

What Determines Safe Haven Currencies?

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This paper investigates what factor determines a safe haven currency that tends to appreciate during the risk-off episodes. Developing a safe haven index—the tendency of currency movement responding to a change in market uncertainty measured by the CBOE volatility index (VIX) — for 15 currencies and 3 alternative assets such as gold, bitcoin, and crude oil helps to assess how a currency’s safe haven tendency changed overtime. The empirical results suggest safe haven determinants shifted from net foreign assets (current account surplus) to carry trade opportunity and high liquidity during and after a crisis period. Once one currency is regarded as a safe haven currency, investors’ perception of the safe haven currency could last for a certain period, despite changing economic fundamentals. Policy implication from the results is more importance of a shift in monetary policy. The Fed and the ECB’s shift to monetary tightening may change safe haven currency.