

Assessing the Dynamic Impact of Exchange rate Innovations on SA's Non-resident Portfolio Investment

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Abstract

In this paper the dynamic impact of exchange rate innovations on non-resident investors in South Africa's domestic bond and equity market is assessed. Using Granger causality tests and impulse response analysis, from a number of unrestricted vector autoregressive models, the paper points to two very different dynamics w.r.t non-resident bond and equity investors. The paper finds that non-resident equity investors neither respond to past exchange rate innovations nor changes in the cost of exchange rate hedging. Although non-resident bond investors were not shown to respond to changes in cost of exchange rate hedging, they were however shown to "chase" past exchange rate appreciations.