The Monetary Effect on Foreign Currency Exchange: Major Currencies vs. Non-majors
통화량에 의한 환율변동에 대한 소고: 메이저통화와 비메이저통화

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Abstract(요약): This article would like to explain the currency exchange gap between major and non-major currencies. Our estimation results confirm that the misalignments of foreign exchange rates are influenced by the net growth of money stocks from the long-term desired level and the net growth of foreign reserves stockpiles from the desired one since 2000.

First, the misalignments in the exchange rates for majors have positive relationships with both the excess reserves and money. This indicates that a decrease in the excess international reserves and excess money stocks might lead to the exchange rate stabilization in the equilibrium. Second, the misalignments in the exchange rates for non-majors have negative relationships with the excess foreign reserves and positive relationships with excess money. Exceptionally, the misalignment of the won-dollar rate is adjusted by both -1.06% of the excess foreign reserves and -0.88% of the excess money. Third, the other currency exchanges against the US dollar seem to have negative relationships with the excess foreign reserves in the US and positive relationships with the excess money stock in the US dollar with some exceptions.

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I. Introduction

The foreign exchange market is a very liquid and decentralized online global network, which makes a collection of currency offers. There are considerable competitions, high incidences of trading, and unregulated environments in over-the-counter markets. Some of the buying and selling of the initiated quotes are executed directly by a pair of inter-dealers in a dealing room, while other quotes of inter-dealers are matched indirectly through brokers. Locally, customers use a retail electronic system to interact with the dealers. All the detailed information for each deal is transmitted only to the counter parties involved. Nevertheless, trades are openly displayed on a screen.

Then, deposits or securities denominated in the major currency are widespread over the world while the non-major currency assets are bound within their respective local countries. In other words, major vehicle currencies are traded in the global market, and other non-major or minor currencies are transacted in the local market. So, major vehicle currencies are employed as a reserve currency for non-major home currencies.

Meanwhile, the foreign exchange rate is determined by the demand and supply for the foreign exchange in the float. The bilateral exchange rate is determined by the equilibrium of the forces of both buyers and sellers. Most exchange rates are provided in the form of a major-currency pair through the global market. But the exchange rate is so volatile due to many fluctuated factors over durations. Market participants have a primary concern about drawing a comparison between present and future rates as noted by Obstfeld, Shambaugh, and Taylor (2008).

The foreign exchange market is an electronic one, which connects the various