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A WAVELET TRANSFORMATION APPROACH TO CRUDE OIL PRICE AND CZK/USD EXCHANGE RATE DEPENDENCE

Abstract:

In this paper, we contribute to the literature on the dependency between oil price returns and CZK/USD exchange rate returns. Oil price is one of the most important determinants for an explanation of the long-term behaviour of exchange rates, especially for USD dollar. The oil shock transmission mechanism is through the exchange rate channel and so the deeply understanding of this process is essential not only for investors but also for monetary authority. We utilised wavelet transform analysis so that we can analyse the dependency in the time-frequency domain. Our analysis finds that the connection between returns time series changes in time and scales. The major implications of our findings are important for effective monetary policies aimed at controlling inflationary pressures.

Keywords:

wavelet, wavelet coherence, oil price, dependence

JEL Classification: C22, F40, C58