



上海国际能源交易中心

SHANGHAI INTERNATIONAL ENERGY EXCHANGE

上海期货交易所成员单位 AN SHFE COMPANY

# Decode China Crude Oil Futures Market

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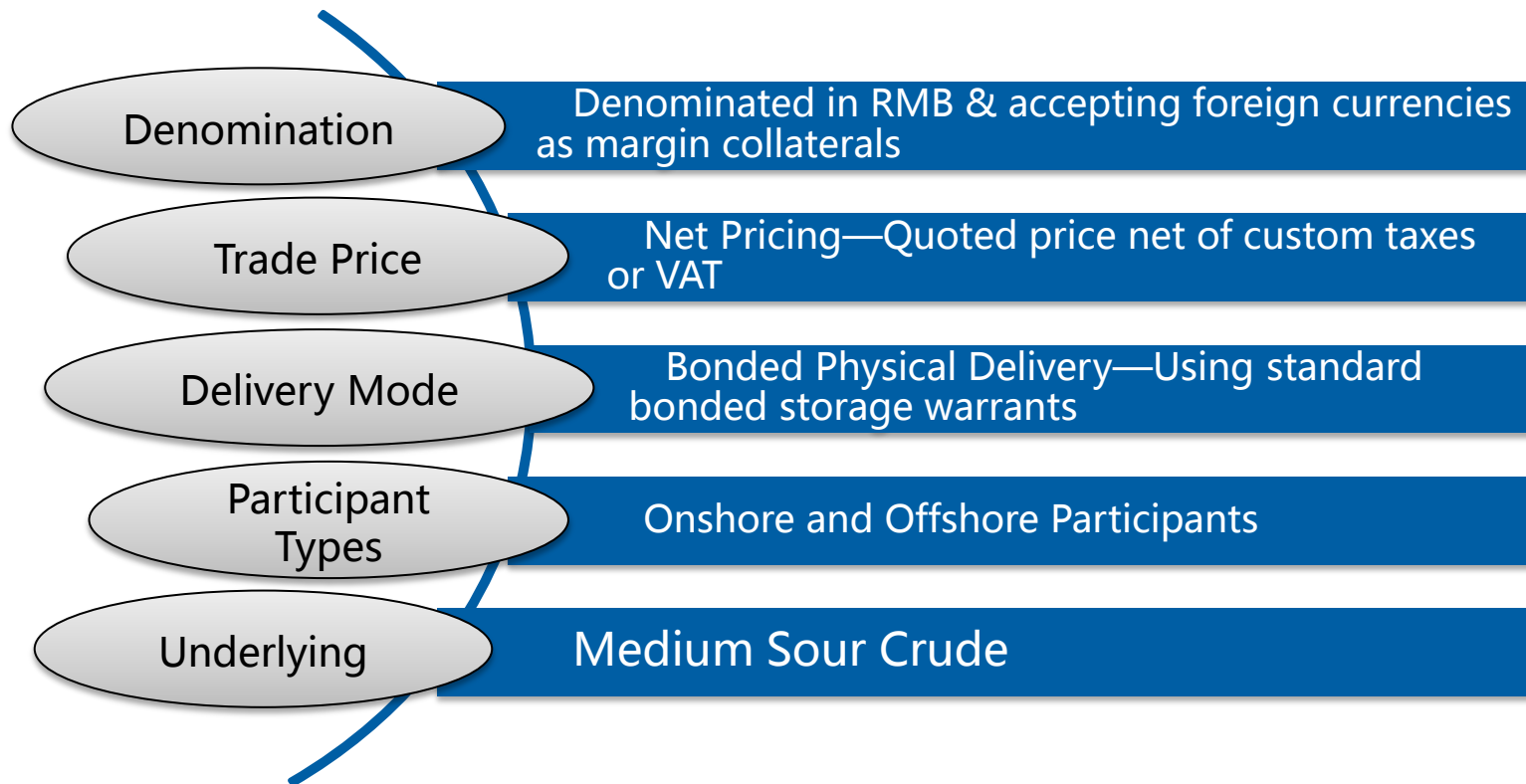
# Outline

1. Design of China Crude Futures Contract
2. Decode the Crude Oil Futures
3. Progress on The Contract Launch and Contract Highlights

