

An empirical analysis of Asian currency system after reform on RMB's Exchange rate regime

明治大学 勝 悦子
明治大学大学院 一木毅文

On July 21 2005, the People's Bank of China(PBC) announced a reform of RMB's Exchange rate regime from dollar pegged exchange rate system to managed exchange rate system with reference to a currency basket with undisclosed weights. This paper aims to analyze how the Asian currency system changed after reform on RMB's exchange rate regime.

According to the previous studies using an empirical analytical method of Frankel and Wei(1994), Asian currencies once were away from dollar block after the Asian crises, but since the Malaysian Ringgit returning to fixed exchange rates for dollar, they have gravitated back towards US dollar bloc(see Kawai,2002).

In this empirical analysis, we use elasticities estimated from daily exchange rates as utilized in Ho et al.(2005). We found that the Asian currencies have moved in the direction of an effective exchange rate orientation, and Asian currencies like Korean Won or Taiwan Dollar, co-move more strongly with the trend of NDF(non-deliverable forward contract) of renminbi than with that of the yen. It implies that an influence of the RMBs among the regional currencies is growing and that a market expectation and foreign capital movements play an important role in determining the exchange rates in this region.

This paper then considers Asian exchange rates sensitivity to international capital flows by relating daily changes in the region currencies to the daily changes of each country's stock prices. In addition to the market factor, it considers the fundamentals factor, which influences the movement of the exchange rates. Analyzing the determinants of such trend, we make a policy implication for the optimal currency system in this region.

Key words: currency system, inflation targeting, international capital flows, market volatility