

Dynamic Connectedness and Causality between Oil prices and Exchange Rates

Borrador número 1025 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Jose Eduardo Gomez-Gonzalez Jorge Hirs-Garzon Jorge M. Uribe AUTHORS
AND/OR EDITORS Jorge Hirs-Garzon Jorge M. Uribe

We study connectedness and causality between oil prices and exchange rates dynamically. Using data on the WTI and exchange rate returns for six countries in which oil production is a major production activity, we show that oil prices are net receptors of spillovers from exchange rate markets. Connectedness exhibits important time variation and presents a positive trend during our sample period.

We find evidence of bidirectional causality between oil prices and exchange rates, which presents also considerable time-variation. Causality is identified for longer periods of time from oil prices to exchange rates. However, we also find evidence of reverse causality, mainly in the period after the Subprime Financial Crisis. Our results provide evidence supporting the hypothesis of the financialization of oil markets.

The series Borradores de Economía is published by the Economic Studies Department at the Banco de la República (Central Bank of Colombia). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.