FX Market Liquidity Presentation and Discussion

Chordio Chan

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中國銀行(香港)
BANK OF CHINA (HONG KONG)

G10 Currencies

- For several years, the FX market has been exhibiting an upward trend in terms of turnover and number of transactions due to electronification until recently.
- In recent years, as monetary policies have created a liquidity commonality[1] within the G10 currencies, unprecedentedly violent intraday movements that reverse quickly within minutes (i.e. flash crash) were observed.
- Although the depth and volume of the market continues to be huge, the growth has stalled due to the structural changes.
- Increasing regulations continue to affect market makers willingness to provide liquidity, as reflected in the drop of US market share in daily FX turnover since 2013. (See Daily FX table below)

Daily FX table (spot+swap+derivatives) Turnover by Center (US$billion)

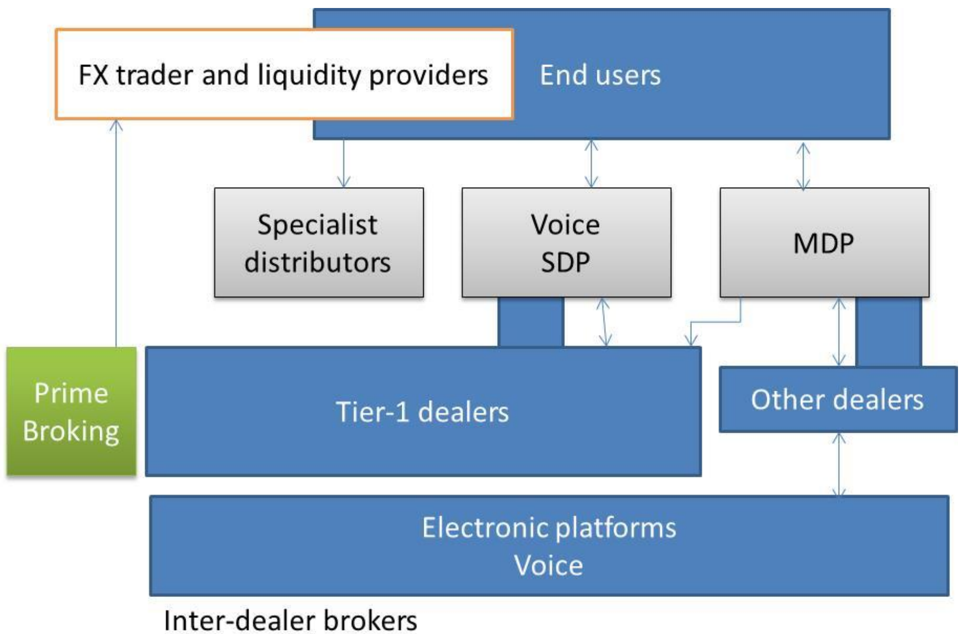
US ($bn)	Apr-10	Apr-11	Apr-12	Apr-13	Apr-14	Apr-15
Global	3,971	4,487	4,400	5,345	4,898	5,068
UK	37%	40%	40%	41%	43%	43%
US	18%	17%	17%	19%	15%	15%
Japan	6%	6%	6%	6%	6%	6%
SG	5%	6%	6%	5%	6%	6%
HK	5%	5%	5%	4%	5%	5%

Source: TheCityUK estimates based on BIS, FXJSC, FXC, SFEMC, CFEC, TFEMC, AFXC data

[1] Commonality means the FX liquidity is driven by shocks that affect the entire FX market rather than individual FX rates.

Global FX Structural Changes

- Global FX landscape has become more fragmented and sophisticated as more platforms and non-bank financial institutions are offering liquidity to the FX market.
- An increasing number of middle-size banks are acting as credit intermediaries for smaller counterparties, and are gaining market share due to clientele and geographical specialization.



SDP: Single-dealer Platform
MDP: Multi-dealers Platform

EM Currencies

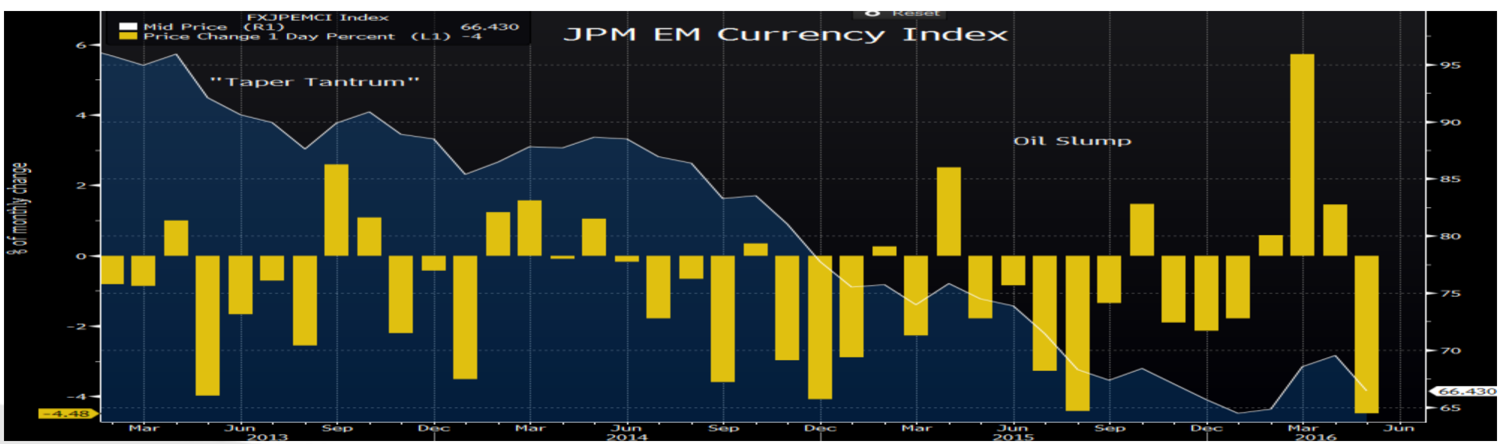
- While the G10 currencies are still under heavy demand, the growth engine is fuelled by EM currencies.

