

Comments on
‘Is RMB Increasingly Important? A Network Approach’
By Yiming Wang and Yinggang Zhou

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Synopsis

Assess the RMB's influences on other currencies

RMB – CNY, CNH, Central Parity (CP)

Seven DM currencies; eight Asian currencies

Generalized Forecast Error Variance Decomposition

Diebold and Yilmaz, 2014; Pesaran and Shin, 1998

Influence – % of GFEVD explained

Total and Net effects on other currencies

August 23, 2010 to September 15, 2015

Recursive VAR (GFEVD)

Initial sample – two months of “daily” data (FN #7)

Effects of RMB on others: CNH > CNY > CP

Influences increase over time; spike – Aug. 11, 2015

Comments and Suggestions

Precision

Two-day rolling averages

Spurious VAR coefficient estimates

Complex links between these estimates and GFEVD.

What are the implications for GFEVD?

Are all data recorded at the same time of the day?

parameters – $648 + 18 + 171 = 837$

Significance of VAR coefficient estimates?

Standard errors of GFEVD estimates?

Recursive VAR (GFEVD) – varying smpl sizes

Estimates with different degrees of freedoms

On the RHS of (1), is it ΔR_{t-1}^c or R_{t-1}^c ?

Important or Not

Effects/spillovers mainly felt among CNH, CNY, and CP

For example, Table 3:

CNY from: 0.615 (CNH, CP: 0.341, 55.4%)

CP from: 0.684 (CNY, CNH: 0.262, 38.3%)

CNH from: 0.619 (CNY, CP: 0.246; 39.7%)

CNY to: 0.397 (CNH, CP: 0.311, 78.3%)

CP to: 0.276 (CNY, CNH: 0.221, 80.1%)

CNH to: 0.571 (CNY, CP: 0.371; 55.5%)

Net effects tend to be negative: influencee, or influencer?

Relative to, say, the US dollar

Issues to Consider

1. Effects of **pegged** or tightly **managed** currencies
2. Adjust for, say, the **size** of trade sector/economy
3. **Numeraire** currency
c.f. Frankel and Wei regression
4. GFEVD – second moment
Links to the FW regression – **first moment**
5. Initial conditions, crisis effects

Overall

**A very timely and interesting paper on
the growing influence of the Chinese currency**