

October 2016



AN INTRODUCTION TO HKEX  
USD/CNH FUTURES

**HKEX**  
香港交易所

FIC Product Development  
HKEX

For Interactive Brokers Webinar Only



1

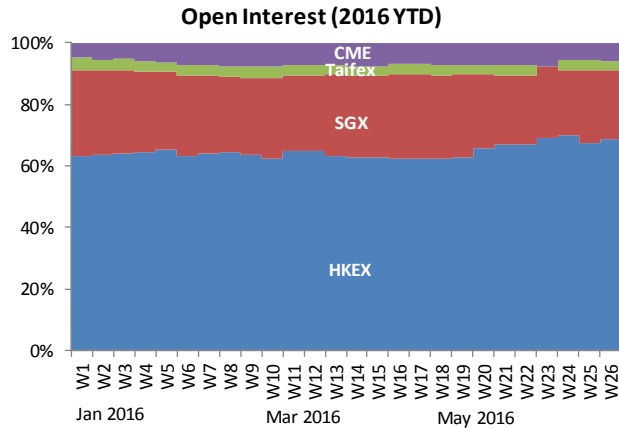
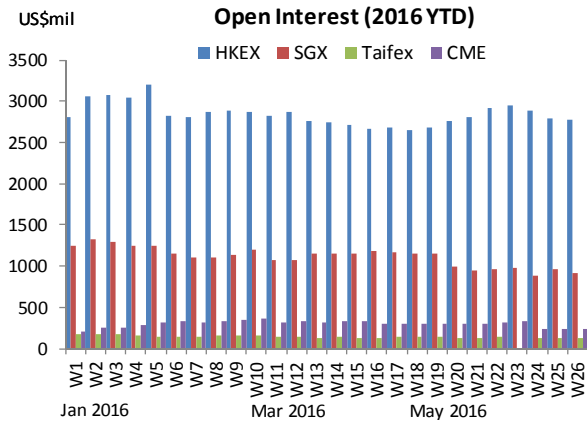
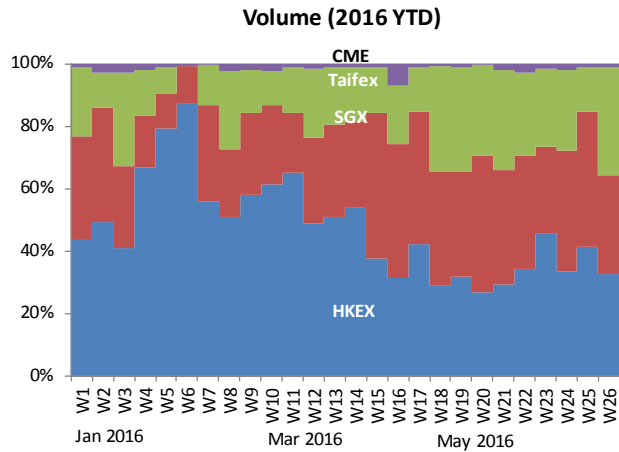
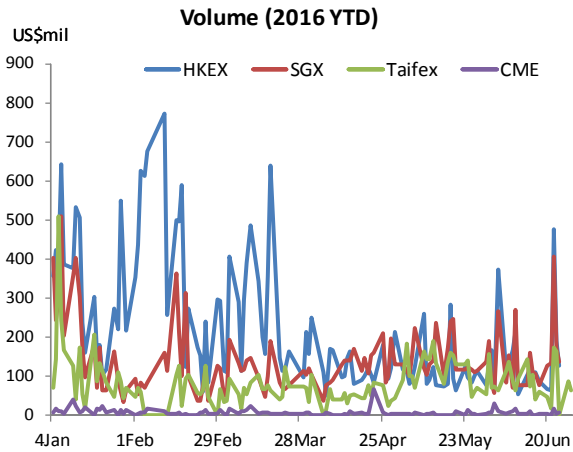
# HKEX USD/CNH FUTURES

## MARKET OVERVIEW

# HKEX USD/CNH Futures – Leading Market Share

- ✓ World's most active CNH futures market with the largest trading volume and open interest
- ✓ Competitive spreads throughout all 8 contract months, especially long-dated

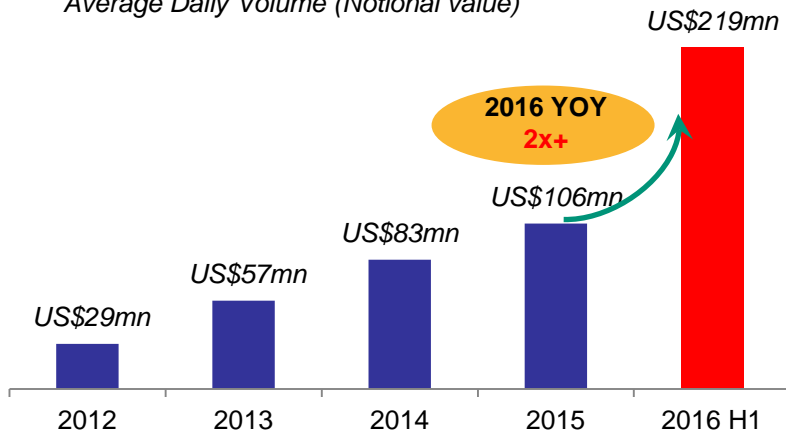
Other market makers include BOB, HOBO, TOBO, DBO, DAME, Bank Sinopec, Vita Financial and Haitong



