CNY: Market Structure & Valuations

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Stewart Newnham, CFA
Asian Currency Strategist
Morgan Stanley Asia Limited
(852) 2848-5320
stewart.newnham@morganstanley.com

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Presentation Outline

1. Market Structure – Growth, Regulation & CNH

2. CNY Valuations – Is the RMB Cheap?
1. Market Structure – Growth, Regulation & CNH
Time Line of Regulatory Changes in the CNY Market

Regulatory Changes versus CNY TWI

- Interbank FX market announced by the State Council
- CFETS began operation
- HKD/RMB trading added
- JPY/RMB trading added
- Euro/RMB trading added
- FX deposit broking service for financial institutions launched
- FX pairs trading introduced
- RMB moving into the managed floating exchange rate regime
- FX forward trading introduced
- Market makers and OTC transactions introduced. CFETS authorized to announce RMB Fixings daily
- FX swap trading introduced
- Floating band of CNY/USD increased from 0.3 per cent to 0.5 per cent
- USD/SGD added to FX pairs trading
- MYR/RMB trading added
- USD/CNH begins trading in Hong Kong

Source: CFETS, Morgan Stanley

Morgan Stanley
The Rise of the CNY FX Markets

Daily Volume in CNY FX Markets

Notes:
(#) Onshore and offshore FX Swaps and Forwards data from He and McCauley (2010), BIS Working Papers No. 320
(+) Pre-2007 onshore Spot data from CFETS. 2007 data from BIS
(*) Pre-2007 total RMB data from CFETS, BIS and MS Estimates. Apr-2007 data from BIS. Apr-2010 data are MS Estimates.

Source: CFETS, BIS, Morgan Stanley
The Rise of the CNY Fixed Income Markets

Daily Volume in CNY Fixed Income Markets

Notes:
(#) Includes IRS, FRA and IR options. Apr-2010 data from He and McCauley (2010), BIS Working Papers No. 320
(*) Asian Development Bank and MS Estimates
(+) Includes repo, credit lending and outright repo (2004-) CFETS and MS Estimates

Source: CFETS, BIS, Morgan Stanley
CNH – An Offshore (HK), Deliverable RMB

Source: Morgan Stanley
CNH – A Step Towards Internalization of the CNY

CNH in the Road Map for the Internalization of the CNY

Source: HKEX, Morgan Stanley
CNY versus CNH

USD/CNY versus USD/CNH

USD/CNY – USD/CNH Spread

Source: Bloomberg, Morgan Stanley

Source: Morgan Stanley
Implied Yield on CNY, NDF and CNH

12M Implied Yield Of USD/CNY, USD/CNY (NDF), USD/CNH

Source: Bloomberg, Morgan Stanley

Morgan Stanley
2. CNY Valuations – Is the RMB Cheap?
USD/CNY: Risk Neutral Probability

USD/CNY Probability Analyzer

Morgan Stanley

Breakthrough Probability

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Source: Morgan Stanley
CNY Is Not Cheap on PPP Valuations

USD/CNY PPP Valuations

Source: Haver Analytics, Morgan Stanley
CNY Is Not Cheap on More Advanced Valuation Measures (CHEER, BEER)

USD/CNY CHEER/BEER Valuations

Source: Haver Analytics, Morgan Stanley
CNY Is Out of the Fair Value Range

Range of USD/CNY Valuation Models vs. Spot

Source: Haver Analytics, Morgan Stanley
USD/CNY Deviations from Fair Value Range

USD/CNY Deviation from Valuation Models

Source: Haver Analytics, Morgan Stanley
CNY Is Not Cheap Relative to EUR

EUR/CNY PPP Valuations

Source: Haver Analytics, Morgan Stanley
EUR/CNY Relative to More Advanced Valuation Measures

EUR/CNY CHEER/BEER Valuations

Source: Haver Analytics, Morgan Stanley
EUR/CNY on Border of Fair Value Range

Range of EUR/CNY Valuation Models vs. Spot

Source: Haver Analytics, Morgan Stanley
EUR/CNY Deviations from Fair Value Range

EUR/CNY Deviation from Valuation Models

Source: Haver Analytics, Morgan Stanley
CNY at Fair Value on TWI Basis

CNY BEER-REER vs. REER

Source: Haver Analytics, Morgan Stanley
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