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Original Articles

On the application of the dynamic conditional correlation model in estimating optimal time-varying hedge ratios

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Notes

[1] Bautista (2003) uses the DCC of Engle to obtain the dynamic correlation between the interest rate and the exchange rate in the Philippines in order to observe its structural changes. Recognizing the dynamic conditional correlation, we instead use this approach, incorporated with ECM, to obtain the variance matrix so as to analyse the hedging effectiveness of foreign currency futures, which is then compared with OLS and other multivariate GARCH hedges.

[2] The hedge ratio is calculated as the ratio of the covariance between spot and futures prices to the variance of the futures price.

[3] For discussions of other hedging strategies, readers can refer to Chen et al. (2003).

[4] Bollerslev (1990) decomposes the covariances into SDs and correlations and assumes CCCs between financial variables. Engle and Kroner (1995) instead propose the BEKK (named after Baba, Engle, Kraft and Kroner) multivariate GARCH model to ensure time-varying second moments and a positive-definite conditional-variance matrix. Its disadvantage is that the parameters cannot be easily interpreted.

[5] Kroner … irst moment into a m … exchange futures r …

[6] The mi … lio, + + accordin … utures prices, r … ctively. By the fi … nd the nega …

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Hedge period length and Ex-ante futures hedging effectiveness: The case of foreign-exchange risk cross hedges

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Co-integration and Error Correction: Representation, Estimation, and Testing

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