# HKEX's USD/CNH Futures: World's Most Liquid

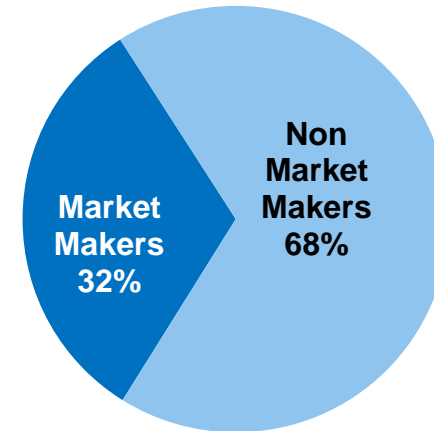
## HKEX USD/CNH Futures: World's Most Liquid

Average Daily Volume (Notional value)



Source: HKEX, as of 30 Jun 2016

## Market Player Breakdown



Source: HKEX, as of 31 Dec 2015

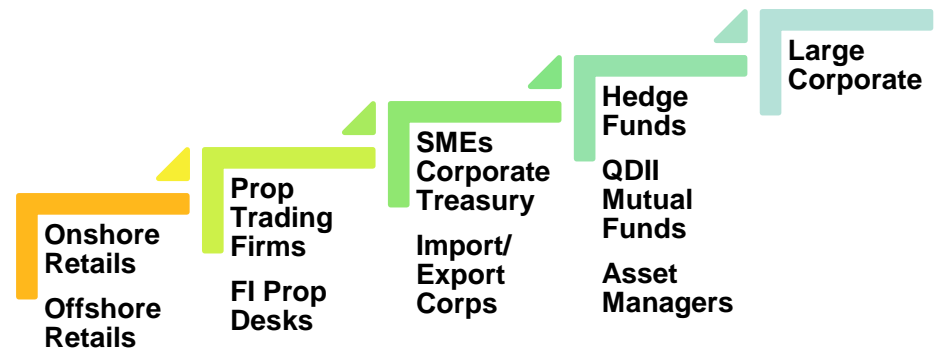
## 2016 Records

Turnover of US\$771mn on 11 Feb, 2<sup>nd</sup> All-Time High

Open Interest record of US\$3.2bn on 5 Feb

3 Straight Months of New ADV Record – Dec15, Jan16 & Feb16

AHFT All-Time Record (US\$200mn) on 3 Jun16



AHFT: After Hour Futures Trading

# HKEX USD/CNH Futures: Market Player Analysis

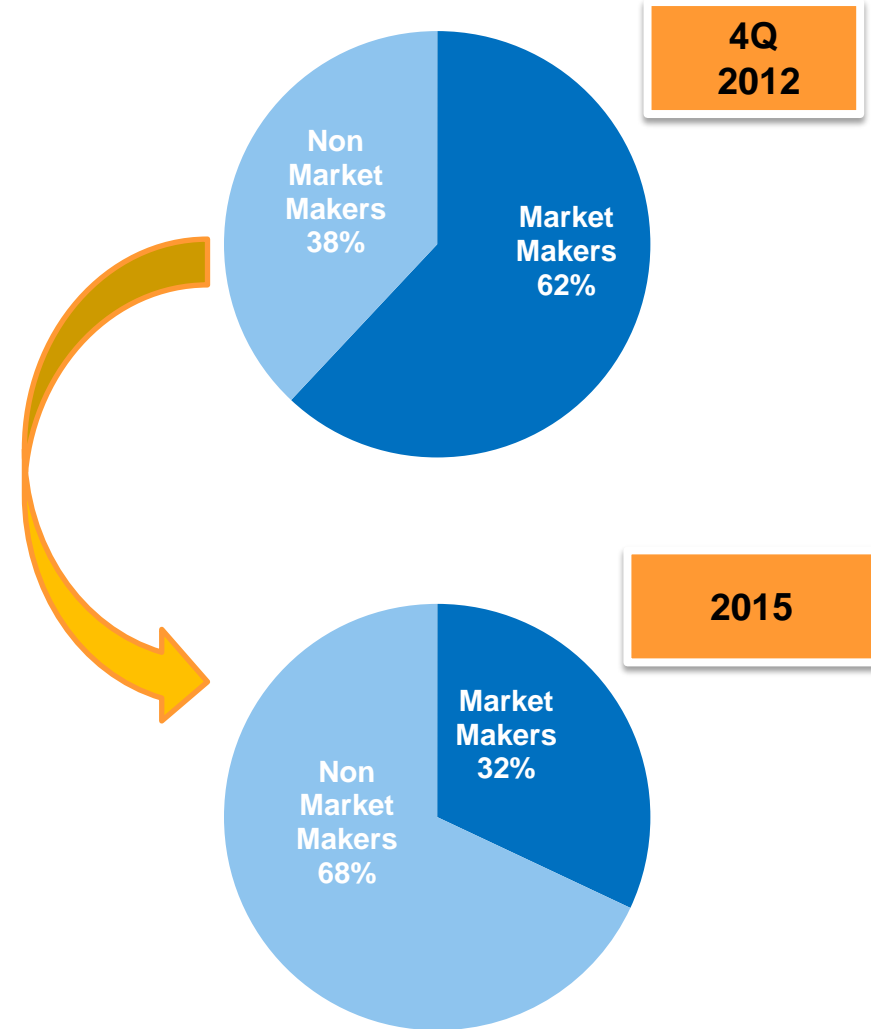
## Major Players in the Market

- 8 Market Makers
- Active Traders
- Mainland Brokers
- International Brokers

## Growing Market Segments

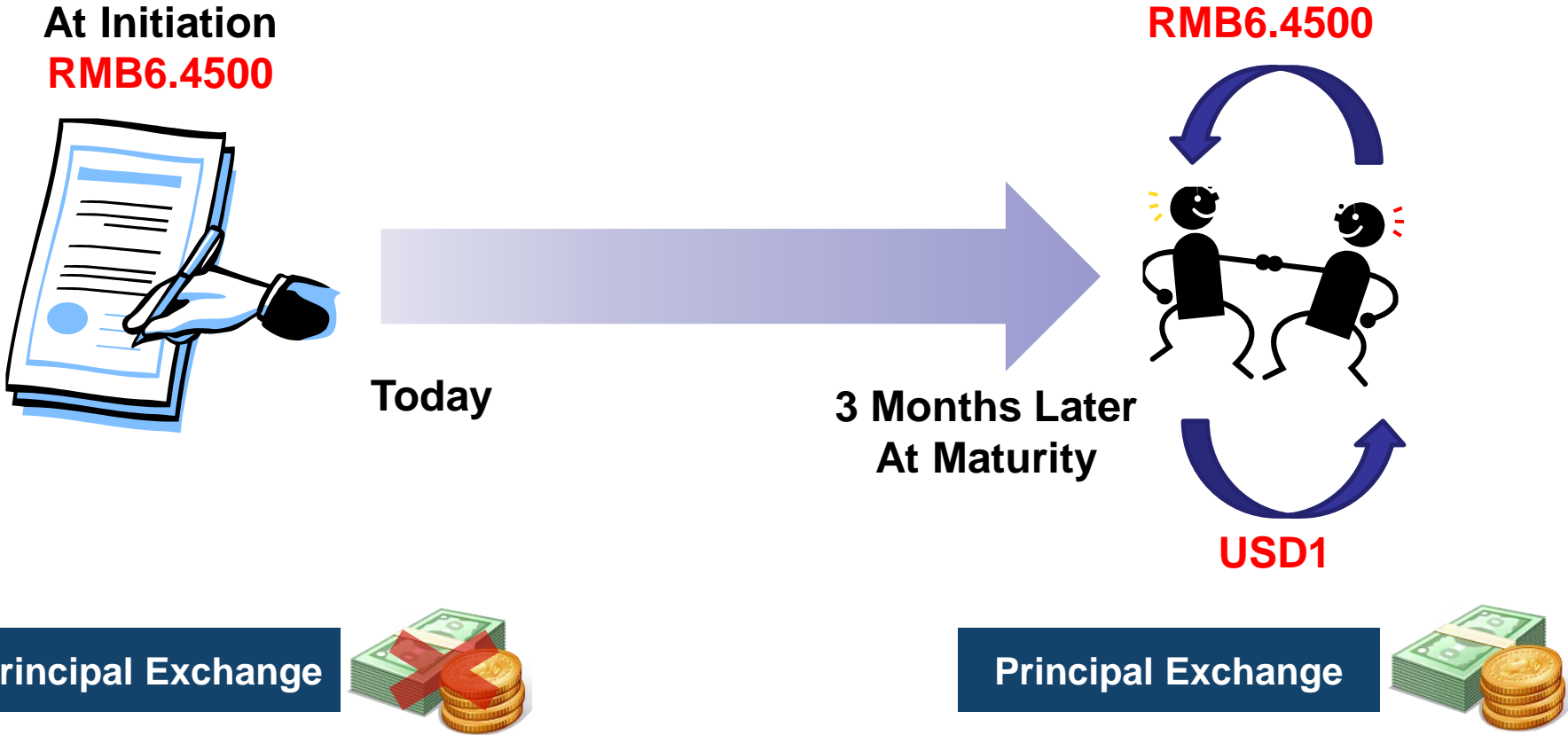
- Mainland Corporates
- Banks
- Experienced/Sophisticated Individuals (HK & Mainland)
- Proprietary Trading Firms

## Market makers vs. Non-market makers (in terms of contract volume)



# Introduction: What is a Currency Futures Contract?

**Buyers & sellers agree to trade an asset at a future date, for a price agreed today**



# Introduction of HKEX USD/CNH Futures: Capital Efficiency

**Contract Size**  
**USD100,000**  
**(~RMB660,000)**



**10xLeverage**

**Min. Fluctuation**  
**0.0001 (1 pip)**



**RMB10**  
**(0.0001 x 100,000)**

**Initial Margin \***  
**RMB17,010**



*\* Margin rate as of 1 August 2016*

