COMMON RISK FACTORS IN CURRENCY MARKET: EVIDENCE FROM ASEAN 5

Nopparat Sirikumpolchai
5402042195

Master of Science Program in Finance (International Program)
Faculty of Commerce and Accountancy, Thammasat University, Bangkok, Thailand
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ABSTRACT

In this study, Average Volatility of ASEAN 5 Stock Index Returns, Volatility of MSCI World Price Index Returns and Average of the Different in Real Interest Rate between each country and USA are chosen to be common factors variables in ASEAN 5 currencies. We test 5 currencies and a portfolio of the average of 5 currencies. This study uses a two-stage OLS regression following Fama and MacBeth (1973). We conclude that Average Volatility of ASEAN 5 Stock Index Returns, Volatility of MSCI World Price Index Returns and Average of the Different in Real Interest Rate can be common factors in ASEAN 5 currencies and a portfolio of average 5 currency excess returns.

Keywords: Common Risk Factors, Currency Market, ASEAN 5