Working papers economics - Analyzing Exchange Rate Dynamics within the Global Financial Cycle: A DCC-Copula approach

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Global financial conditions affect the structure of correlations between currencies in a heterogeneous manner, which must be considered in the analysis of risks and in the strategies for currency diversification in international contexts.

Publication Date: Tuesday, 8 of July 2025 **Abstract**
The Global Financial Cycle (GFC), defined as the fluctuations in international capital flows, asset prices, and risk appetite, has garnered significant attention from the recent international finance literature, market practitioners, and policymakers. This study employs a Dynamic Conditional Correlation (DCC) Copula model to examine the interaction between exchange rates for a group of seven developed economies and seventeen emerging market economies. Using these results and employing quantile panel data methods, we assess how the time-varying correlations of exchange rates behave in relation to variables associated with the GFC, specifically the VIX. The findings contribute to understanding the interconnectedness between time-varying international financial conditions and currency markets over time and during stress episodes, offering relevant implications for policymakers and market participants.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/analyzing-exchange-rate-dynamics-global