*Trading futures involves the risk of loss. Please refer to the disclaimer for the Risks of Trading Futures.*

## Introduction of HKEX USD/CNH Futures: Forward vs. Futures Contract

	HKEX Futures	OTC Forward
Risk management tool	✓	✓
Physical settlement	✓	✓
No credit limit required from banks	✓	✗
Central matching	✓	✗
Central counterparty clearing	✓	✗
Standardised contract	✓	✗
Better than general retail rate	✓	?
Ease of trading	✓	?





# Key Contract Features of HKEX USD/CNH Futures

## Key Terms

Contract Size:	US\$ 100,000 per contract
Quotation:	RMB per USD (e.g. RMB 6.6255 per USD)
Contract Month(8):	Spot month, next 3 calendar months, next 4 quarter months
Last Trading Day:	Usually third Monday
Final Settlement:	Principal exchange on third Wednesday

## List of Market Makers (8)

- Bank of China (HK)
- Bank Sinopac
- Virtu
- HSBC
- BAML
- ICBC
- DBS
- Haitong International

Provide  
Prices

On Screen

Off Screen

## Bid-Ask Prices

Bid Orders				Ask Orders			
BCmp	Type	BQty	Bid	Ask	AQty	Type	ACmp
	LMT	10	6.3018	6.3045	10	LMT	
	LMT	10	6.3018	6.3046	10	LMT	
	LMT	10	6.3017	6.3047	10	LMT	
	LMT	10	6.3016	6.3048	10	LMT	
	LMT	10	6.3015	6.3048	10	LMT	
	LMT	38	6.2652	6.3081	12	LMT	
	LMT	1	6.2650	6.3083	1	LMT	
	LMT	5	6.2600	6.3090	10	LMT	
	LMT	2	6.2600	6.3100	5	LMT	
	LMT	20	6.2520	6.3350	1	LMT	
	LMT	1	6.2500	6.3500	1	LMT	
	LMT	2	6.2500	6.3597	20	LMT	
	LMT	1	6.2400	6.3500	50	LMT	

