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Identifying interdependency among monetary policy, exchange rates, reits and stock markets during the period of global financial crisis in oecd countries.

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Abstract

This study examines the Time Varying Dynamic Conditional Correlations (TVDCC)among the returns of short term Money Market Rates, Real Effective Exchange Rates, and of other asset classes including, Stock Market (SM) indices and REIT indices during the Dot-com Bubble (2000) and Recent Global Financial Crisis (2008-2009). We employ DCC GARCH model using monthly data from January, 1999 to May, 2011 for 14 OECD markets. The results show that correlation between US FFR (Federal Funds Rate) and the MMR for the rest of the OECD countries is positive, the highest correlation is found between US FFR and Switzerland MMR where as lowest correlation exists between US FFR and Japan MMR. By the end of 2001 correlations increased significantly except for Norway. During Global Financial crisis(20008-2009) correlation get distorted by first decline and then rise in correlation . The the average TVDCC between US FFFR and REIT indices are positive for all the countries, and same is the case for US FFR and SM. TVDCC between MMR and REIT indices are also found to be positive for all the countries under study except for Canada, Japan, Sweden and Norway. The average TVDCC between MMR and SM are positive for all the countries except Canada, Japan, UK and Sweden. Finally we find that SMs in each OECD country are more correlated (in absolute terms) to US FFR than the MMR in their own country. We also find similar results for REER and REITs except New Zealand.

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