

Renminbi Revaluation, Euro Appreciation and Chinese Markets: What Can We Learn From Data?

Abstract

This paper takes up the following question: what can we learn about prospects of Renminbi (RMB) revaluation as well as Chinese share-market appreciation from daily financial market data? More specifically, how much does the sharp appreciation of the Euro against the US dollar explain these developments? Do interest-rate differentials matter, or should we pay more attention to Non-Deliverable Forward (NDF) premia and discounts for understanding how changes in the Euro are linked to Chinese financial markets and to the likelihood of RMB revaluation?