HKEX
香港交易所

RMB CURRENCY FUTURES – AUD/CNH FUTURES

July 2016

OVERVIEW

Australia's emergence as one of China's largest trade partners in commodities has created strong demand for inter-currency payments between Renminbi (RMB) and Australian dollars (AUD). AUD is the 5th most traded currency in the world as well as a component of the basket of currencies referenced by China in its managed float exchange rate regime. In addition, given Australia's vast mining and mineral operations, AUD offers diversification benefits through its strong link with commodities' prices. HKEX's AUD/CNH futures provide transparency in price discovery reflecting exchange rate expectations driven by market forces.

TRADING BENEFITS

- Capital efficiency of exchange-traded futures
- Transparent pricing in a centralised trading environment
- Block trade facility offers OTC flexibility with minimal counterparty risk
- Dedicated liquidity providers to provide narrow bid-ask spreads
- Same Asian time zone for liquidity aggregation

PRODUCT SPECIFICATIONS

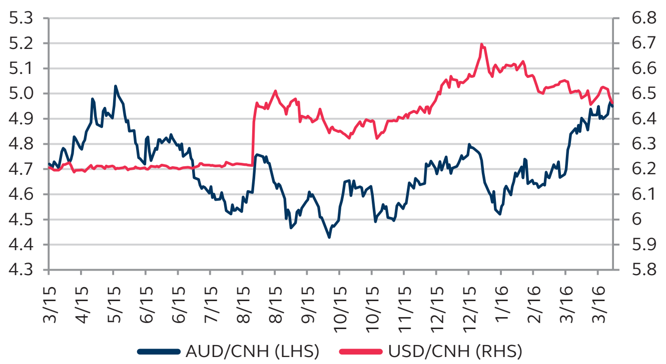
Product Name:	AUD/CNH Futures (Trading Code: CAU)
Price Quotation:	RMB per AUD (e.g. 4.9545)
Contract Size:	AUD80,000
Contract Months (4):	Spot month, next calendar month, next 2 calendar quarter months
Min. Fluctuation:	RMB0.0001 (Tick value: RMB8)
Settlement Method:	Cash settled in RMB
Trading Hours:	9am – 4:30pm (no lunch break); 5:15pm – 11:45pm (T+1 session)
Last Trading Day:	Two business days prior to the 3rd Wednesday of the contract month
Final Settlement Day:	First business day after the last trading day
Final Settlement Price:	A cross rate calculated from WM/Reuters Intraday Spot Rates for AUD/USD at 11am and Hong Kong Treasury Markets Association's CNH Fixing published at 11:15am
Block Trade Threshold:	50 contracts

Note: Hong Kong time and business days unless stated otherwise.

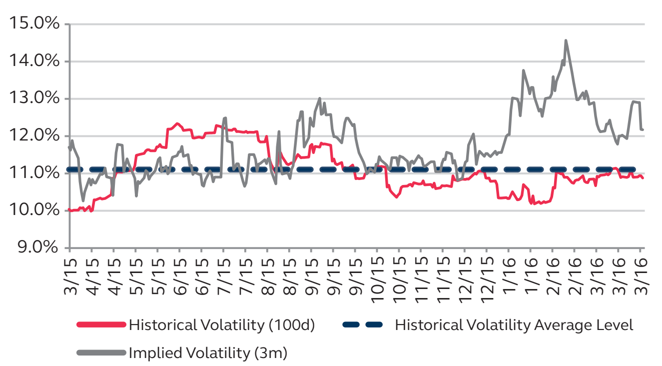
Should Participants have enquiries about operational setup or block trading, please contact FICD@hkex.com.hk, or visit www.hkex.com.hk/FX.

