Accepted Manuscript

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

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PII: S0889-1583(16)30030-2
DOI: 10.1016/j.jjie.2016.10.001
Reference: YJJIE 940

To appear in: *Journal of The Japanese and International Economies*

Received date: 16 March 2016
Revised date: 2 October 2016
Accepted date: 3 October 2016

Please cite this article as: Shin-ichi Fukuda , Strong Sterling Pound and Weak European Currencies in the Crises: Evidence from Covered Interest Parity of Secured Rates, *Journal of The Japanese and International Economies* (2016), doi: 10.1016/j.jjie.2016.10.001

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.