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**DISCUSSION OF “EXCHANGE RATE REGIMES AND
MARKET INTEGRATION: EVIDENCE FROM THE
DYNAMIC RELATIONS BETWEEN RMB ONSHORE AND
OFFSHORE MARKETS”**

BY ZHIXING ZENG

Matthew S. Yiu

(Hong Kong Institute for Monetary Research)

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Main Points of the Paper



- ◆ This is a paper on a timely and relevant topic, which has also been studied by a quite number of researchers in the academic and policy circles.
- ◆ The study uses changes of two exchange-adjusted returns to investigate the dynamics and integration between RMB onshore and offshore markets.
- ◆ Use GARCH model and dynamic conditional correlation in the study
- ◆ Use a long sample period to study the relationship between onshore and offshore markets under four exchange rate regimes



Take Away of the Paper



- ◆ Say to be different from other studies because the others look at shorter periods, typically under one or two exchange rate regimes.

- ◆ Main empirical results show that
 - There are visual DCC differentials in the changes of exchange regimes.
 - The DCC differentials between different regimes are statistical significant, based on t-test and Kruskal Wallis test.
 - Based on an incorporated GARCH model, spillover effects in different directions are found between two markets under the four regimes.



Discussion (1)



- ◆ The approach of using exchange rate-adjusted returns is different from the more commonly used approach, i.e. the yield differential between RMB onshore and offshore markets.
- ◆ Given the covered interest rate parity, the following equation is valid:

$$F_t = S_t \times (1 + i^{rmb}) / (1 + i^{usd})$$

- ◆ If the covered interest rate parity does not hold, what is the exact meaning of these two returns?

$$F_t \times (1 + i^{usd})$$

$$S_t \times (1 + i^{usd})$$



Discussion (2)



- ◆ Some technical issues in the data: such as the synchronization of the daily closing prices of St, Ft, Chibor and Libor.
- ◆ For the GARCH model: onshore RMB exchange rate has central parity and width band whereas offshore NDF has no such constraints. Will this affect the model and the estimation?



Discussion (3)



- ◆ The end date of the data sample is Dec 30 2012. Why do not have more recent NDF data? Will the empirical results in the extended period change?
- ◆ No reference to similar studies on the late post-reform period for market integration (e.g. Leung and Fu, 2014 HKIMR WP, and their results for the more recent period, 2011-2013, has a different conclusion on the direction of the spillover)



Thank You