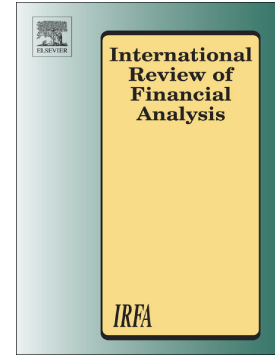


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**EXCHANGE RATE VOLATILITY RESPONSE TO MACROECONOMIC NEWS  
DURING THE GLOBAL FINANCIAL CRISIS**

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**Abstract**

We investigate the volatility reaction to macroeconomic news in major currency markets during the recent global financial crisis. We first present an alternative method for determining the changes in economic states by endogenously estimating crisis thresholds. Second, we assess which macroeconomic indicator gave the earliest warning signal for the upcoming contraction. Third, investigate whether there is a systematic change in the volatility reaction of exchange rates to news during the crisis period. We find that the estimated logistic transition function based on the housing starts data exhibits the earliest warning signal compared to other indicators. Our results suggest that although volatility response to most news indicators is larger in expansion, currency market reaction to new home sales and Fed funds rate news is larger in the crisis period. We attribute this finding to the context-specific relevance of the housing and credit sectors in the evolution of the global financial crisis.

*JEL Classification:* F31, F4, G1 *Keywords:* Global financial crisis, exchange rates, volatility, macroeconomic news, high-frequency data.

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