

The effect of the 2015 renminbi reform on the relationship between onshore and offshore exchange markets

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Abstract

Under the background that the Chinese renminbi has depreciated since 2014, the Chinese monetary authorities announced a reform of the quotation mechanism of the policy fixing rate and enhanced the capital outflows to defend renminbi. The policy changes have deeply affected both the onshore and the offshore renminbi markets. In this paper, this policy effect is evaluated by comparing the relationship between onshore and offshore markets from two perspectives: the time-varying correlations using a DCCGARCH framework, and the adjustment mechanism of the pricing differential using a SETAR model. The main findings are as follows. First, the conditional correlations became averagely lower and more volatile, showing the market segmentation after the reform. Moreover, the pricing differential became larger and more consistent, and the arbitrage between the two markets may become more difficult.

Keywords: renminbi, offshore CNH exchange rates, DCC-GARCH, SETAR