# 1. DESIGN OF CHINA CRUDE FUTURES CONTRACT

## Overall Design

Globalized Platform, RMB Denomination, Net Pricing, Bonded Delivery



# Supporting Policies

All in place and effective since August 2015

Date	Policy	Circular No#
8-APR-2015	MOF & SAT' s Circular on "Policy of VAT for Crude Oil & Iron Ore Futures Bonded Delivery Business"	Caishui [2015] No. 35
26-JUN-2015	CSRC' s Interim Measures for the "Administration of Overseas Traders' and Overseas Broker' s Trading of Specified China Futures Contracts" , in which INE crude is defined as one of the Specified Contracts	CSRC Order #116
20-JUL-2015	PBOC' s Circular on the "Administration of Cross-border Settlement for Onshore Crude Futures Trading"	PBOC Circular [2015] No.19
31-JUL-2015	SAFE' s Circular on the "Notice on the Administration of Foreign Exchange for Overseas Traders' and Overseas Broker' s Trading of Specified China Futures Contracts	Huifa [2015] No. 35
20-Aug-2015	GACC' s Circular on "Customs Administration for Bonded Delivery of China Crude Futures Contract"	GACC Circular[2015] No. 40

# INE Exchange Rules

Officially Published on 11-May-2017

## Articles of Association

### General Rules

Trading Rules

Member Management Rules

Clearing Rules

OSP Management Rules

Delivery Rules

Information Management Rules

Risk Management Rules

Trader Eligibility Management Rules

Enforcement Rules

Depository Banks Management Rules

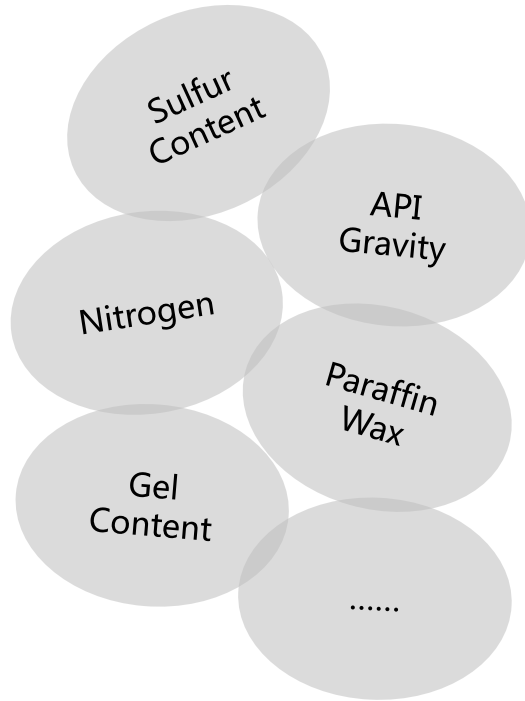
**INE Crude Futures**

# Crude Oil Futures Contract

Underlying	Medium Sour Crude Oil
Contract Unit	1,000 Barrels/lot
Price Quotation	Yuan (RMB) per barrel (Net quotation price)
Tick Size	0.1 Yuan (RMB) per barrel
Daily Price Limit	4% above or below the previous day's settlement price for such contract month
Listed Contracts	Monthly contracts of recent twelve (12) consecutive monthly contracts starting with the month immediately following the current calendar month followed by eight (8) quarterly contracts
Trading Hours	9:00 - 11:30 a.m. and 1:30 - 3:00 p.m., Beijing Local Time; and other hours designated by INE
Last Trading Day	The last business day of the moth preceding the delivery month. INE is entitled to adjust the last trading day in accordance with China National Holidays
Delivery Period	5 consecutive business days after the last trading day
Grade and Quality Specification	Medium Sour Crude Oil, for which the benchmark quality are: the gravity 32 degree API and sulfur content 1.5% by weight. The grades of crude acceptable for delivery and the price differentials are stipulated by the Exchange
Delivery Points	Locations designated by the Exchange
Minimum Margin	5% of contract value
Settlement Type	Physical Delivery
Product Code	SC
Listing Exchange	INE

# Underlying Commodity

## Medium Sour Crude



By API		By Sulfur Content	
Classification	API	Classification	Content (%)
Light	> 34	Sweet	< 0.5
<b>Medium</b>	<b>20~34</b>	<b>Medium</b>	<b>0.5 ~ 2</b>
Heavy	10~20	<b>Sour</b>	<b>&gt; 2</b>
Extra Heavy	< 10		

