JOURNAL ARTICLE

Safe Haven Currencies

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Abstract

We study high-frequency exchange rates over the period 1993–2008. Based on the recent literature on volatility and liquidity risk premia, we use a factor model to capture linear and non-linear linkages between currencies, stock and bond markets as well as proxies for market volatility and liquidity. We document that the Swiss franc and Japanese yen appreciate against the US dollar when US stock prices decrease and US bond prices and FX volatility increase. These safe haven properties materialise over different time granularities (from a few hours to several days) and non-linearly with the volatility factor and during crises. The latter effects were particularly discernible for the yen during the recent financial crisis.

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