

The Global Development of RMB Forex Futures, and TAIFEX's RMB Forex Futures Products

(Updated October 1, 2015)

Global products utilize a variety of underlyings, including individual stocks, stock indexes, interest rates, foreign exchange rates, energy, agricultural products, and metals. According to *Futures Industry* magazine, exchange-rate contracts were the world's fourth most traded futures contract in 2014, with trading volume of 2.12 billion contracts accounting for 9.7% of global futures trading volume. RMB forex futures contracts are an emerging product within this market category.

China, the world's second largest economy, is a major trading entity with imports/exports of USD 4.3 trillion in 2014 (+3.4% YoY). Its economic and trading strength have been driving a gradual internationalization of the RMB. There was an early move in this direction in November 2003, when banks in Hong Kong initiated a pilot program for personal RMB banking. Then, in December of the same year, the People's Bank of China appointed Bank of China (Hong Kong) as the RMB clearing bank for Hong Kong. These two actions kickstarted the development of Hong Kong's offshore RMB business, which has grown to include RMB bonds, trade settlement, registered foreign direct investment (RFDI), and renminbi-qualified foreign institutional investor (RQFII) investment in mainland capital markets. For reference, markets usually refer to onshore RMB as CNY and offshore RMB as CNH.

The CNH business extends well beyond the Hong Kong market. In fact, Taiwan began developing its own CNH business in June 2008, and in August 2012 signed a memorandum of understanding (MOU) with China, permitting designated foreign exchange banks to first handle RMB business, then RMB bonds, and then RMB-denominated mutual funds and derivatives products. As of the end of June 2015, Taiwan's banks held RMB deposits amounting to RMB 338.2 billion. Singapore, Korea, the UK, Germany, France and Luxembourg have also launched CNH markets. This paper will provide an introduction to the internationalization of the RMB, as well as information on global RMB forex futures, including their contract specifications.

I. The Internationalization of the RMB

(1) Bilateral currency swap arrangements

To date, the People's Bank of China has signed currency swap agreements with the monetary authorities of 32 nations and territories, including those of the European Union, the UK, Singapore, Korea, and Hong Kong¹. Worth a total of more than RMB 3.1 trillion, these agreements facilitate bilateral trade and investment between China and its trading partners, and encourage cross border use of the RMB.

(2) Growth in RMB trade settlements

As China's international trade has increased and its RMB

1 - <http://rmb.xinhua08.com/a/20150526/1503581.shtml>

policy liberalized, the number of firms choosing to use the RMB to make and receive payments has increased rapidly, causing the amount of RMB trade settlements continuing to soar.

China initiated a pilot program in 2009, the initial stage of which was worth RMB 3.6 billion. By 2014, cross border RMB trade settlements had grown to RMB 6.5 trillion per annum, testifying to the rising demand for RMB settlements.

(3) Growth in the scale of global RMB trading

According to the Bank for International Settlements' (BIS) Triennial Central Bank Survey, as of April 2013, the RMB was the world's ninth most traded currency in terms of average daily volume, with the average daily volume of USD/RMB transactions amounting to USD 113 billion, and that of EUR/RMB transactions amounting to USD 1 billion.

According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the RMB ranked fifth in the world as a global payment currency in June 2015, up from 20th in January 2012. The RMB experienced tremendous growth in its market share over that period--from 0.25% to 2.34%²--making the currency's rapid internationalization patently clear.

2 - SWIFT

http://www.swift.com/assets/swift_com/documents/products_services/RMB_tracker_July_2015_final.pdf

II. Global RMB forex futures

To date, the Chicago Mercantile Exchange (CME), Johannesburg Stock Exchange (JSE), Bolsa de Valores Mercadorias & Futuros (BM&F BOVESPA), Hong Kong Exchanges and Clearing, Limited (HKEX), and the Singapore Exchange (SGX) have all launched RMB forex futures.

HKEX introduced USD/RMB (CNH) Futures on 17 September 2012. According to FOW TradeData, HKEX's USD/RMB (CNH) Futures was the world's most traded CNH futures in 2014, with total volume for the year of 205,049 contracts and average daily volume of roughly 854 contracts³. SGX ranked second with average daily volume of roughly 560 USD/RMB Futures. Trading in the world's other RMB forex futures was very light.

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Calculated using 20 business days per month.