## Block Trade Bid-Ask Prices

- Price and execution certainty for size over US\$5mil
- Privately negotiated
- Reduction of counter-party risk

**Market Makers are obliged to provide two-way prices on screen**



## HKEX USD/CNH Futures Contract Specification

	USD/CNH Futures
<b>Contract Size</b>	US100,000
<b>Price Quotation</b>	RMB per USD (e.g. 6.6255)
<b>Tick Value</b>	RMB 10.00
<b>Settlement Methodology</b>	Delivery of US dollars by the Seller and payment of the Final Settlement Value in RMB by the Buyer
<b>Contract Months</b>	8 contract months (Spot, next 3 calendar months and next 4 calendar quarter months)
<b>Final Settlement Price</b>	TMA CNH Spot Rate at 11:30am
<b>Min. Fluctuation</b>	RMB 0.0001 (4 decimal places)
<b>Trading Hours</b>	9:00am to 4:30pm (T session) and 5:15pm to 11:45pm (T+1 session), Hong Kong Time (Expiring contract month closes at 11:00 am on the Last Trading Day)
<b>Final Settlement Day</b>	The third Wednesday of the Contract Month
<b>Last Trading Day</b>	Two Hong Kong Business Days prior to the third Wednesday of the Contract Month
<b>Holiday Schedule</b>	According to Hong Kong holiday schedule
<b>Information Vendor Codes</b>	Bloomberg: UCAA CRNCY CT <GO> Thomson Reuters: 0#HCUS:
<b>Initial Margin</b>	RMB 17,010 (as of 1 Aug 2016)
<b>Exchange Fee</b>	RMB 8.00
<b>Block Threshold</b>	50 contracts (US\$5m)