- It’s important to note that the improvement in liquidity of the EM currencies is subject to sudden reversal.

- There was the Taper Tantrum in 2013, followed by the tightening of financial condition due to the stronger Dollar and oil slump earlier this year.

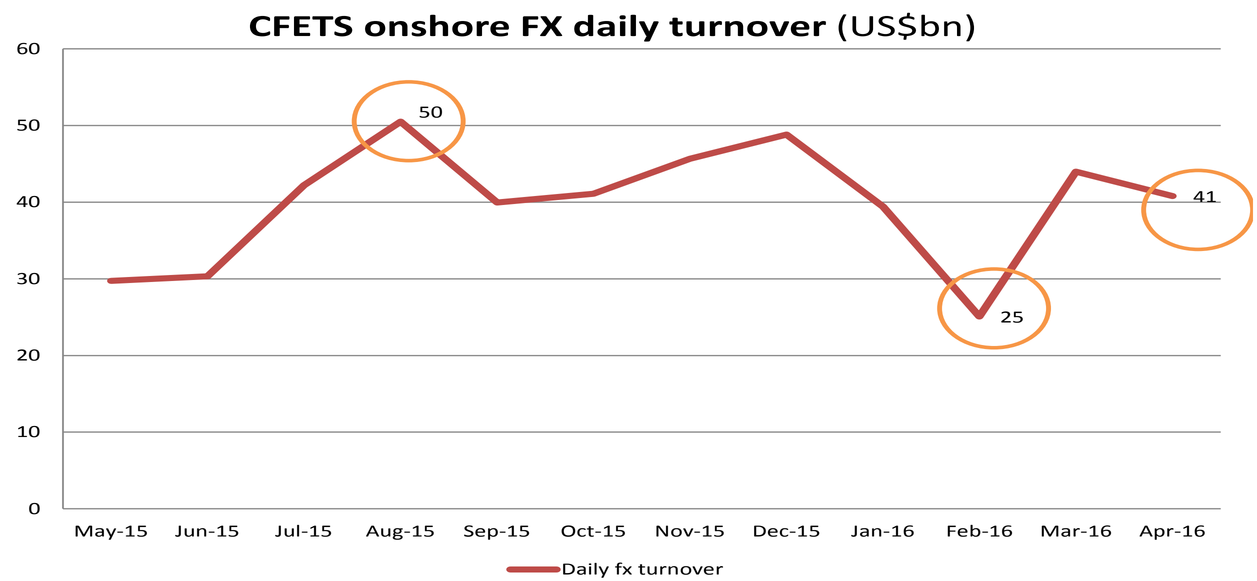
- Hence, though we see increasing growth and turnover with the EM currencies, liquidity remains treacherous.

Taper Tantrum Jun 2013 and EM rout Jan 2016



CNY

- In the meantime, being part of the EM currencies, RMB has been playing a bigger role in the FX market, with notable impact.
- According to CFETS historical data, the onshore CNY daily trading volume rocketed from May 2015 ($30 billion) to the peak level of $50billion in Aug 2015, a day after the FX regime shift.
- Afterwards, the CNY trading volume declined by 20% to $40billion in early May 2016, which is still slightly higher than a year ago.



Source: China Foreign Exchange Trade System (CFETS)

CEFTS Extended CNY Trading Hours for Foreign Investors

- On the other hand, more measures have been carried out for foreign investors. Onshore CNY trading hours have been extended by 7 hours to allow foreign Central Banks and qualified foreign investors in other time zones, like NY and London, to trade in the CNY market.

- Closing extended from 4:30pm to 11:30pm (Beijing Time) since 4 Jan 2016.

- Furthermore, a document was released in April this year to scrap the investment quota for the offshore central banks to participate in the onshore CNY market either through the PBOC, commercial banks as agents, or directly invest in the market.

"No Quota for Offshore Central Banks and Relevant Institutions to Enter China's Interbank Markets" On April 14, 2016 the People's Bank of China (PBOC) released two documents on operating procedures for offshore central banks and relevant institutions to invest in China's interbank bond market and FX market, respectively. Key points are as follow: 1. offshore central banks and relevant institutions would not be subject to investment quota… etc"

CNH

- For the offshore CNH market, dealers from intermediaries have estimated a drop of 30-50% in trading volume for CNH spot and Deliverable Forward (DF) markets from Q3 2015 to present.

Daily FX (spot+swap+derivatives) Turnover of CNY/CNH (USD $billion) dealer's estimation

USD ($bn)	Apr-10	Apr-11	Apr-12	Apr-13	Apr-14	Apr-15	Apr-16
CNH+CNY	36	n/a	n/a	110	120	130	90 (-30%)
CNH HK	5	n/a	n/a	50	50	50	25 (-50%)
CNH Ldn	n/a	n/a	n/a	20	20	25	15 (-40%)
CNH Rest	11	n/a	n/a	20	20	25	10 (-60%)
CNY CN	20	n/a	n/a	20	30	30	40 (+33%)

Source: TheCityUK , CFETS, RTGS est, IMF SDR inclusion report