Global RMB Forex Futures Trading Volume

Exchange	Contract Underlying	Launch Date	2014 Volume
CME	RMB/EUR	2006/8	0
	RMB/JPY	2006/8	0
	RMB/USD	2006/8	10,799
	USD/RMB	2011/10/17	0
	E-Micro USD/RMB	2011/10/17	0
	USD/Offshore RMB (CNH)	2013/2/25	0
	E-Micro USD/Offshore RMB (CNH)	2013/2/25	0
HKEX	USD/CNH	2012/9/17	205,049
JSE	Chinese Yuan/Rand	2010/11/9	0
BM&FBOVES PA	Chinese Yuan	2011/8/15	192
SGX	USD/CNH	2014/10/20	29,824
	CNY/USD	2014/10/20	1,370

Source: FOW TradeData

III. TAIFEX Development of RMB Futures Products

(1) Rationale

Taiwan has very close trade ties with the mainland area and enjoys a long-term trade surplus, it providing Taiwan a niche within which to build an offshore RMB market. Since introducing its offshore RMB business in 2008, Taiwan has launched RMB currency exchanges, remittances, and deposits, as well as RMB-denominated mutual funds, and Formosa Bonds. Taiwan's RMB300 billion in RMB deposits, an amount second only to Hong Kong, points to a high level of domestic-investor interest in RMB assets, and has led to increasing demand for RMB exchange-rate

hedges.

TAIFEX therefore launched two RMB FX futures on 20 July 2015: USD/CNT FX Futures, which have a contract size of USD 20,000 and USD/CNH FX Futures, which have a contract size of USD 100,000. While both contracts are settled in cash, they use different bases for their final settlement prices, the USD/CNT FX Future uses the Taipei Foreign Exchange Market Development Foundation's spot USD/CNY (TW) fixing, while the USD/CNH FX Future uses the Treasury Markets Association (TMA) of Hong Kong's spot USD/CNY (HK) fixing. The two futures trade on bank business days from 8:45 am to 4:15 pm. By covering the trading hours of Taiwan's FX spot market, the session enables futures investors to respond to conditions in the spot market. Both the USD/CNT FX Future and the USD/CNH FX Future have enjoyed steady growth since their launch, with average daily volumes of 8,752 and 1,057 contracts, respectively, and open interest of 1,468 and 602 contracts, respectively, as of the end of September 2015.

(2) Market Benefits

1. Providing a channel for hedging and strategic trading

TAIFEX's launch of RMB FX futures provides Taiwan's importers and exporters with an excellent channel for hedging their foreign currency demand. Taiwan also has a substantial foreign investments and a large pool of RMB assets. These futures enable both corporations and retail investors to hedge the risk of fluctuations in forex rates, and to efficiently manage the risk

exposure of their investment portfolios.

In addition, TAIFEX's RMB FX futures enable investors to utilize intermarket spreads and arbitrage to execute a variety of intermarket trading strategies.

2. Making product line more comprehensive, supporting the development of Taiwan's offshore RMB market

TAIFEX's introduction of RMB FX futures makes a product line that already included stock-index, single-stock, interest-rate, and commodities even more comprehensive. Moreover, the launch supports the diversified development of Taiwan's offshore RMB market, which, already one of the world's most important, is still growing in both size and scope.

IV. TAIFEX RMB FX Futures Contract Specifications

(1) USD/CNT FX Futures

Item	USD/CNT FX Futures
Ticker Symbol	RTF
Contract Size	USD 20,000
Minimum Price Fluctuation	RMB 0.0001 per USD (RMB 2 per contract)
Final Settlement Price	Spot USD/CNY (TW) fixing published at 11:15 a.m. on the Last Trading Day by Taipei Foreign Exchange Market Development Foundation
Trading Hours	<ul style="list-style-type: none"> • Trading days are the same as bank business days in Taiwan • 08:45AM-4:15PM Taiwan time • 08:45AM-11:00AM on the last trading day for the delivery month contract
Delivery Months	Spot month, the next calendar month, and the next four quarterly months.
Daily Settlement Price	The daily settlement price is the volume weighted average price, which is calculated by dividing the value of trades by the volume within the last one minute of trading, or as otherwise determined by TAIFEX according to the Trading Rules.
Daily Price Limit	+/- 7% of previous day's settlement price
Price Quotation	RMB per USD
Last Trading Day	The third Wednesday of the delivery month. New contracts will be listed on the next business day.
Final Settlement Day	The same day as the last trading day
Settlement	Cash settlement

(2) USD/CNH FX Futures

Item	USD/CNH FX Futures
Ticker Symbol	RHF
Contract Size	USD 100,000
Minimum Price Fluctuation	RMB 0.0001 per USD (RMB 10 per contract)
Final Settlement Price	Spot USD/CNY (HK) fixing published at 11:15 a.m. on the Last Trading Day by Treasury Markets Association (TMA) of Hong Kong
Trading Hours	<ul style="list-style-type: none"> • Trading days are the same as bank business days in Taiwan • 08:45AM-4:15PM Taiwan time • 08:45AM-11:00AM on the last trading day for the delivery month contract
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