

# **One Currency, Two Markets: The Renminbi's Growing Influence in Asia-Pacific**

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## **Summary**

The renminbi now ranks the ninth most traded currency in the world, and the most traded in Asia. Its regional influence has been strengthened by two important developments in China's exchange rate policy in recent years – greater exchange rate flexibility and internationalisation. Increased external use of the currency has facilitated the development of the offshore FX market – the CNH market. This market, while smaller than the onshore FX market (CNY), has been growing rapidly, and is free from the central bank's intervention and the constraint of a daily trading band. The segmentation of the CNY and CNH markets means that price differentials can arise from different market conditions or the responses of different players in the two markets to the same set of fundamentals and policy announcements.

This study presents evidence of the renminbi's growing influence in the Asia-Pacific region, with highlight on how the CNH market provides an additional dimension in measuring this influence. Changes in the RMB/USD rates in both the CNY and CNH markets have a significant impact on Asian currency movements against the US dollar, even after controlling for other major currencies' influence and the transmission of China's monetary policy to the region. The CNH market is found to exert an effect on Asian currencies that is distinct from that of the CNY market.

The continuing growth of the offshore renminbi market suggests that the influence of the CNH market is rising, but how long the independent impact will last will likely depend on China's progress in liberalising its capital account. The findings also suggest that China's regional influence is increasingly transmitted through financial channels.