

# A Comment on Predicting RMB Exchange Rate Out-of-sample: Can Offshore Markets Beat Random Walk?

By Sichong CHEN

RIETI-IWEP-CESSA Joint-Workshop @ RIETI  
RMB Internationalization

Yuki Masujima (Discussant)  
Bloomberg Intelligence  
December 14, 2015

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# CONTRIBUTION OF THIS PAPER

## □ Focus a CNY-CNH spread

This paper Shows

- CNY-CNH spreads could beat Random Walk for CNY & CNH prediction
- Information included in CNY-CNH spreads

## □ Consideration of a recent event, Aug 2015 devaluation

- Assess the impact of unexpected events, the PBOC announcement on improving quotation of central parity of RMB, on the predictability of a CNY-CNH spread

## MAJOR POINTS

- What does a CNY-CNH spread capture?
  - > Is information captured by the spread the same through the sample period?
  
- The day of week effect may exist in RMB

# WHAT DOES A CNY-CNH SPREAD CAPTURE?

- Raising its currency's daily trading limit, from 0.5% in 2007 and 1% in 2012 to the latest 2% in 2014 or other de-regulation may reduce information included in a CNY-CNH spread
- Are CNY's NDFs always worse predictors than CNH?
- Can daily gaps predict CNY & CNH movement in longer time horizon?



# THE DAY OF WEEK EFFECT MAY EXIST

- date for sampling data - the day of week effect china may exist
  - Is the last trading day of each week, month appropriate for in-sample forecast?
    - ✓ Mcfarland et al. (1982) Journal of Finance
    - ✓ Ke, Chiang & Liao et (2007) for Taiwan, Journal of Banking & Finance
  - Economic data release on Saturdays may create biased results (GDP, Industrial Production, retail sales etc.) for segmented investors CNY and CNH
  - Robustness check - Wednesday, average rates etc.
  - Intercepts and slopes for monthly and annually results in Table 3 may simply indicate the trends of sample periods

## OTHER POINTS AND SUGGESTED WORK

- Difference of distribution of returns between equity and exchange market
  - Goyal and Welch (2003, 2008) worked for stock returns
- Comparison with other models beyond the random walk (e.g., the comparison to models suggested by Cai et al (2012))
- Consideration of the impact of RMB's inclusion of base currencies for Special Drawing Rights managed by IMF