

Dynamic Comovements between Exchange Rates, Stock Prices and Oil Prices: Evidence from Developed and Emerging Latin American Markets

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Abstract : This paper applies DCC, EWMA and OGARCH models to compare the dynamic correlations between exchange rates, oil prices, exchange rates and stock markets to examine the time-varying conditional correlations to the daily oil prices and index returns in relation to the US dollar/local currency for developed (Canada and Mexico) and emerging Latin American markets (Brazil, Chile, Colombia and Peru). Changes in correlation interactions are indicative of structural changes in market linkages with implications to contagion and interdependence. For each pair of stock price-exchange rate and oil price-US dollar/local currency, empirical evidence confirms of a strengthening negative correlation in the last decade. Methodologies suggest only two events have significantly impact in the countries analyzed: global financial crisis and Europe crisis, both events are associated with shifts of correlations to stronger negative level for most of the pairs analyzed. While, the first event has a shifting effect on mainly emerging members, the latter affects developed members. The identification of these relationships provides benefits in risk diversification and inflation targeting.

Keywords : crude oil, dynamic conditional correlation, exchange rates, interdependence, stock prices

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