Bachelor Thesis

Predictability on the Foreign Exchange Market

in

Financial Economics

at the

Institute for Banking and Finance

University of Zurich

Prof. Felix Kübler, Ph.D.

Author: Daniel Schön

ABSTRACT

Along with globalisation, the breakdown of the Bretton Woods system, and floating exchange rate regimes, foreign exchange markets have become an essential part of contemporary financial systems. There is a keen interest to find out which variables influence and predict floating exchange rate movements.

The aim of this study is to reveal how the Canadian and Australian exchange rates depend on three predicting variables: an interest rate differential, a commodity index and a volatility index. Therefore, datasets extracted from Reuters Datastream were examined for a time period ranging from 1998 to 2011. Similar to associated papers the interest rate differential has almost no explanatory power, whereas the commodity index and the volatility index could reveal a R^2 up to 14% and 15% respectively.