

Tales of Tails: Jumps in Currency Markets*

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March 2019

Abstract

This paper investigates the predictability of jumps in currency markets and shows the implications for carry trades. Formulating new currency jump analyses, we propose a general method to estimate the determinants of jump sizes and intensities at various frequencies. We employ a large panel of high-frequency data and reveal significant predictive relationships between currency jumps and national fundamentals. In addition, we identify the patterns of intraday jumps, multiple currency jump clustering and time-of-day effects. U.S. macroeconomic information releases – particularly FOMC announcements – lead to currency jumps. Using these jump predictors, investors can construct jump robust carry trades to mitigate left-tail risks.

JEL classification: G15, F31, C14

Keywords: jump prediction, jump robust carry trade, general jump regression, high-frequency exchange rate data

*For their comments and encouragement, we thank Cheol Eun, Ruslan Goyenko, Per Mykland, the participants at Stevanovich Center Conference on High Frequency Data at the University of Chicago, the Financial Management Association Annual Meeting, and the Multinational Finance Society Conference, and the seminar participants at the Georgia Institute of Technology.

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I. Introduction

A carry trade is a popular currency trading strategy in which investors invest in higher interest rate currencies and sell lower interest rate currencies. The popularity of carry trades is related to the well-known puzzle, the violation of uncovered interest rate parity (UIP).¹ Despite its popularity, the carry trade occasionally suffers from dramatic losses during unusually volatile markets.² One good example is the financial crisis of 2008. In this paper, we are interested in refining our understanding about such highly volatile currency markets to improve risk management.

Volatile markets are well represented by pricing models with jumps.³ Because jumps can generate excessive volatility, one can expect carry trade returns to be lower when larger sized jumps occur more frequently. We confirm this simple intuition in Figure 1, where we present carry trade returns depending on jump sizes and frequencies. Specifically, we group the whole sample period into High, Mid, and Low periods of days, using the 33rd and 67th percentiles of jump size and frequency distributions, and compute carry trade returns for each period. The carry trade returns during periods of high jump frequencies (sizes) are approximately 26% (23%) lower than those during periods of low jump frequencies (sizes). The differences in returns are economically and statistically significant. Given this significant negative relationship between jumps and carry trade returns, we aim to identify determinants that affect jump sizes and frequencies to hedge extreme risks involved in carry trades.

Because the currency markets operate for 24 hours in real-time, we identify currency jumps at intraday frequencies for better jump identification. For the potential determinants of intraday jumps, the sampling frequency can vary from intraday to lower frequencies such

¹UIP implies that the interest rate differential between two countries is canceled out by changes in the foreign exchange rate. However, empirically, the changes in the exchange rate tend to be insufficient to offset the interest rate differential. See, e.g., Hansen and Hodrick (1980), Bilson (1981), and Fama (1984).

²See Brunnermeier, Nagel, and Pedersen (2008), Menkhoff et al. (2012), and Daniel, Hodrick, and Lu (2017).

³See Bakshi, Carr, and Wu (2008), Jurek (2014), Farhi and Gabaix (2016), Chernov, Graveline, and Zviadadze (2018), and Lee and Wang (2019) for the impact of jumps on pricing in currency markets. See Andersen et al. (2003), Bollerslev, Law, and Tauchen (2008), and Huang and Tauchen (2005), indicating that the squared jumps are a substantial portion of realized variance.

as quarterly levels. We resolve this frequency mismatch with our flexible approach called a generalized jump regression (GJR), which allows us to link the intraday jumps with information variables observable at different frequencies. To consider information variables at lower frequencies, the GJR approach enables us to aggregate intraday jumps over a certain period of time and across currencies and to link the aggregated jump measures to information variables. Such time aggregations of jump sizes and frequencies expand a jump analysis that has been limited to an intraday level and an event-oriented study to the investigation of the relationship between jump measures and economic fundamentals. With the identified determinants of jump sizes and intensities, we filter out currencies with greater jump risks or rebalance currency portfolios to enhance risk management.

To provide a comprehensive empirical study that applies our approach to currency markets, we employ a large panel dataset covering 18 foreign exchange rates collected every 15 minutes over 17 years.⁴ At the intraday level, we find strong deterministic time-of-day effects, which indicate that jumps are more likely to arrive when global foreign exchange markets open and close. We formally test jump clustering effects in currency markets and find that currency jumps are more likely to occur in subsequent periods after jumps arrive in previous periods. This jump clustering effect is prolonged for approximately one day with decaying strength. These deterministic intraday jump patterns and clustering effects hold not only for individual currency jumps but also for common jumps that simultaneously arrive for multiple currencies.