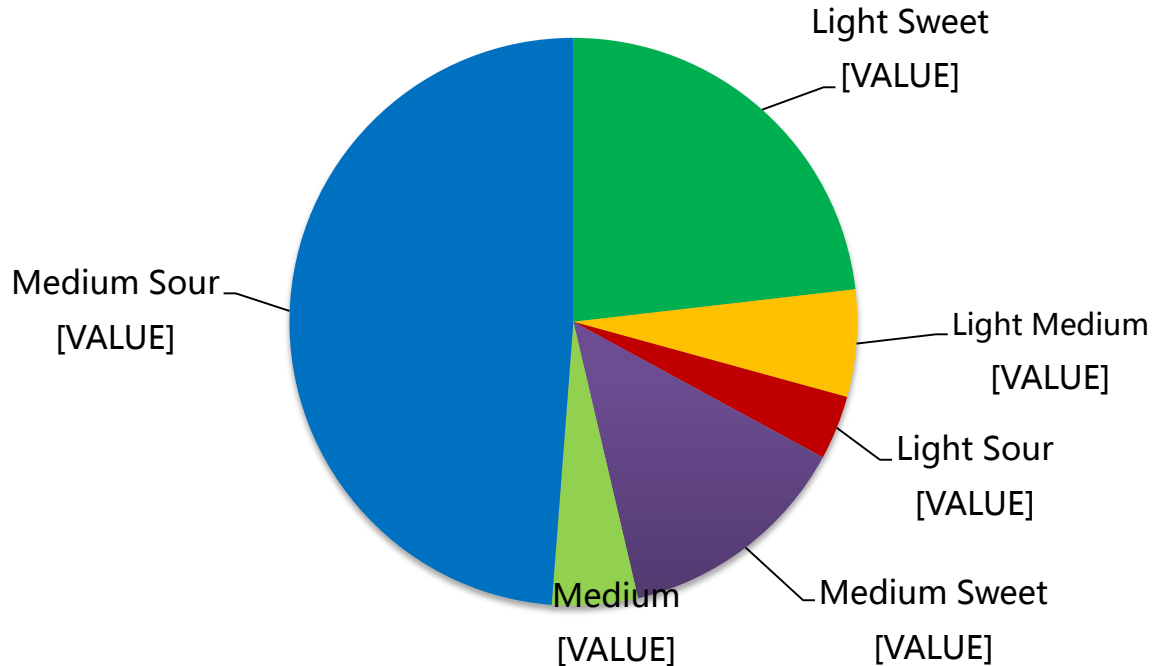
Remark : The classification of crude grades by API and sulfur content are varied by countries. Please be noted above classification may not matched with other region' s owned classification



# Underlying Commodity (Cont.)

## Medium Sour Crude

### 2015 Oil Production Classification by quality Characteristics

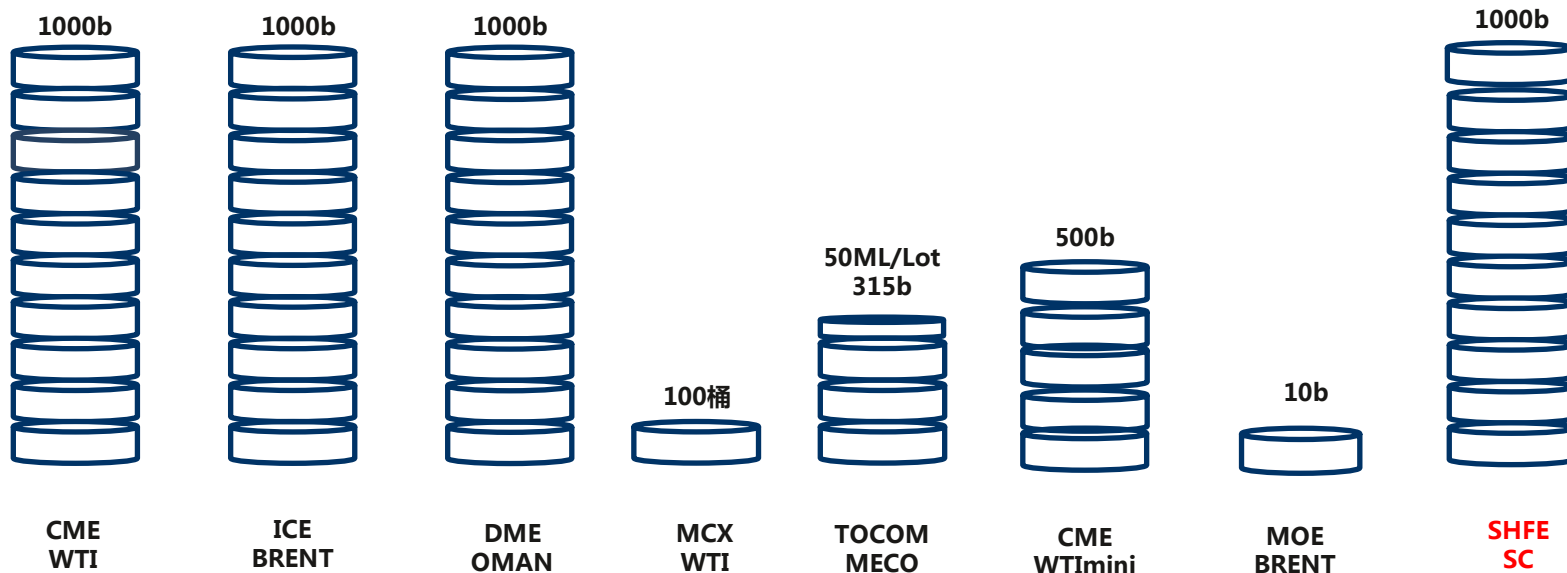


Source: ENI «World Oil and Gas Review 2016»

