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A comparative analysis of the dynamic relationship between oil prices and exchange rates☆,☆☆

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ABSTRACT

This paper applies cDCC model to compare the dynamic correlations between oil prices and exchange rates of G20 members. The significant shifts in the correlations are then endogenously detected. For each pair of oil price-exchange rate, empirical evidence confirms of a strengthening negative correlation in the last decade. Methodology suggests only two events; US' invasion of Iraq in 2003 and the 2008 global financial crisis, associating shifts of correlations to stronger negative level. While the first event has a shifting effect on mainly developed members, the latter affects them all. The new relationship provides benefits in risk diversification and inflation targeting.