MARKET ANALYSIS

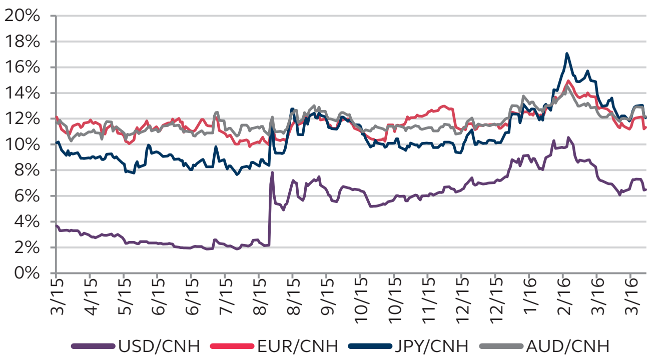
Price Level: AUD/CNH vs USD/CNH



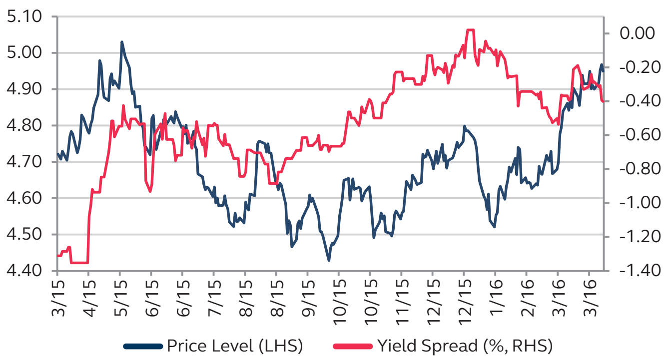
Historical Volatility vs Implied Volatility: AUD/CNH



FX Volatility Comparison (3M Implied, %)



FX Price vs Yield Spread: AUD/CNH



Source: Bloomberg, March 2016

Information as of 31 March 2016. For latest information, please visit the product page at www.hkex.com.hk/FX.

MARKET STRATEGIES

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

Case study 1 — Hedging against RMB depreciation

A Chinese steelmaker will purchase iron ore from an Australian mining company in 6 months with an agreed price of AUD10m. Anticipating further depreciation of RMB against AUD, the steelmaker wants to secure the amount payable in RMB at the current rate. Current AUD/CNH spot rate is 4.9 and the AUD/CNH futures contract is trading at 4.93

Now		Later
The steelmaker will spend AUD10m , equivalent to RMB49m @4.9 current rate, in 6 months to purchase iron ore	→	1. RMB depreciates 5% against AUD to 5.15; 2. The steelmaker pays RMB51.5m@5.15 current rate to get AUD10m *(RMB2.5m more than if the exchange rate had remained unchanged @4.9)*
Strategy		
The steelmaker buys 125 AUD/CNH futures contracts @4.9300	→	1. The steelmaker closes its AUD/CNH futures position @5.1765 and makes a RMB2.5m profit;

RMB2.5m profit on AUD/CNH futures compensates for RMB2.5m extra paid for AUD due to RMB depreciation

Case study 2 — Hedging against AUD appreciation

An Australian dairy producer will receive RMB10m from a Chinese customer in 3 months. It expects AUD to appreciate against RMB and therefore wants to lock in the value of the accounts receivable

Now		Later
The producer has RMB10m, equivalent to AUD2.04m @4.9 current rate, in accounts receivable in 3 months	→	1. AUD appreciates against RMB by 3% to 5.05; 2. The producer receives RMB10m and converts it to AUD1.98m @5.05 current rate *(AUD0.06m less than if the exchange rate had remained unchanged@4.9)*
Strategy		
The producer buys 25 AUD/CNH futures contract @4.93	→	1. The producer closes its AUD/CNH futures position @5.08 and makes a RMB0.3m profit; 2. The producer converts RMB0.3m to AUD0.06@5.05

AUD60,000 profit on AUD/CNH futures covers AUD60,000 loss on receivable due to AUD appreciation

Case study 3 — Protection against AUD depreciation

A Chinese investor plans to sell certain Australian-listed stocks before financial year-end and remit the proceeds back to China for other investment purposes. He worries that the monetary policy of Australia's central bank will push the AUD down in the coming months

Now		Later
The investor expects to receive AUD16m equivalent to RMB78.4m @4.9 current rate, from the sale of his Australian equity investment	→	1. AUD depreciates against RMB by 5% to 4.667 2. The investor receives AUD16m and converts it to RMB74.6m @4.67 current rate *(RMB3.8m less than if the exchange rate remained @4.9)*
Strategy		
The investor sells 200 AUD/CNH futures contracts @4.93	→	The investor closes his AUD/CNH futures position @4.695 and makes a RMB3.8m profit

RMB3.8m profit on AUD/CNH futures covers RMB3.8m loss due to AUD depreciation

RISKS OF TRADING FUTURES

Futures involve a high degree of risk. Losses from futures trading can exceed your initial margin funds and you may be required to pay additional margin funds on short notice. Failure to do so may result in your position being liquidated and you being liable for any resulting deficit. You must therefore understand the risks of trading in futures and should assess whether they are right for you. You are encouraged to consult a broker or financial advisers on your suitability for futures trading in light of your financial positions and investment objectives before trading.

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