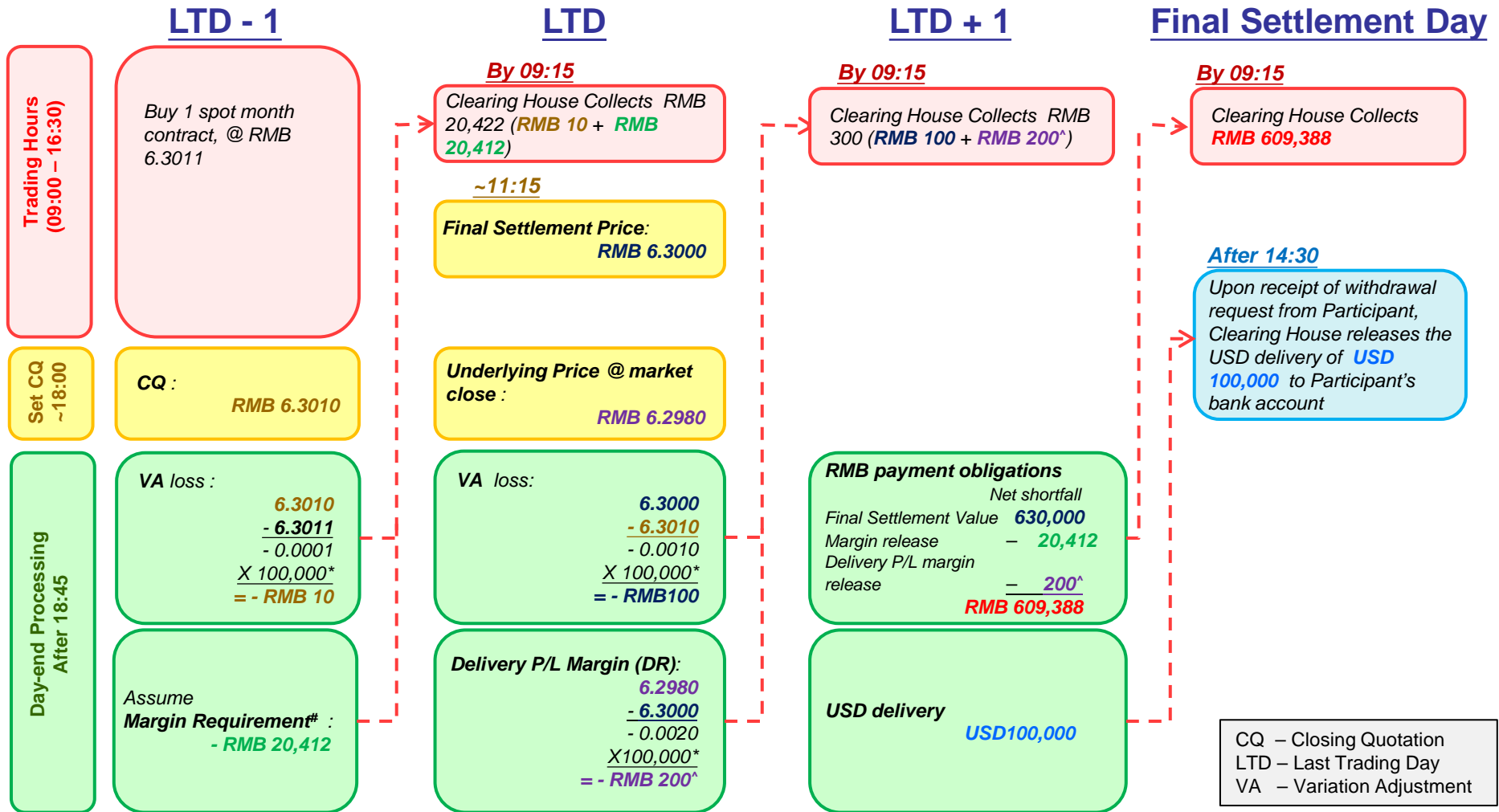


2

# HKEX USD/CNH FUTURES

## OPERATIONAL DETAILS

# Final Settlement Process for Buyer (for illustration purpose only)



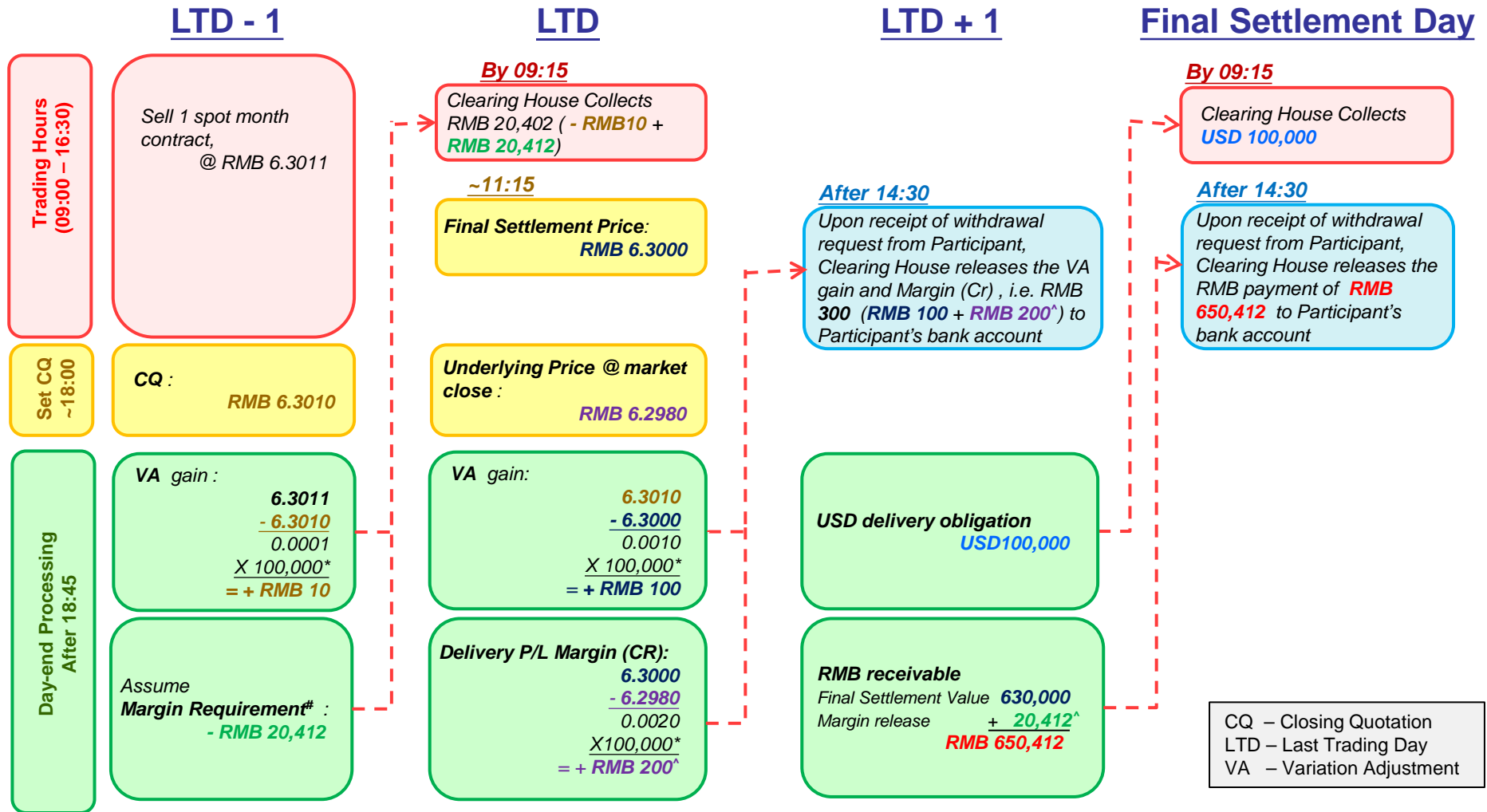
\* Contract size = USD 100,000

# Margin rate (RMB17,010) as of 1 Aug 2016, with spot month charge (20% of full rate) included, if applicable

<sup>^</sup> Losses arising from the Delivery P/L margin will be added to and collected as Clearing House margin payable  
The indicated time is referred to as Hong Kong time



# Final Settlement Process for Seller (for illustration purpose only)



\* Contract size = USD 100,000

# Margin rate (RMB17,010) as of 1 Aug 2016, with spot month charge (20% of full rate) included, if applicable

^ Profits arising from the Delivery P/L margin will be offset against Clearing House margin payable

