

**BANK FOR INTERNATIONAL SETTLEMENTS**

## Will the renminbi be a safe-haven currency?

**Robert N McCauley**  
Senior Adviser, Monetary and Economic Department

Presentation\* at the conference on "The internationalization of the renminbi and its implications for China's domestic reform and the international system"

21st Century China Program, School of International Relations and Pacific Studies, University of California, San Diego

La Jolla, 7-8 June 2012

\* Views expressed are those of the author and not necessarily the views of the BIS

1

**BANK FOR INTERNATIONAL SETTLEMENTS**

## Why is this an interesting question?

- Taylor (2011) interprets renminbi internationalisation as China supplying (as well as demanding) safe assets.
- Safe assets defined by rating, liquidity, accessibility.
- But safe haven asset as well?
  - Like the Japanese yen, another big net creditor?
  - Or not a safe haven, like the Korean won?

2

**BANK FOR INTERNATIONAL SETTLEMENTS**

## Safe haven defined

- A safe haven currency is strong when risky asset prices weak.
- Operationally, safe have currency rises when VIX rises.

3

**BANK FOR INTERNATIONAL SETTLEMENTS**

## Two approaches to question

- Look at behaviour of renminbi in stress periods.
- Look at (expected) interest rate of renminbi.

4

**BANK FOR INTERNATIONAL SETTLEMENTS**

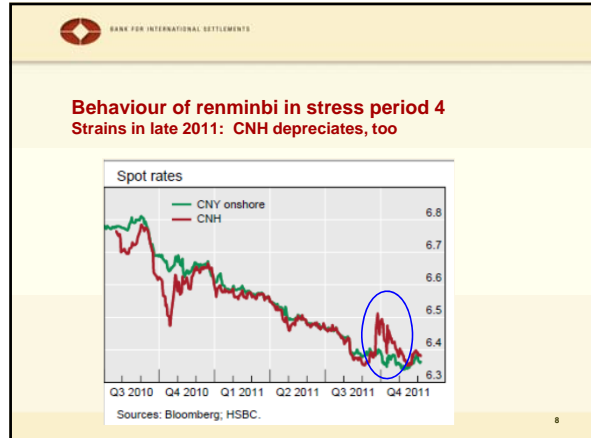
## Behaviour of renminbi in stress period 1 Asian financial crisis, 1997-98

5

**BANK FOR INTERNATIONAL SETTLEMENTS**

## Behaviour of renminbi in stress period 2 Global financial crisis, 2007-09

6



**Behaviour of renminbi in stress periods 5**  
Summary

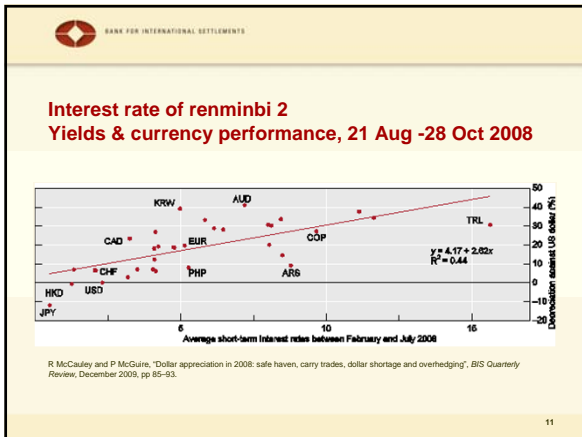
- When markets stressed, authorities stabilise renminbi/\$.
- However, market-set renminbi/\$ (NDF, CNH) sells off then.
- So answer depends on official vs market renminbi.

9

**Interest rate of renminbi 1**

- Safe haven currencies tend to have low interest rates.
  - Swiss franc.
  - Japanese yen.
- When VIX rises, higher yielding currencies sell off.
- Renminbi interest rates are middling .

10



**Interest rate of renminbi 3**

- Question is not where are renminbi interest rates now.
- Rather, where will they be?
- He & Wang (2011) infer +3% from 2005 panel regression.

12



### Conclusion

- From performance of market-driven renminbi during period of stress, renminbi will not be a safe-haven currency.
- From perspective of prospective yields, renminbi not a safe haven.
- Still, renminbi an attractive investment for official reserve managers:
  - Growing trade share.
  - Yield.
  - More stable than many currencies in stressed periods.