# Global Crude Futures Contract Overview

## Contract Size

- Trading Unit of SC is 1000 barrels/lot. Assuming margin requirement of 5% , the contract is traded at \$50 and the RMB exchange rate against USD is 6.9, a contract value 1000 barrels/lot \* \$50\*6.9 = **¥345,000**(≈\$50,000)
- The initial margin per contract will be **¥17,250**(≈ \$2, 500)



## Global Crude Futures Contracts Overview (Cont.)

### Tick Size

Exchange	Contract Name	Tick Size
CME	WTI	0.01 USD per barrel
ICE	BRENT	0.01 USD per barrel
DME	OMAN	0.01 USD per barrel
<b>SHFE</b>	<b>SC</b>	<b>0.1 RMB per barrel</b>
SHFE	Bitumen	2 RMB per metric ton
	Fuel Oil	1 RMB per metric ton

# Global Crude Futures Contracts Overview (Cont.)

## Price Limits

Contract	Price Limits/Circuit Breaks
CME WTI	At the commencement of each trading day, there shall be price fluctuation limits in effect for each contract month of this futures contract of \$10.00 per barrel above or below the previous day's settlement price for such contract month. If a market for any of the first three (3) contract months is bid or offered at the upper or lower price fluctuation limit, as applicable, on Globex it will be considered a Triggering Event which will halt trading for a five (5) minute period in all contract months of the CL futures contract. If However, at the end of the 5 min monitoring period, the lead contract is bid/offered at the applicable price limit, the special price fluctuation shall be expanded an additional increments.
ICE BRENT	N/A
DME OMAN	N/A
<b>SHFE SC</b>	<b>±4% above or below the previous day's settlement price</b>

4% is a minimum price limit set by the Exchange and it will only be applied under normal market condition and to those contracts that are not front-line. The Exchange will set higher price limits for front-line contract and for abnormal market conditions.

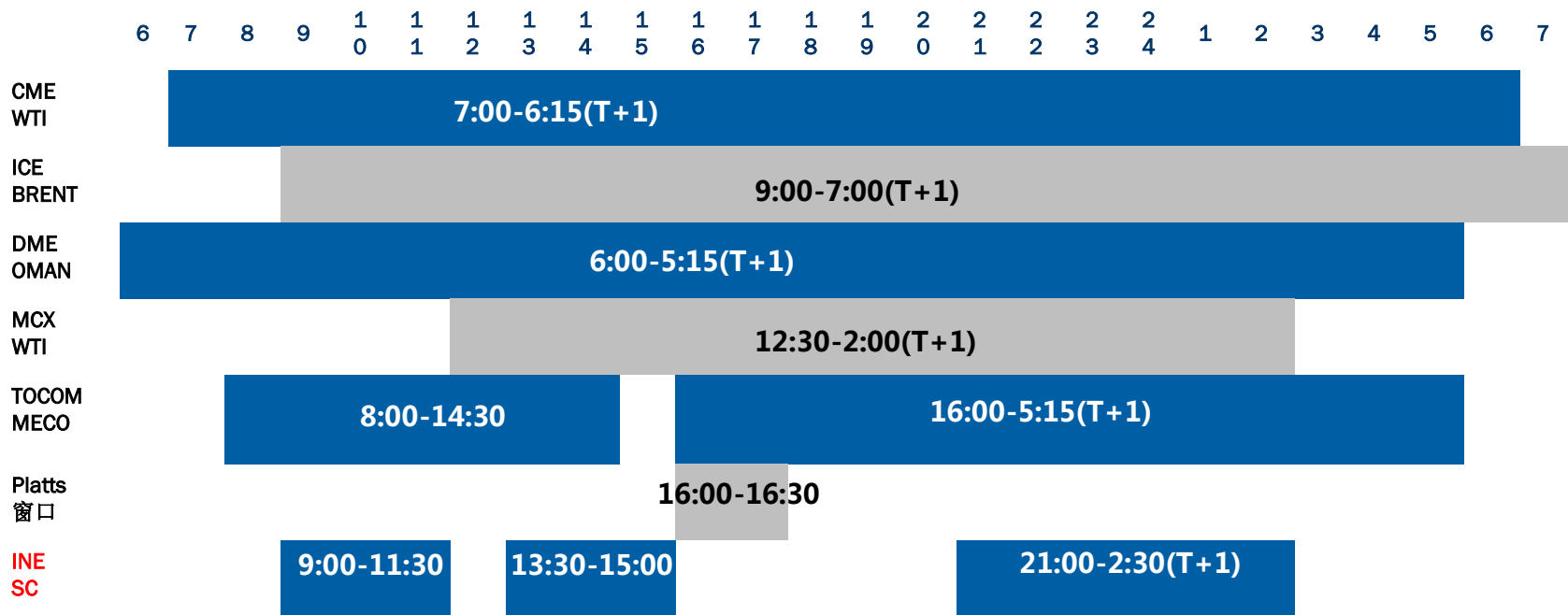
# Global Crude Futures Contracts Overview (Cont.)

