



## **Monetary Policy Uncertainty, Expected RMB Volatility, and Yield Spreads between Dim Sum Bonds and China's Domestic Corporate Bonds**

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### **ABSTRACT**

China's monetary policy is subject to a low transparency and great uncertainty, causing the fluctuation on the expected exchange rate (Renminbi) volatility and, in turn, affecting the dim sum bond market. We use the QVAR model to extract the latent monetary policy uncertainty and explore its influence on the expected RBM volatility and the yield spread between China's domestic corporate bonds and dim sum bonds. Results show that the monetary policy uncertainty has a significant negative influence on the yield spread between China's domestic corporate bonds and dim sum bonds even after controlling for forward exchange rates and expected exchange rate volatility. We further find that the monetary policy uncertainty has a significant positive influence on expected exchange rate volatility. The monetary policy uncertainty has a significant positive influence the issuance of dim sum bonds.

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