The indicated time is referred to as Hong Kong time



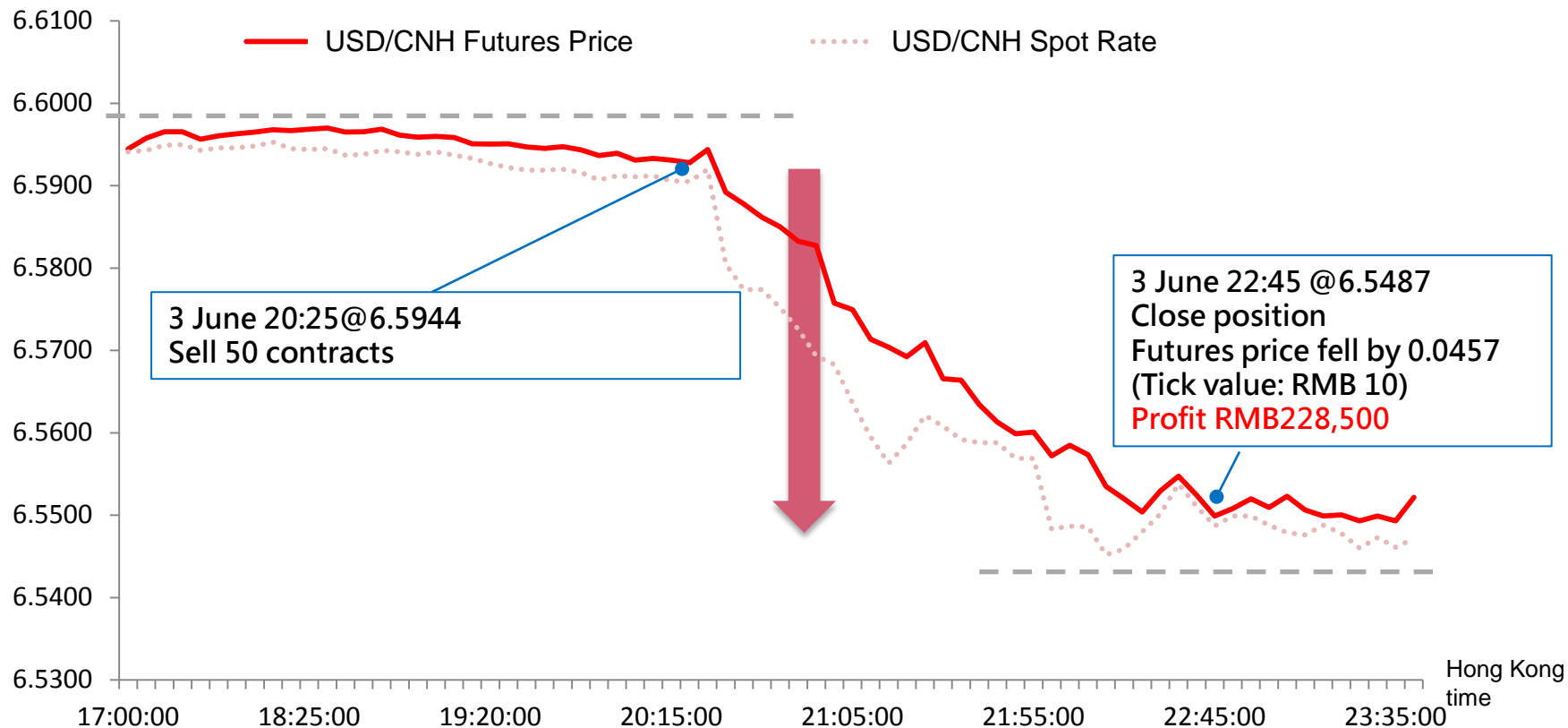


3

# HKEX USD/CNH FUTURES PRODUCT APPLICATIONS

# Trading Application – HKEX USD/CNH Futures

## USD/CNH Futures Jun-2016 Contract (After-Hours Session on 3 June)



**3 June 2016**

The US Non-Farm Payroll in May 2016 was far lower than expected, triggering market volatility

**Total Profit  
 RMB228,500**

Source: HKEX, Bloomberg

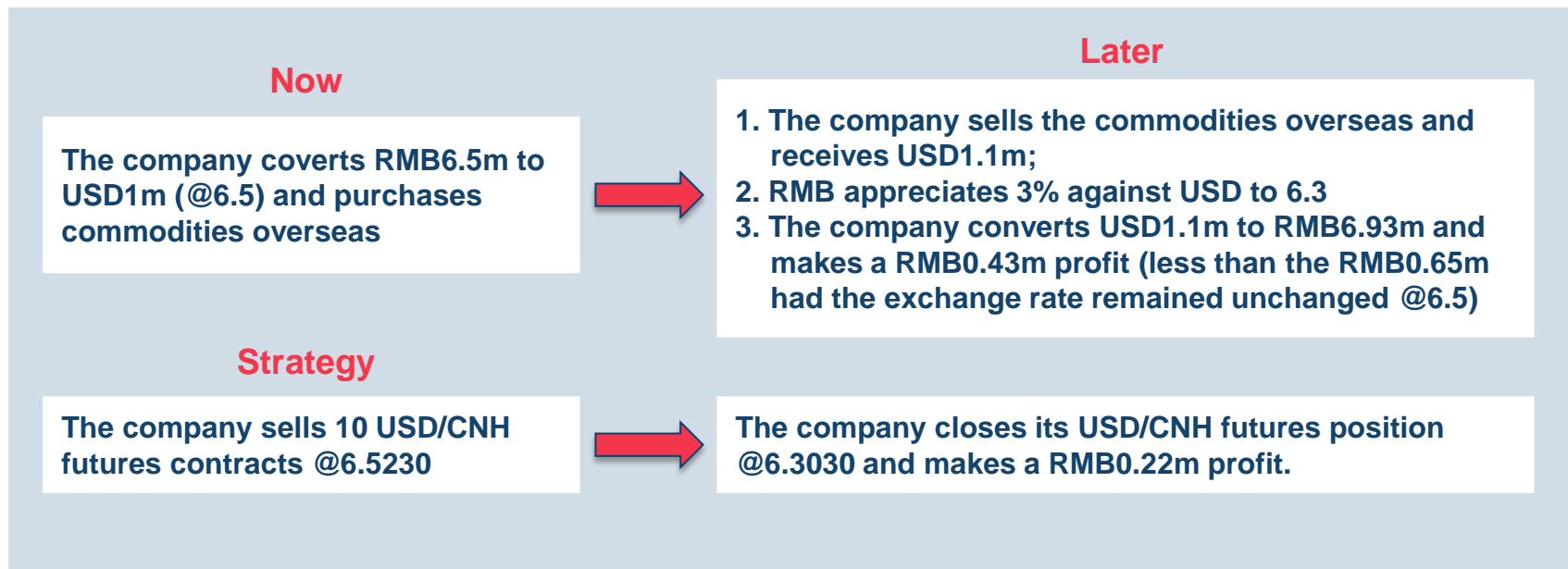


The hypothetical case study is for illustration only and does not include transaction costs. If USD/CNH exchange rate moves to the opposite direction, investors could suffer losses.

