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# How Did China's Foreign Exchange Reform Affect the Efficiency of Foreign Exchange Market?

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**Abstract:** This study compares the market efficiency of China's onshore and offshore foreign exchange markets before and after the foreign exchange reform on August 11, 2015. We use the multifractal detrended fluctuation analysis of the onshore and offshore RMB/USD spot exchange rate series as basis. We then find that the onshore foreign exchange market before the reform has the lowest market efficiency, which increased after the reform. The offshore foreign exchange market before the reform has the highest market efficiency, which dropped after the reform. This finding implies the increased efficiency of the onshore foreign exchange market and the loss of efficiency in the offshore foreign exchange market. We also find that the offshore foreign exchange market is more efficient than the onshore market and that the gap shrank after the reform. Changes in intervention of the People's Bank of China since the reform is a possible explanation for the changes in the efficiency of the foreign exchange market.

## 1. Introduction

This study aims to examine the multifractal properties of China's onshore and offshore foreign exchange markets before and after the foreign exchange reform on August 11, 2015. According to McKinnon (2009) [1], the evolution of China's

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