

# Discussion

## Shadowing the Dollar or Basket Pegging in China? (Eric Girardin, Fatemeh Salimi Namin)

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## Summary

- Does China follow the announced basket peg and adopt a more flexible managed-floating exchange rate regime?
- Contribution:
  - combination of long- and short-term relationships
  - use of advanced methods + non-linearities
- Identification of several sub-periods, influence of USD vanished throughout
  - JPY gained weight between 2010 and 2012
  - Increasing weight of principal component of East Asian currencies and EUR
- RMB no longer exclusively pegged on USD

## Comment 1 – Methodology:

### Collinearity

- Dropping collinear currencies (CHF, HKD) could bias estimates for EUR, USD
- auxiliary regression approach

### Linear vs. Markov switching model

- how reliable is bootstrapping critical values? (Carrasco et al. (2014))

### Markov switching model selection

- Several criteria: MSC (Smith et al. (2006))  
AIC, BIC, HQC (Psaradakis / Spagnolo (2006),  
T. Awirothananon / W.-K. Cheung (2009))

## **Comment 2 – Data issues**

### **CFETS basket extension in Jan. 2017 (24 currencies)**

- Is Norway a good numeraire?

### **Explanatory power in daily data?**

- How high is the explanatory power? (Simple VECM below 1%)

