

Stefan Straetmans

Maastricht University

"Forex multiplicative news"

Abstract

Slope coefficients from time series regressions of exchange rate returns on forward premiums are well below the efficient market value, but are also highly unstable. We focus on the econometric identification of this slope variability through panel estimation. No arbitrage arguments imply that the forward premium slopes are identical across exchange rates at each point in time. The slope variability reflects the heavy tail nature of the news distribution and the news dominance feature. The slope estimates reveal that the deviations from unbiasedness are smaller when forward premiums are large and volatile as during currency crises.