

Research finds Australian dollar not safe haven in European Crisis

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A Murdoch University researcher has concluded that investors did not view the Australian dollar as a safe haven during the 2009-2012 European Sovereign Debt Crisis, despite the nation's strong economy.

In the first ever study of its kind, Dr Ariful Hoque from Murdoch's School of Management and Governance looked at how six major currencies were affected by the crisis – providing insights into global investor confidence.

"While the euro depreciated against all the major currencies, a regressive analysis has shown that investors viewed the US dollar and Japanese yen as safe-haven currencies in which to invest, which led to strong increases

in the prices of US dollar- and Japanese yen-dominated government bonds," Dr Hoque said.

"This was not the case for other currencies."

Dr Hoque said the US dollar was likely seen as a safe investment due to its historical stability and its autonomy – aspects that impacted the Australian and Canadian dollars in a converse way.

"The Australian and Canadian dollars are more volatile and have historically been lower than the American dollar, so their higher valuation may not have been viewed as real," Dr Hoque said.

"These currencies also depend much more on other markets, as their economies are tied to the Chinese economy, so with the global instability, investors may have been wondering, 'If China stops buying, what will happen...?'"

"That, perhaps, is why investors weren't using those two currencies as safe havens."

Dr Hoque added that the other two currencies examined – the UK pound and Swiss Franc – were likely too close to the crisis for investors, who would have been concerned about a spill-over effect from the euro area.

He added that knowing why the yen was so favoured throughout the crisis was an area in need of more research.

"That the yen appreciated by 20 per cent against the euro is surprising. Perhaps [investors](#) believed it was undervalued before the crisis, or perhaps the Japanese involvement in supporting the [euro](#) had an effect... I'm interested in exploring this further," he said.

'The Effects of the European Sovereign [Debt Crisis](#) on Major Currency Markets' is published in the *International Research Journal of Finance and Economics*.

Provided by Murdoch University

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