

## Devaluation of Yuan and its impact on Emerging Economy

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This paper discusses the impact of the recent devaluation of Yuan and its impact on Emerging Markets. One of the most commonly used method to correct balance of payments is devaluation of the currency. In case of China, we have deteriorating exports and adverse balance of payments as one of the reasons for devaluation. Besides, being a protective move, devaluation also casts shadow on varsity of obligations of member nations of International Monetary Fund and does not augur well for International trade. Third issue, is the investor's interest. Investors have taken lot of out of the money positions in the currency markets. They are running the risk of irrational risk maximization by taking reverse positions in US Dollar vis a vis Chinese Yuan. Moreover, they will definitely lose lot of money as premium amount. To add to further apprehension, the model adopted by the Chinese Central Market for the determination of the currency portfolio is primitive mean - covariance model. This model does not provide for the statistical errors of estimation and higher moments in the currency markets. This paper discusses the Value at Risk and Covariance Value at Risk model for designing optimal portfolio strategy for the fund managers. In this paper we have secondary method of data collection. We have taken historical data on currency moments for past 60 days. In this paper we have done a comparative analysis using simple covariance vis a vis Value At Risk and Covariance Value at risk Model. We have used statistical estimated mean and estimated covariance calculated from the sample data for past 60 days, to show the superiority of covariance at risk and Value at Risk Model. Optimal portfolio designing definitely impacts the monetary policies and balance payments of any Central Bank. Value At Risk and Covariance Value at Risk Model is a better technique for maximizing wealth of investors in this volatile environment.

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