# Hedging Application

## *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.



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





# HKEX EUR/CNH, JPY/CNH, AUD/CNH AND CNH/USD FUTURES

## CONTRACT DETAILS

# New CNH Futures – Launched on 30 May 2016

## EUR/CNH

- ✓ EU largest trade partner to China; China 2nd largest trade partner to EU
- ✓ Divergence between fiscal / monetary policy of US & Europe. Risk management against ECB policies

## AUD/CNH

- ✓ Australia emerged as one of China's largest trade partners in commodities
- ✓ AUD offers diversification benefits through its strong link with commodity prices

## JPY/CNH

- ✓ World's 3rd most traded currency
- ✓ Pair trading on precious metals
- ✓ Risk management against BOJ policies

## CNH/USD (i.e. inverse style)

- ✓ Margining & settlement in USD
- ✓ Cash settlement reduces operational burden
- ✓ Smaller notional for retail participation
- ✓ Trading opportunities with existing USD/CNH futures

	EUR/CNH Futures	JPY/CNH Futures	AUD/CNH Futures	CNH/USD Futures
<b>Contract Size</b>	EUR50K	JPY6,000K	AUD80K	RMB300K
<b>Price Quotation</b>	RMB per EUR (e.g. 6.8028)	RMB per 100 JPY (e.g. 5.5923)	RMB per AUD (e.g. 4.6942)	USD per 10 RMB (e.g. 1.5288)
<b>Tick Value</b>	RMB5	RMB6	RMB8	USD3
<b>Settlement</b>	Cash settled in RMB			Cash settled in USD
<b>Contract Months</b>	4 contract months (Spot month, next month and first two calendar quarter months)			8 contract months
<b>Reference Benchmark</b>	A cross rate calculated from WM/Reuters Intraday Spot Rates at 11:00am and TMA USDCNY(HK) Spot Rate at 11:30am			TMA USDCNY(HK) Spot Rate at 11:30am
<b>Minimum Fluctuation</b>	RMB 0.0001 (4 decimal places)			USD 0.0001
<b>Trading Hours</b>	9:00am to 4:30pm (T session) and 5:15pm to 11:45pm (AHFT session), Hong Kong time			
<b>Last Trading Day</b>	Two Hong Kong Business Days prior to the third Wednesday of the Contract Month			



# New CNH Futures – Launched on 30 May 2016

## Cost Saving

- **No Levy for All Currency Futures**
- **No Exchange Fee for the First 6 Months**

## Price Transparency

- **Real-time prices available on HKEX website and other popular information vendors**

## Leverage

- **Margin basis; Around 2-4% of notional amount**

## Block Trade

- **Liquidity Providers to Facilitate Large Size Quotation (Min. Size: c.US\$2.5million)**
- **No Bilateral Credit Line Required**



