**Research on CNH FX Swap and Cross-currency Swaps**

**Structural Difference**

* CCS resembles FX swap but with interest payments and uses spot rate for end-of-term principal amount
* FX swap ties to interest rate differentials (indirect link with money market rates)

CCS usually is quoted in reference rates directly (SOFR/TONA/HIBOR/7d Repo/LPR/SHIBOR…)

* CCS Tenors are more than 1 year (mid-/long-term rates) and swaps are under one year
* XVA (X-value adjustments)
  + CCS: Credit-VA for unsecured creditor (positive EV) // DVA
  + FX Swap: Funding-VA (FVA) // Margin-VA (MVA)
  + GSIBs: Capital-VA (KVA)

**Remarkable Event**

* Argentina sold CNH from PBoC CCS for USD for liquidity; raises CNH depreciation concerns (2015)
* No Central Bank Liquidity Swap between PBoC and Fed due to political reasons

**Difference 1 – Purpose: Trade Facilitation (Central Bank CCS); Political Bargaining Power**

* CBLS allows central banks to satisfy foreign currency demand from financial institutions without using foreign-exchange reserve (reduce market panics, credit risks)
* PBoC signed CBLS with 40+ countries, promoting the RMB internationalization and bilateral trades

(Less likely to see shortage of CNH so less funding risks, more likely to trade.)

* Research showed CNH-CBLS boosts bilateral trade growth in EM markets[[1]](#footnote-1)

**Difference 2 – Demands**

* CCS: Long-term funding and risk management

Panda bond issuers receive CCS to convert CNY into FCY (foreign currency)

Other investors obtain synthetic CNY funding by borrowing FCY debt and paying CCS.

1. 《人民币货币互换协议，谁最终获益？》（张策、何青、唐博文，2020年12月） [↑](#footnote-ref-1)