## Contract Months

Contract Name	Listed Contracts
CME WTI	consecutive months are listed for the current year and the next five years; in addition, the June and December contract months are listed beyond the sixth year up to ninth year
ICE BRENT	Up to 96 consecutive months
DME OMAN	The current year and the next five years will be listed. A new calendar year will be added following the termination of trading in the December contract of the current year
<b>SHFE SC</b>	<b>A maximum of 12 consecutive months will be listed. In addition, 8 quarterly contracts will be listed beyond further contract months.</b>

# Global Crude Futures Contracts Overview (Cont.)

## Trading Hours



Note:

1. Above time table is based on Beijing local time
2. CDT refers Central Daylight Time. The time difference is reduced by one hour when CDT is in effect

# Global Crude Futures Contracts Overview (Cont.)

## Last Trading Day

Contract	Last Trading Day
CME WTI	Trading in the current delivery month shall cease on the third business day prior to the twenty-fifth calendar day of the month preceding the delivery month. If the twenty-fifth calendar day of the month is a non-business day, trading shall cease on the third business day prior to the last business day preceding the twenty-fifth calendar day. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Crude Oil futures, the originally listed expiration date shall remain in effect. In the event that the originally listed expiration day is declared a holiday, expiration will move to the business day immediately prior.
ICE Brent	Trading shall cease at the end of the designated settlement period on the last Business Day of the second month preceding the relevant contract month (e.g. the March contract month will expire on the last Business Day of January).
DME OMEN	Trading shall cease at the end of the designated settlement period on the last Business Day of the second month preceding the relevant contract month
<b>INE SC</b>	<b>The last business day of the month preceding the delivery month. INE is entitled to adjust the last trading day in accordance with China National Holidays</b>

