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Strong Sterling Pound and Weak European Currencies in the Crises:
Evidence from Covered Interest Parity of Secured Rates

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Highlights

- In the Euro crisis, the interest rate of the Sterling pound became low, while the other European currencies increased its interest rate.
- We examine why the Sterling pound and the Danish kroner showed asymmetric features in the GFC and the Euro crisis.
- There was a structural break in the determinants of deviations from covered interest parity (CIP) condition across the European currencies during the crises.
- Currency-specific money market risk was critical in explaining the deviations in the GFC, while EU banks' credit risk was useful in explaining the deviations in the Euro crisis.
- The asymmetry explains different features between the Sterling pound and the Danish kroner in the two crises.

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