

Accepted Manuscript

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PII: S1044-0283(17)30223-5
DOI: <https://doi.org/10.1016/j.gfj.2017.12.002>
Reference: GLOFIN 396

To appear in:

Received date: 30 June 2017
Revised date: 5 September 2017
Accepted date: 10 December 2017

Please cite this article as: Stavros Degiannakis , Multiple days ahead realized volatility forecasting: Single, combined and average forecasts. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Glofin(2017), <https://doi.org/10.1016/j.gfj.2017.12.002>

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*Multiple Days Ahead Realized Volatility Forecasting:
Single, Combined and Average Forecasts*

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Abstract

The task of this paper is the enhancement of realized volatility forecasts. We investigate whether a mixture of predictions (either the combination or the averaging of forecasts) can provide more accurate volatility forecasts than the forecasts of a single model. We estimate long-memory and heterogeneous autoregressive models under symmetric and asymmetric distributions for the major European Union stock market indices and the exchange rates of the Euro.

The majority of models provide qualitatively similar predictions for the next trading day's volatility forecast. However, with regard to the one-week forecasting horizon, the heterogeneous autoregressive model is statistically superior to the long-memory framework. Moreover, for the two-weeks-ahead forecasting horizon, the combination of realized volatility predictions increases the forecasting accuracy and forecast averaging provides superior predictions to those supplied by a single model. Finally, the modeling of volatility asymmetry is important for the two-weeks-ahead volatility forecasts.

Keywords: averaging forecasts, combining forecasts, heterogeneous autoregressive, intra-day data, long memory, model confidence set, predictive ability, realized volatility, ultra-high frequency.

JEL Classifications: C14; C32; C50; G11; G15.

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