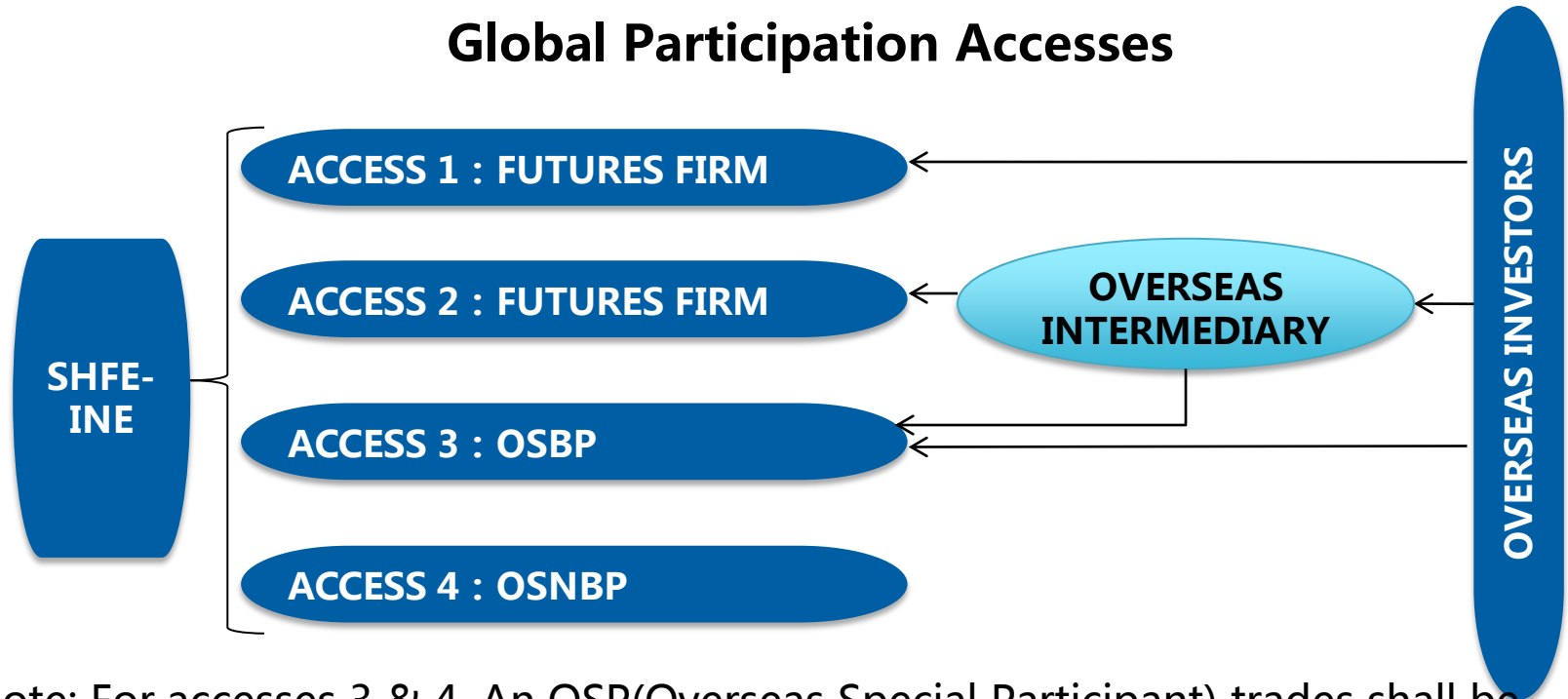
## 2. DECODE THE CRUDE OIL FUTURES



# Unique China Crude Contract Design #1

## Overseas Participation Accesses

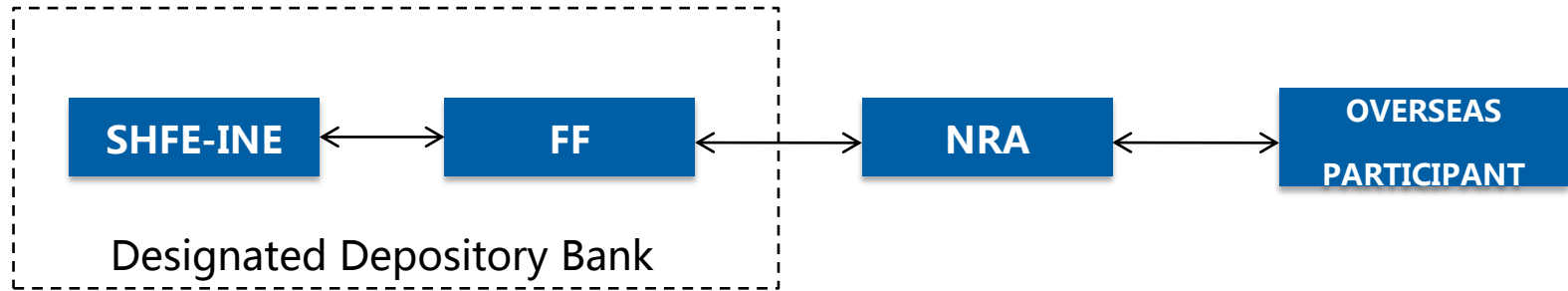
### Global Participation Accesses



Note: For accesses 3 & 4, An OSP(Overseas Special Participant) trades shall be cleared by a Futures Firm

## Unique China Crude Contract Design #2

Overseas Participants may use USD or CNH to serve as margin



1. Overseas investors may use USD or offshore RMB (CNH) to serve as margin
2. RMB is the only acceptable denomination currency in making up losses for the trade
3. RMB/USD convertibility is allowed only for profit / loss purposes in the crude futures trade
4. Under the NRA bank account for crude futures trading, no cap on the fund transfer between onshore and offshore. However, position limit rule is applied.
3. Close loop cash transfer under the NRA account for crude futures trading is applied, i.e. Cash in such NRA account can only be used for crude futures trading and transferred to offshore bank accounts under same account holder' s name.
4. Exchange of currency can be executed for the purpose of crude futures trading only .

## Unique China Crude Contract Design #3

**Bonded delivery: Seller in the futures market does not need to have the Crude Import Qualification and Quota approved by the Ministry of Commerce**

- Bonded goods for futures delivery refers to goods stored in a specified location or bonded area that are supervised by the Customs District.
- In practice, crude futures delivery requires seller to deliver eligible bonded oil warrants, and buyer to deliver the fund for the settlement to the Exchange to complete delivery obligation
- Different sets of rules and requirements are applied to bonded crude oil delivery, Import of crude oil and domestic crude trading separately
- After taking a bonded delivery, if a trader desires to import the crude into China, they need to meet the importing requirements set in relative rules.

