HKEX 香港交易所

RMB CURRENCY FUTURES – USD/CNH FUTURES

July 2017

OVERVIEW

The introduction of offshore RMB* (CNH) was one of the major steps taken to internationalise the RMB, and put it on track to be one of the world's reserve currencies. Since the launch of the CNH, there has been phenomenal growth in the CNH market. HKEX launched its USD/CNH futures, the world's first deliverable RMB currency futures product to be quoted, margined, and settled in RMB, in September 2012 to help market participants manage their exposure to the offshore RMB.

* Renminbi

TRADING BENEFITS

- Best liquidity and market depth in periods of volatility
- Leverage effect of futures margining
- Hedging and risk management opportunities
- Block trades offer OTC flexibility with minimal counterparty risk
- Nine contract months with tenors up to 19 months
- Physical delivery to support investors using RMB for transactions
- Long trading hours to cover some European and US business hours
- Flexible collateral policy on RMB margin requirement

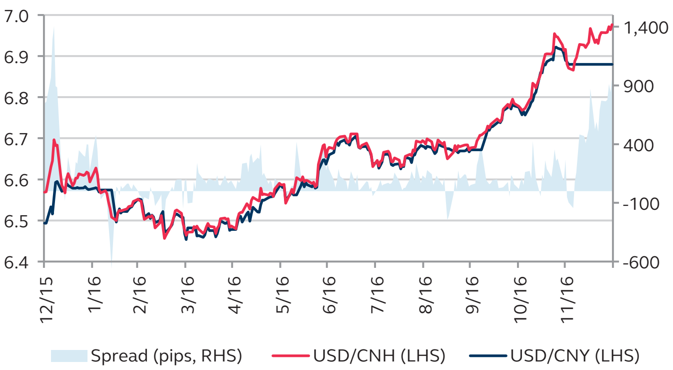
PRODUCT SPECIFICATIONS

Product Name:	USD/CNH Futures (Trading Code: CUS)
Price Quotation:	RMB per USD (e.g. 6.4929)
Contract Size:	USD 100,000
Contract Months (9):	Spot month, next 3 calendar months, next 5 calendar quarter months
Min. Fluctuation:	RMB 0.0001 (Tick Value: RMB10)
Settlement Method:	Physically settled
Trading Hours:	8:30am – 4:30pm (no lunch break) & 5:15pm – 1:00am (next day) (T+1 session)
Final Settlement Day:	The 3rd Wednesday of the Contract Month
Last Trading Day:	Two business days prior to the Final Settlement Day
Final Settlement Price:	USD/CNY (HK) Spot Rate published by Hong Kong Treasury Markets Association at or around 11:30am on the Last Trading Day
Block Trade Threshold:	50 contracts
Initial Margin:	RMB12,950 (as of 31 March 2016)
Vendor Tickers:	Bloomberg: UCAA CRNCY CT <GO> Thomson Reuters: 0#HCUS:

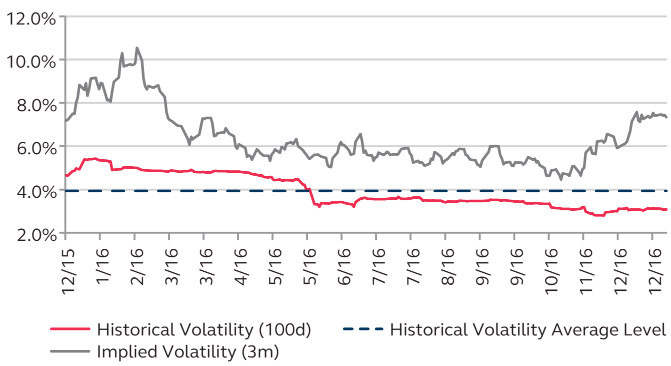
Should Participants have enquiries about operational setup or block trading, please contact FICD@hkex.com.hk, or visit www.hkex.com.hk/rmbcurrencyfutures.

