

ON THE CO-MOVEMENTS AMONG SCANDINAVIAN EXCHANGE RATES: A MULTIVARIATE TIME-VARYING ASYMMETRIC APPROACH

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Abstract

This paper investigates the interdependence of US dollar exchange rates expressed in Danish krone (DKK), Norwegian krone (NOK), and Swedish krone (SEK) currencies. Focusing on different phases of the Global financial crisis (GFC) and the Eurozone Sovereign Debt Crisis (ESDC), we adopt a multivariate asymmetric dynamic conditional correlation EGARCH framework, during the period spanning from January 1, 2002 until March 31, 2017. The findings suggest asymmetric responses in correlations among the three exchange rates, namely, higher dependency during periods of joint appreciation than during periods of joint depreciation. Moreover, the results indicate a decrease of exchange rates correlations during the crisis periods, suggesting the different vulnerability of the currencies. Finally, we find some significant increases in the estimated dynamic correlations, indicating existence of a “currency contagion effect” during turmoil periods.

Keywords: A-DCC model, global financial crisis, European sovereign debt crisis, exchange rates, currency contagion

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