Accepted Manuscript

Asymmetric volatility connectedness on the forex market

Jozef Baruník, Evžen Kočenda, Luká š Vácha

PII: S0261-5606(17)30110-9
DOI: http://dx.doi.org/10.1016/j.jimonfin.2017.06.003
Reference: JIMF 1801

To appear in: *Journal of International Money and Finance*

Please cite this article as: J. Baruník, E. Kočenda, L. Vácha, Asymmetric volatility connectedness on the forex market, *Journal of International Money and Finance* (2017), doi: http://dx.doi.org/10.1016/j.jimonfin.2017.06.003

Asymmetric volatility connectedness on the forex market☆

Jozef Baruník[a,b], Evžen Kočenda[a], Lukáš Vácha[a,b,*]

[a]*Institute of Economic Studies, Charles University, Opletalova 26, 110 00, Prague, Czech Republic*
[b]*Institute of Information Theory and Automation, The Czech Academy of Sciences, Pod Vodarenskou Vezi 4, 182 00, Prague, Czech Republic*

Abstract

We show how bad and good volatility propagate through the forex market, i.e., we provide evidence for asymmetric volatility connectedness on the forex market. Using high-frequency, intra-day data of the most actively traded currencies over 2007 – 2015 we document the dominating asymmetries in spillovers that are due to bad, rather than good, volatility. We also show that negative spillovers are chiefly tied to the dragging sovereign debt crisis in Europe while positive spillovers are correlated with the subprime crisis, different monetary policies among key world central banks, and developments on commodities markets. It seems that a combination of monetary and real-economy events is behind the positive asymmetries in volatility spillovers, while fiscal factors are linked with negative spillovers.

Keywords: volatility, connectedness, spillovers, semivariance, asymmetric effects, forex market

JEL classification : C18; C58; E58; F31; G15

☆We are thankful for valuable comments from Lukas Menkhoff, Matthew Greenwood-Nimmo, Munechika Katayama, an anonymous referee, and participants at several presentations. Kočenda gratefully acknowledges support from the Czech Science Foundation under project 16-09190. Baruník and Vácha gratefully acknowledge support from the Czech Science Foundation under project 16-14179S. The usual disclaimer applies.

*Corresponding author, Tel. +420(602)161710, Email address: vachal@utia.cas.cz