



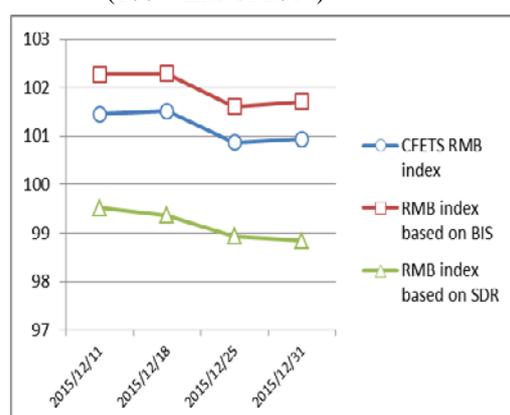
2016.1.12

A New Renminbi Index: The CFETS RMB Index

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Starting from December 2015, the People's Bank of China managed China Foreign Exchange Trade System (CFETS) is releasing a new Renminbi (RMB) index called the CFETS RMB Index. This index refers to the currency basket accepted by CFETS and the 13 currencies which make up the basket were selected based upon international trade-weights with adjustment of re-export trade factors. Compared to the index calculated based upon the ratio of the same time released ratio of the BIS currency basket (The ratio used to calculate the BIS effective exchange rate) and the ratio of the SDR currency basket (The ratio which decided the value of IMF's SDR, this is before the RMB was accepted as a SDR), looking at the index released every week after Dec. 11th, it has been moving the same as index of the BIS currency basket (See Chart 1).

Chart 1: Movement of each index
 (100 = End of 2014)



Source: CFETS

Chart 2: Comparison to the Top 13 Currencies of the BIS Currency Basket

CFETS Currency Basket			BIS Currency Basket		
Pair currency	Weight		Pair currency	Weight	
1 USD	26.4%		1 EUR	18.7%	
2 EUR	21.4%		2 USD	17.8%	
3 JPY	14.7%		3 JPY	14.1%	
4 HKD	6.6%		4 KRW	8.5%	
5 AUD	6.3%		5 TWD	5.6%	
6 MYR	4.7%		6 GBP	2.9%	
7 RUB	4.4%		7 SGD	2.7%	
8 GBP	3.9%		8 MXN	2.3%	
9 SGD	3.8%		9 MYR	2.2%	
10 THB	3.3%		10 INR	2.2%	
11 CAD	2.5%		11 CAD	2.1%	
12 CHF	1.5%		12 THB	2.1%	
13 NZD	0.7%		13 RUB	1.8%	

According to written explanations on the CFETS website¹, the purpose of this new index is to help guide market participants to refer not only the bilateral RMB/USD exchange rate but also effective exchange rate based on currency basket to judge the trend and strength of the RMB.

¹ <http://www.chinamoney.com.cn/fe/Info/15851090>
<http://www.chinamoney.com.cn/fe/Info/15875909>

On the other hand, after 2005 the RMB fluctuated under a managed floating exchange rate regime and referred to a currency basket² but this did not mean that it was pegged to that currency basket but also considered the market's supply and demand as an important element. In any case, by releasing this new index, it looks like is that, not only by using the rate against the U.S. dollar but also by using the currency basket they can appeal the overall true strength of the RMB.

By looking at the difference between the 13 currencies of the CFETS currency basket and the top 13 currencies (there are a total of 40 currencies) of the BIS currency basket, the CFETS currency market does not include the Korean Won, Taiwan Dollar, Mexico Peso and the India Rupee and includes the Australian Dollar, Swiss Francs, Hong Kong Dollar and the New Zealand Dollar (See Chart 2). Also, there are other differences such as in the BIS currency basket the Euro as the highest ratio while the U.S. Dollar has the highest ratio in the CFETS currency basket. The sort of shows that the regulators are focused on these 13 currencies, therefore in watching the trend of the RMB one needs to watch more these 13 currencies.

² It is not mentioned what kind of currencies makes up the currency basket.