Discussion: The Offshore/Onshore RMB EXR

By Grace W. Gu
UCSC
Paper Summary

• Test water! China wants RMB to be used in international trade and financial transactions, but without fully opening up capital account

• Offshore RMB markets: Hong Kong, Singapore, Taiwan, and London, with liquidity backup from PBoC

• This paper studies offshore RMB EXR in Hong Kong, and its relation with onshore RMB EXR
Intuitive Results & Methods

- Offshore market order flow: buying offshore RMB → appreciation (ECM)

- Official EXR → both offshore and onshore EXRs (VECM):
  - RMB appreciation expectation → RMB demands

- Offshore EXR: adjust more to long-term value (VECM):
  - Instead of Multivariate GARCH, to capture long-term relations

- Earlier: Onshore EXR → offshore EXR (VECM)
- 2012-2013: Offshore EXR → onshore EXR (VECM)
Possible Channels:

**Earlier years**: Onshore EXR → Offshore EXR: offshore investors care more about RMB appreciation perspective, i.e., domestic policy, Chinese economy.
- Onshore EXR has policy signals: policy → RMB appreciation → offshore RMB demand → offshore EXR
- Onshore EXR has more info: Larger market size and liquidity, whereas only 359 “Mainland Designated Enterprises” can participate offshore

**Latest years**: Offshore EXR → Onshore EXR: onshore investors care about global investors and conditions.
- Offshore EXR has info about:
  - How global investors perceive Chinese economy: slowing down, or less room to appreciate → overall demand of RMB
  - Global market conditions: e.g., European debt crisis → generalized risk aversion and deleverage → overall demand of RMB
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Special Time Periods