## How To Use Additional RMB Currency Futures

**Hedge for Own  
Treasury Inventory  
(e.g. EUR, JPY, AUD)**

**Add Value to  
Multi-  
Currency  
Portfolios**

**Pair Trading and  
Commodity Plays  
(e.g. AUD)**

**Capture Policy  
Changes (ECB/BOJ)  
& Macro News  
Release**

**Correlation /  
Covariance  
Play between  
RMB Pairs**

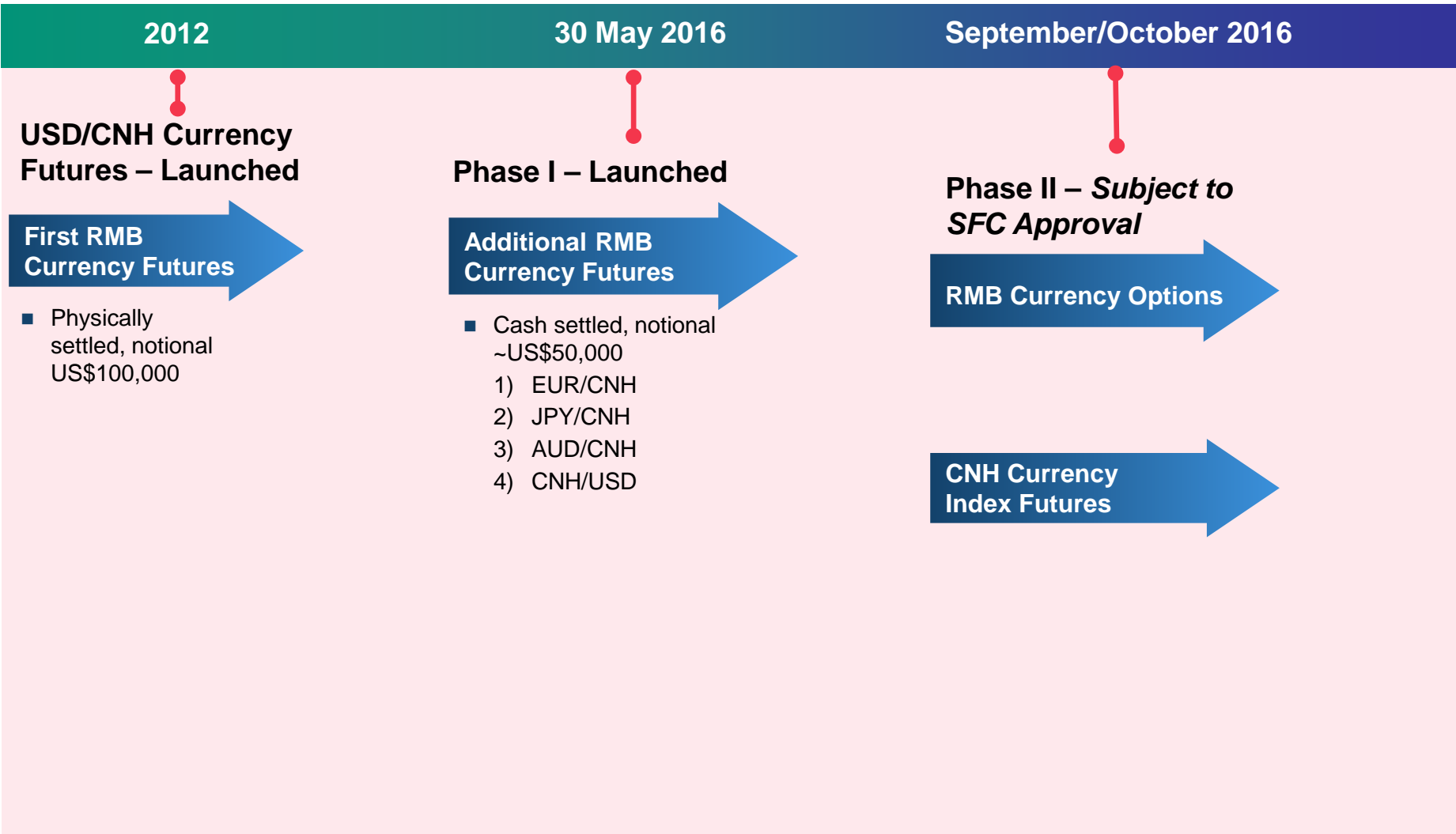




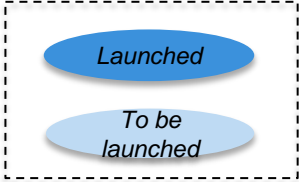
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## OTHER FIC INITIATIVES

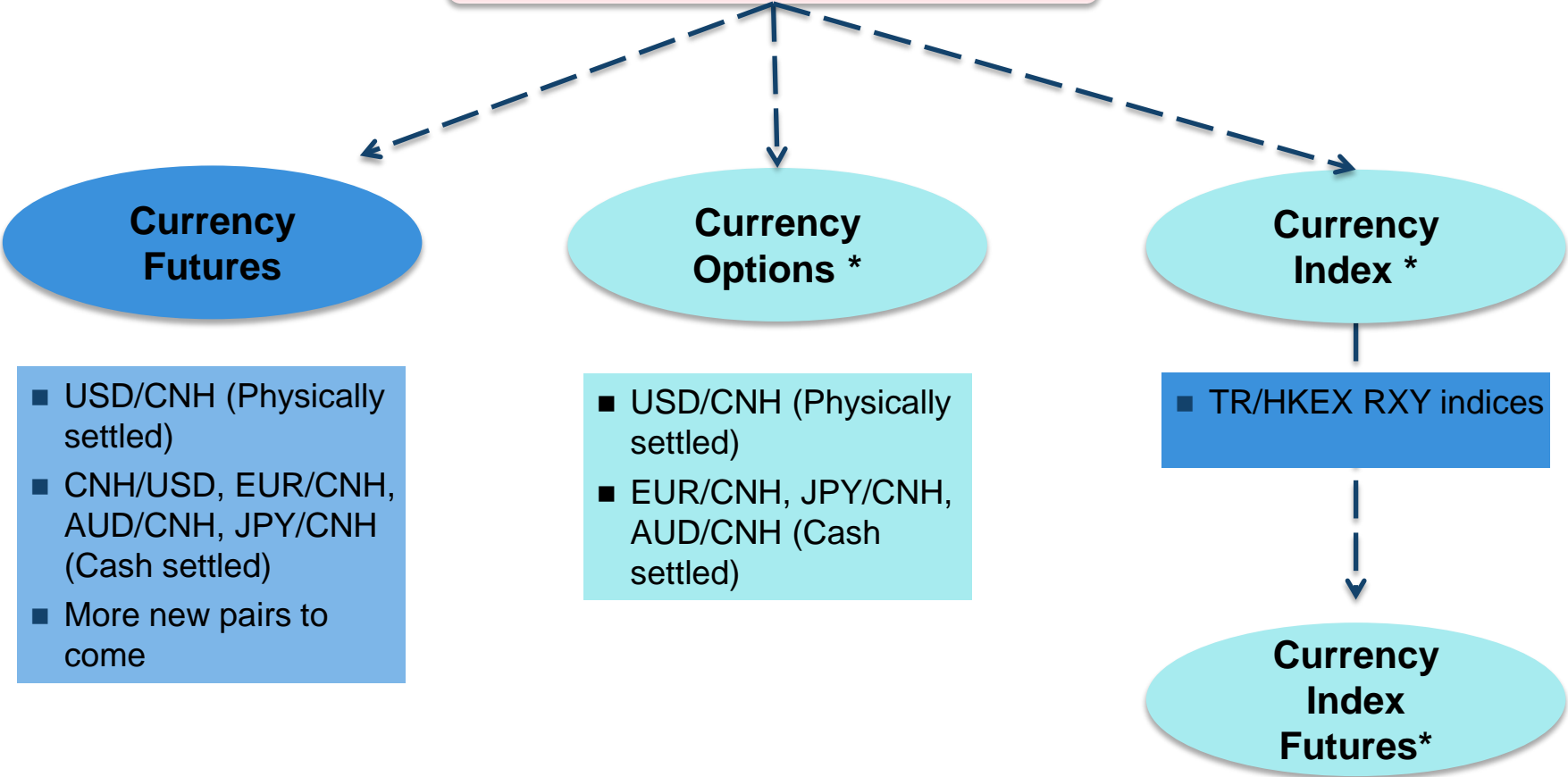
# FX Product Roadmap



# Currency Products



## RMB Currency Products



\* Subject to SFC approval



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