Information flow between forward and spot market: Evidence from the Chinese RMB

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Interesting findings:

- *All spot and forward rates have significant responses to the deviates from their long-run relationships while the spot rate and the one-month forward rate apparently have stronger responses*

- *At the contemporaneous horizon, variance of spot rate is explained mostly by its own shocks, while at the long horizon, the four forward rates have similar effects on the spot rate.*

- *Offshore forward rates with either shorter or longer maturities can substantially explain the in-sample variation of the onshore spot exchange rate at longer horizons, while only the offshore forward rate with a shorter maturity can significantly predict RMB onshore spot rate changes out-of-sample*

Interesting findings:

- *NDF is a biased predictor of onshore RMB sport rate. But it is less biased than most other developed countries.*

- *This paper finds 3 structural breaks during the sample period.*

Questions:

- *"the finding here is generally consistent with Frankel and Poonawala (2010) in that the RMB forward market is still biased, but similar to most emerging currency markets, it appears to be less biased than those in most developed countries"*

  (Offshore) RMB forward rate and (onshore) spot rate in this paper are determined in segmented markets, China Mainland VS Hong Kong, and by different regimes. Is this a significant reason why the future unbiasedness does not hold?

  - Managed floating VS market-determining
  - Capital control and restrictions on arbitrage
  - Central bank's intervention
  - Different investor sentiment
  - Different liquidity conditions
  - React differently to China's and global economic changes

Questions:

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(Offshore) RMB forward rate and (onshore) spot rate in this paper are determined in segmented markets, China Mainland and Hong Kong. Is this a significant reason why the future unbiasedness does not hold?

- However, the two markets are being integrated.
- RMB FX reforms
- China's capital account liberalization
- RMB internationalization
- PBOC intervention in CNH recently

Questions:

- *"the finding here is generally consistent with Frankel and Poonawala (2010) in that the RMB forward market is still biased, but similar to most emerging currency markets, it appears to be less biased than those in most developed countries"*

Why forward markets in developed countries are more biased than those in developing countries? Is RMB forward market less biased than other developing countries?

- Mature market systems
- Sophisticated investors
- Sufficient liquidity

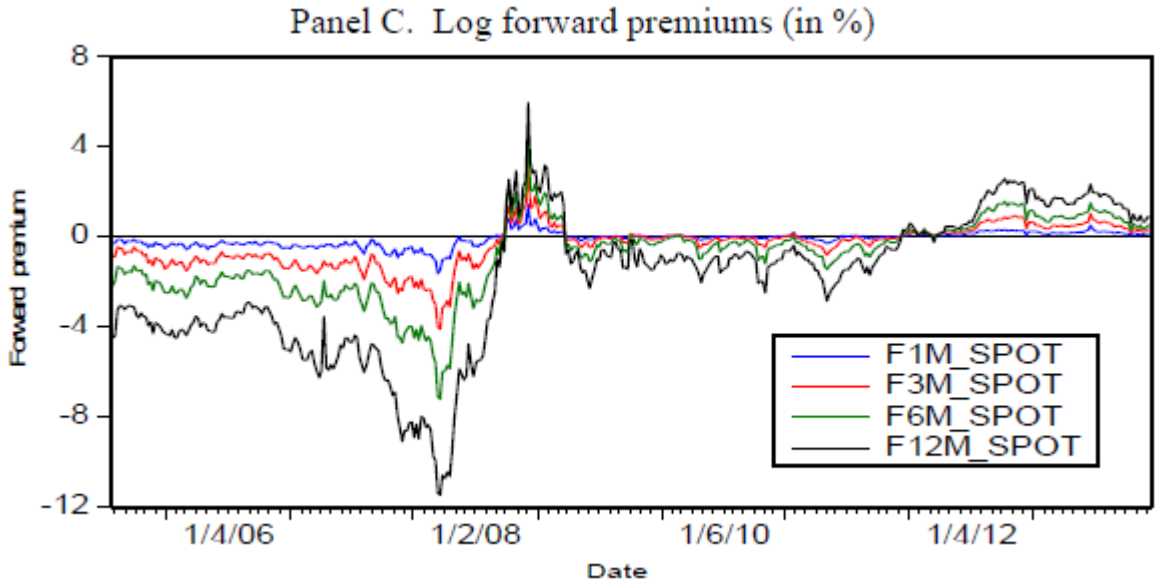
Questions:

- *"the first break is on February 20, 2008, when the exchange rate became significantly more volatile (panel B, Figure 1). The second and the third breaks are dated on July 23, 2008 and December 24, 2008, respectively."*

Why there are so many (up to 3) structural breaks in 2008? What drives these breaks? Just global financial crisis?

Questions:

- *"the first break is on February 20, 2008, when the exchange rate became significantly more volatile (panel B, Figure 1). The second and the third breaks are dated on July 23, 2008 and December 24, 2008, respectively."*



- **Log forward premiums hit the positive territory in Dec 2011 just as they did in in Oct 2008. Is this a structural break? Why not?**

Questions:

What are factors behind these structural breaks? Can these breaks characterize China's RMB FX reforms?

- In 2005, RMB moved into a managed floating regime against a basket of currencies
- Reintroduction of a defacto peg to the US dollar during the height of the financial crisis from 2008 until mid-2010.
- In June 2010, China "proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility."
- The RMB FX fixing reform on 11 August, 2015 caused RMB to devalue by more than 3% against USD within three days.
- In Dec, 2015, PBOC signaled easing RMB's loose peg to the U.S. dollar and instead letting it track the currencies of its broader trading partners.

Thanks!