

Currency Exchange Rates: Birds of a Feather 'Float' Together?

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We have recently been looking at some currency exchange rates and their historical records in the past few years, and have made a few interesting observations which we would like to share with readers. Admittedly, we are not currency exchange experts, and if this proves to be a bore for the real pros, please accept our apology and perhaps we would like to learn from you as well. Also, stating the obvious, national fiscal / political / governmental policy may have significant influence on the currency exchange rates, thus potentially leading to skewed trends, though the following may still be used as basic reference. In any event, here we go:

- a) The currencies that have been looked at include countries from **the Americas, Europe, Africa and naturally Asia**. For instance, the British Pound, Euro Dollar, Japanese Yen, Korean Won, Hong Kong Dollar, Chinese Yuan, Singapore Dollar, Malaysia Ringgit, and the South Africa Rand etc.
- b) The exchange rates for the currencies are **US\$ based** and are expressed as the amount required to exchange for US\$1.00. Most have been depreciating against the US\$ until perhaps recently.
- c) The currency exchange rate records **commenced from July 1997** to June 2002 in most instances, though a couple of exceptions apply e.g. the Euro did not come into being until late 1998.

Based on these past records, some numbers were crunched and simple correlations, essentially based on their trends with the US\$, were done. Observations and a few relatively obvious clusters:

- 1) **The British Pound and the Euro** = seem to have gone almost hand in hand, stating the obvious. Their R2 is 0.88. This perhaps reflects the increased economic-social-political / financial interlinks, be these cooperative or competitive in nature, among the European Union member countries notwithstanding Britain still retains her own currency.
- 2) **Japan and Korea (South)** despite being seen by some as in the same neighborhood do not exhibit a strong currency correlation.
- 3) **The Australia Dollar gels nicely** with New Zealand' s, Singapore' s and the British Pound. The respective R2 are 0.93, 0.74, and 0.77. Nonetheless, she does not seem to have any significant currency relationship with the rest of the Asian countries despite her portray as one.
- 4) **The South East Asian countries' currencies** seem to correlate with each other to a certain degree of significance, though we had only tried to correlate a few of them. Most have R2 hovering around 0.50.

- 5) **The China Yuan does not relate to anything much** = not even with the Hong Kong Dollar or the Taiwan Dollar, let alone those in South East Asia or elsewhere.
- 6) **The (former) 4 small economic dragons in Asia** = they still relate to one another though it seems geography might have played a role in deciding the degree of significance. For instance, and counting from the North (Asia), Korean Won correlates more with the Taiwanese Dollar than Singapore and Hong Kong, which are located further from Korea. Likewise, Singapore (counting from the South East of Asia) seems to correlate with Hong Kong more than Korea.

All in all, the above seems to suggest, coincidentally or otherwise, that economies with similar economic set ups, target markets, and product lines (goods or services) tend to show a relatively stronger relationship in currency trends. While adjusting one's currency exchange rate to stay competitive is one way to keep up, one also has to be cautious of influence from governmental, fiscal or administrative policies on exchange rates. Likewise, real estate investors with portfolios in more than one economy may wish to keep track of these trends for better hedging and risk insurance / management.

Charts containing the currency trends can be viewed by clicking the following link:

[link](#)

The above data and information had been obtained from web sources such as oanda.com and the like.

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