MARKET ANALYSIS

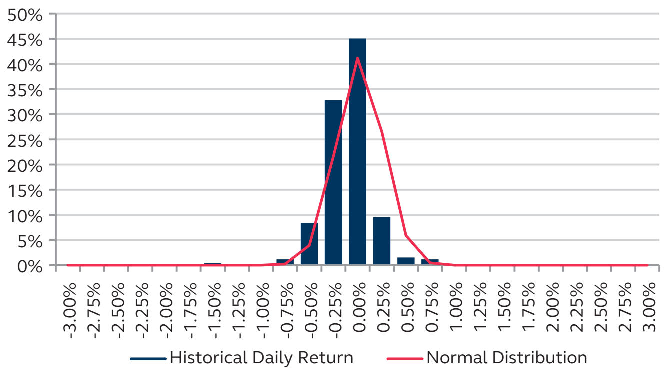
Offshore/Onshore Spread: USD/CNH vs USD/CNY



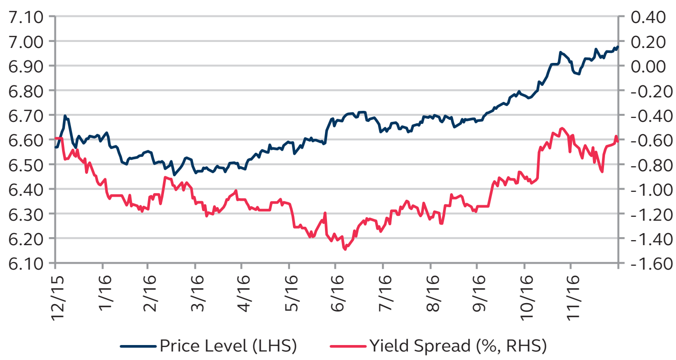
Historical Volatility vs Implied Volatility: USD/CNH



Return Distribution: USD/CNH



FX Price vs Yield Spread: USD/CNH



Source: Bloomberg, 31 December 2016

Information as of February 2017. For latest information, please visit the product page at www.hkex.com.hk/rmbcurrencyfutures.

MARKET STRATEGIES

The following hypothetical case studies are for illustration only and do not include transaction costs.

Case study 1
Protection against RMB depreciation

An International investor buys A-shares expecting their price to rise, but anticipates RMB will depreciate against USD over the next few months. Current spot USD/CNH rate is 6.5 and the USD/CNH futures contract is trading at 6.5230

	Now		Later
	The investor converts USD10m to RMB65m (@6.5) and invests in A-shares	→	1. A-shares price rises by 5%, the investor sells his A-shares stocks and gets RMB68.25m; 2. RMB depreciates against USD to 6.8; 3. The investor converts RMB68.25m to USD10.04m @6.8 and makes a USD0.04m profit *(less than the USD0.50m had the exchange rate remained unchanged @6.5)*
Strategy	The investor buys 100 USD/CNH futures contracts @6.5230	→	1. The investor closes his USD/CNH futures positions @6.8344 and makes a RMB3.1m profit 2. The investor converts the RMB3.1m profit to USD0.46m @ 6.8

USD0.46m profit on USD/CNH futures covers USD0.46m loss due to RMB depreciation

Case study 2
Protection against RMB appreciation

A Mainland Chinese company purchases overseas USD-denominated commodities and anticipates RMB to appreciate against USD in the next few months

	Now		Later
	The company converts RMB6.5m to USD1m (@6.5) and purchases commodities overseas	→	1. The company sells the commodities overseas and receives USD1.1m; 2. RMB appreciates 3% against USD to 6.3; 3. The company converts USD1.1m to RMB6.93m and makes a RMB0.43m profit *(less than the RMB0.65m had the exchange rate remained unchanged @6.5)*
Strategy	The company sells 10 USD/CNH futures contracts @6.5230	→	The company closes its USD/CNH futures position @6.3030 and makes a RMB0.22m profit

RMB0.22m profit on USD/CNH futures covers RMB0.22m loss due to RMB appreciation

Case study 3
Calendar spread trading

A portfolio manager expects USD/CNH to trade in a narrow range over the next three months, and the calendar spread (ie, price difference between front- and far-month contracts) to narrow. Current spot USD/CNH is 6.5, the Jun-16 USD/CNH futures contract is at 6.58 and Dec-16 contract is at 6.75

Now (March 2016)		Later (June 2016)
The portfolio manager • Buys 100 Jun-16 USD/CNH futures contracts @6.58 • Sells 100 Dec-16 USD/CNH futures contracts @6.75 * HKEX offers 40% margin reduction for calendar spread trading	→	1. The USD/CNH remains range-bound, the Jun-16 futures trade at 6.52 and the Dec-16 trade at 6.63 2. The portfolio manager closes all positions by • Selling Jun-16 futures contract @6.52 • Buying Dec-16 futures contracts @6.63

Profit from calendar spread trade is RMB0.60m [(6.75–6.63)–(6.58–6.52)] x 100,000 x 100

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