# Unique China Crude Contract Design #4

## Sophisticated Risk Management System



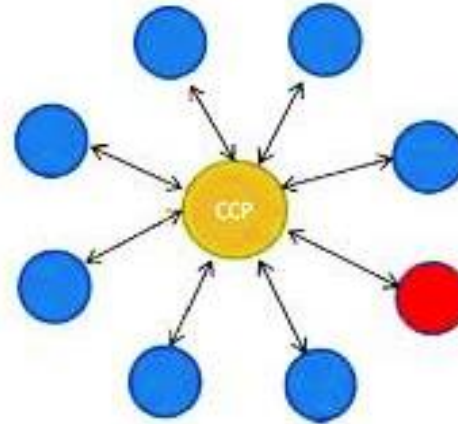
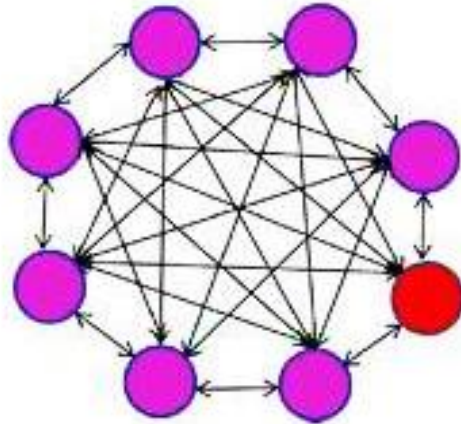
Ruling on Ownership &  
Control Accounts

Disruptive Order/Trade  
Monitor System

# Unique China Crude Contract Design #5

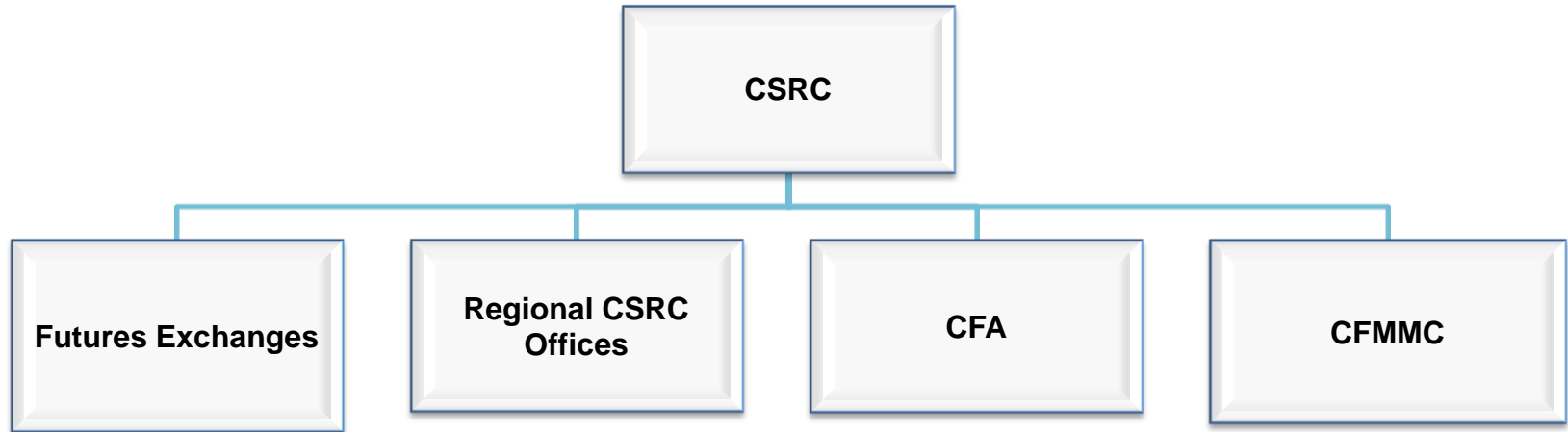
INE acts as Central Counterparty (CCP) effectively eases the bilateral counterparty risk

