Foreign exchange rates are difficult to explain, at least for shorter horizons than a year. Instead of using a standard macroeconomic methodology, I examine how disperse non-public information become embedded in the exchange rate through the buy- and sell orders by participants in the trading process. My results show that although some market participants are regarded as well informed, their impact on the exchange rate varies. The conclusion is that overall, the change in the exchange rate is difficult to explain on the basis of the information contained in market participants' order flows.
We then study the weak relationship between exchange rates and macro fundamentals. Over time, different macro variables will cause variations in the exchange rate but the market is uncertain of which and may attribute it to some observed macro indicator. Our results suggest that order flow act as the channel through which the time-varying macro variables work to move the exchange rate. In the last chapter we use information from financial intermediaries' balance sheet to predict the return on financial assets. We find that lower growth of commercial banks' total assets predicts higher returns on stocks, bonds, derivatives and currencies.

ANNA LINDAHL

Holds Licentiate degree from Stockholm School of Economics and Master of Economics from Stockholm University

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247

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Anna Lindahl

UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW