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# Relationship between stock and currency markets conditional on the US stock returns: A vine copula approach<sup>#</sup>

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## Abstract

Ignoring the co-movement of international stock markets might lead to a biased estimate for the relationship between domestic stock and currency markets. We address this issue by using the US stock returns as a proxy for the movement of foreign stock markets and applying a vine copula approach to 21 economies over the period 2003--2017. We find that both stock and currency markets in these economies are highly correlated with the US stock market. As a result, taking no account of the international stock market co-movement leads to an upward bias in the estimate for the correlation between domestic stock and currency returns, although the bias is not of great magnitude. Finally, the estimate for the correlation between domestic stock and currency returns conditional on the US stock returns tends to be positive in emerging economies, whereas it tends to be negative in developed economies.

Keywords: Vine copula, Stock return, Currency return.

JEL Classification: C58, F31, G15.

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