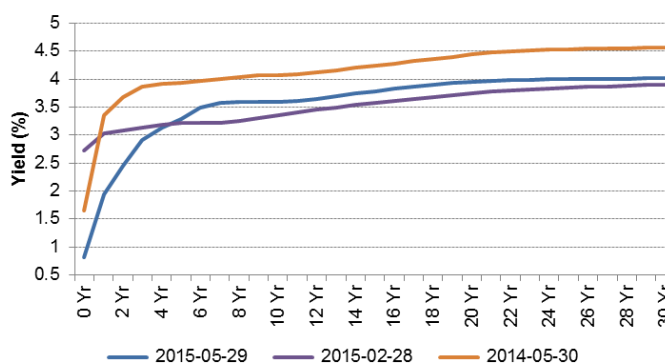
The CNH HIBOR yield curve in May 2015 steepened in the short end and relatively remained stable in the long end, a comparable shape as the yield curve in May 2014.

CNY SHIBOR Yield Curves



The CNY SHIBOR yield curve in May 2015 steepened in the short end and sloped gradually upwards towards the long end.

MoF T-Bond Yield Curve



The MoF T-Bond yield curve was gradually moving down through 2014. Compared to the short end of the yield curve, the long end dropped more during that period.

For more information about the USD/CNH Futures Contract Specifications, please visit: <http://www.hkex.com.hk/eng/prod/drprod/rmb/cnhspecs.htm>

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