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Safe-Haven and Hedge Currencies for the US, UK, and Euro Area Stock Markets: A Copula-Based Approach

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Abstract

This study uses a copula-based approach to identify safe-haven and hedge currencies for the US, UK, and Euro area stock markets over the period 1999–2016. We reveal similarities and differences in the determination of safe-haven and hedge currencies across the three stock markets. First, UK and Euro area stock markets have had the same set of hedge currencies, among which the Swiss franc has been the most indispensable hedge currency. Second, there has been no safe-haven currency for the UK stock market, whereas the Euro area stock market had some safe-haven currencies until 2012, reflecting its large volatility relative to the UK market. Third, for the US stock market, the Japanese yen has become the most important currency both as a safe haven and as a hedge since the 2007 global financial crisis. This is probably because the Japanese economy was less affected directly by that crisis and the subsequent European debt crisis than the other three economies were.

Keywords: Safe-haven currency, Hedge currency, Stock market, Copula.

JEL Classification: C58, F31, G15.

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