INE acts as the buyer to the seller and vice versa in each futures trade



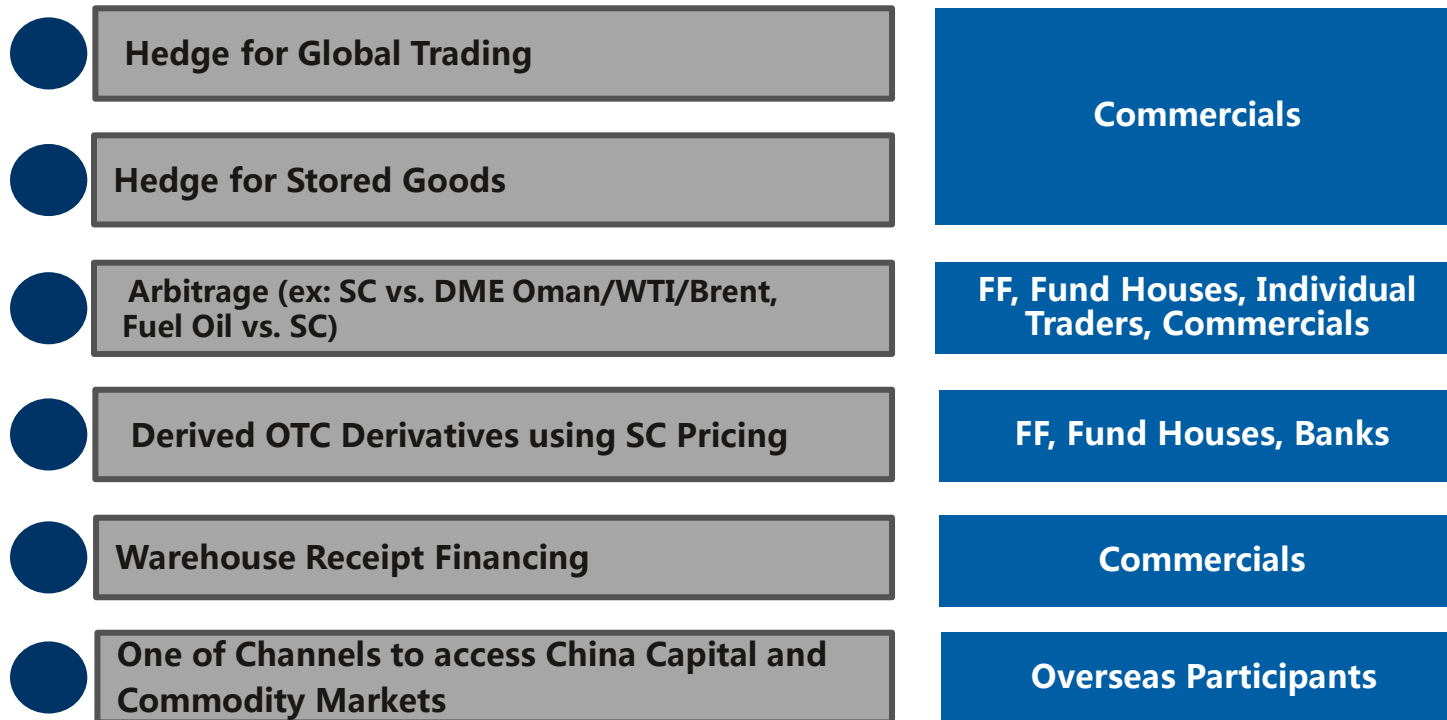
# Unique China Crude Contract Design #6

5-in-1 Regulatory Power to Insure Investor's Fund Segregation and Security



# Unique China Crude Contract Design #7

## Diversified Participant Types & Various Business Opportunities



### 3. PROGRESS ON THE CONTRACT LAUNCH AND HIGHLIGHTS



# Progress Updates

## Involvement of Relevant Parties & Progress for the Contract Launch

- Oil Companies, Trading Houses, Investment Banks, Futures Brokers, Fund Houses, Commercial Banks, Depository Banks, Bonded Delivery Warehouses, and Quality Inspection Institutions.
- Trading, Clearing and Delivery System Infrastructure; as well as supporting transaction systems of FF Members, CFMMC and Depository Banks had been built up or upgraded. Overseas ISVs are preparing for directly or indirectly connecting into INE actively.
- SHFE-INE is taking in and reviewing all kinds of qualification applications and getting ready for the launch
- SHFE-INE will announce a launch plan after the completion of production environment test

## Progress Updates (Cont.)

### Progress on Overseas Registration

SHFE-INE plan on overseas registration:

- Automated Trading System in Hong Kong
- Registered Market Operator in Singapore
- Long-term project to register in Europe and USA

# Finalized Exchange Rules

## Major Changes of Exchange Rules from the version of public consultation

- In terms of contract size, INE SC contract size of 1,000 barrels matches with global standard of other major crude futures contracts' spec.
- For trader' s eligibility, retail/institutional clients need to meet the requirement of asset value on bank' s account balance of no less than 500,000/1,000,000 RMB or equivalent value in other currencies for account opening. Meanwhile, the account applicant also needs to be examined for their trading experience & risk sustainability in futures trading.
- For the enforcement rules on delivery default, Roll-over compensation mechanism is replaced with a default fee penalty mechanism.

# Highlights

## How to adapt into the global market?

- On Risk Management, pre-margining, Individual Trader ID issuance and account management, position limits, large trader position reporting or other risk management practices that had been proved to be more effective risk measures by global market are in place and well observed.
- For global participation in crude futures, Trader' s eligibility & KYC process, account opening using true identity, Ownership & Control Relationship Reporting, enhanced customer' s fund segregation management and close-circuit fund transfer practice rules are applied.
- Building up all kinds of cross-border market surveillance mechanism, as well as exploring any other possible cross-border market surveillance and joint investigation mechanisms



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THANKS