**Complex approach but misses eyeball econometric perspective**

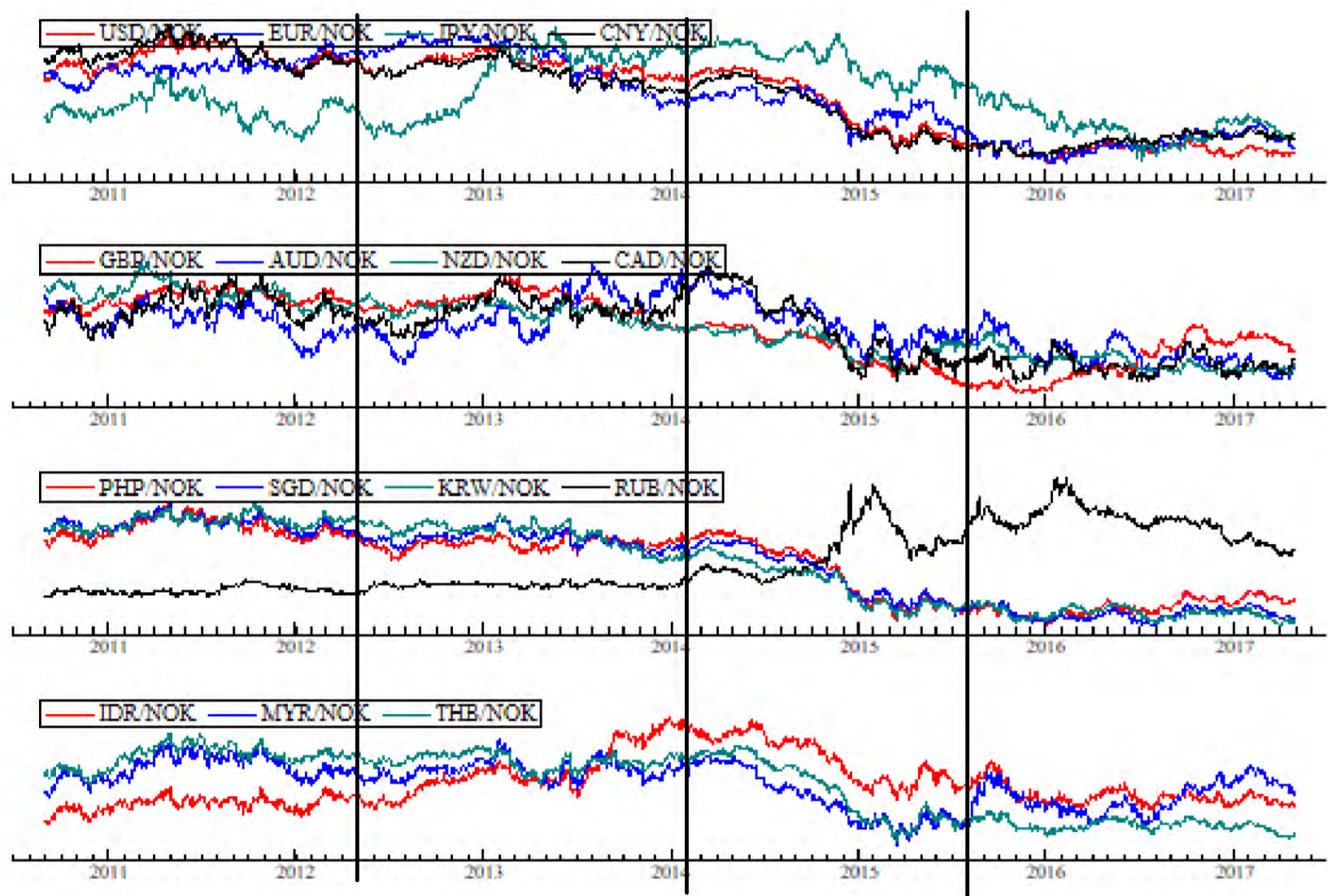


Figure 1 The Chinese RMB and the reference currencies exchange rates (1<sup>st</sup> September 2010 to 30<sup>th</sup> April 2017)

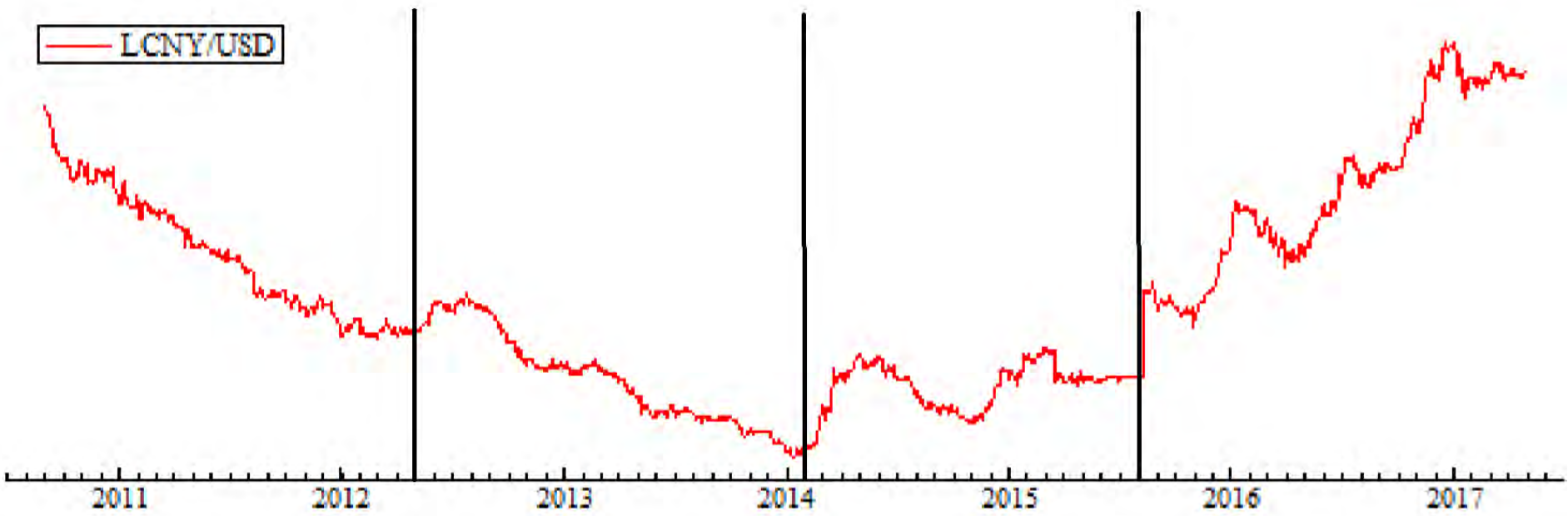


Figure 2 Log-transformed CNY/USD exchange rate (1/9/2010 to 30/4/2017)

## Comment 3 - Contribution to the literature

- Clarify contribution
  - components of analysis already applied by other authors (Cheung (2018), Keddad (2019), Dixon (2016))
  
- Overall result of high influence of USD also found in less complex approaches
  - Cui (2014), Cheung (2018), Moosa and Li (2017)
  
- Overall nice paper on interesting topic!