Macroeconomic variables can be used to predict jumps in currency markets because economic news triggers jumps in asset prices. At intraday and daily frequencies, we investigate whether the times of prescheduled macroeconomic news releases can predict exchange rate jumps. After controlling for the deterministic intraday patterns and jump clustering effects, we find that Federal Open Market Committee (FOMC) announcements and nonfarm payroll employment are important information releases that are associated with greater jump

⁴The results provided in this paper are robust to other data frequencies (e.g., five minutes to one hour).

sizes and frequencies. Using national characteristics available at quarterly frequencies, we find a significant contemporaneous relationship between currency jumps and economic fundamentals. We also identify the predictive power of these economic fundamentals for future jump arrivals and sizes over the subsequent quarters. Among many macroeconomic variables (e.g., GDP, interest rates, M1, foreign direct investments, exports, and imports), GDP is significantly and negatively related to jumps aggregated over a quarter.

Finally, we demonstrate that our findings on jump predictors can substantially improve risk management for carry trades. In particular, we show that if carry trade investors unwind their original positions when jumps are more likely to occur, they earn approximately 80% higher cumulative returns from January 1999 to December 2015 (i.e., approximately 4.3% per annum).⁵ The Sharpe ratio increases from 0.5 to 1.2. Investors, using only the currencies that are less exposed to jumps, enhance the cumulative carry trade returns by an additional 4%. We refer to such carry trades of reducing the exposure to jump risks as *jump robust carry trades*. The jump robust carry trades have a higher skewness and certainty equivalent and a less dispersed return distribution than the regular carry trade. In essence, we conclude that the left-tail risk in carry trade returns can be partially predicted via information available beforehand (e.g., market opening times, jump clustering effects, or macroeconomic variables).

This paper is related to the following streams of the literature. First, it is related to recent studies that explain and predict currency investment returns. Brunnermeier, Nagel, and Pedersen (2008) shows the negative skewness (crash) of currency returns, while this paper stresses that low carry trade returns tend to coincide with large and frequent jumps. Because this paper focuses the effects of jumps on carry trade returns, it differs from Lustig, Roussanov, and Verdelhan (2011) and Menkhoff et al. (2012), which identify common factors related to interest rate differentials and volatility in currency markets. This paper uses return predictors (i.e., jumps) that are different from those in Bakshi and Panayotov (2013), which uses commodity returns, liquidity, and volatility in currency returns. In addition, this paper

⁵If we include transaction costs, the difference decreases to 71% (i.e., approximately 3.9% per annum).

extends the literature that relates currency returns to national characteristics by showing the significant relationship between currency jumps and GDP.⁶

Second, we provide various approaches to adjust the regular carry trade to avoid jump risks, called jump robust carry trades. Because our approaches are intended to enhance risk management, this paper differs from a recent study by Lee and Wang (2018), which proposes the jump modified carry trade. The jump modified carry trade requires investors to select currencies with high negative jump betas as investment currencies and is designed to achieve high carry trade returns. Although Lee and Wang (2019) also introduces a jump robust carry trade to compare the performances of different carry trades, its jump robust carry trade is based on the jump clustering effect, while our jump robust carry trades are based on the empirical results on jump predictions.⁷ In fact, we construct jump robust carry trades based on market opening times, jump clustering effects, and national characteristics and allow investors to use multiple approaches of avoiding jumps. Lee and Wang (2019) focuses on the jump modified carry trade, while we contribute to this literature by focusing on jump robust carry trades, further developing the idea, and presenting new results with detailed performance measures. For example, we show that jumps are not sufficiently compensated, and thus, investors can enhance their carry trade performance by avoiding predictable jumps based on our new empirical finding. In addition, unlike the jump modified carry trade that focuses on negative market jumps, our jump robust carry trades do not distinguish systematic and idiosyncratic jumps.

The jump robust carry trades differ from the volatility-managed portfolios of Moreira and Muir (2017) because our jump robust carry trades avoid extreme left-tail risks, while the volatility-managed portfolios reduce the exposure to volatility risks that are not sufficiently compensated by returns and are not always related to extreme jump risk. In addition, the jump robust carry trades use various information variables to predict the size and intensity

⁶E.g., Lustig and Verdelhan (2007) and Hassan (2013) demonstrate that consumption growth and GDP can explain currency returns.

⁷Lee and Wang (2019) shows that the jump robust carry trade has smaller volatility than the regular carry trades, while the jump modified carry trade has volatility similar to that of the regular carry trades.

of jumps, while the volatility-managed portfolios depend on the empirical fact that volatility does not change much over a short time. The jump robust carry trades are different from the crash neutral carry trades proposed in Jurek (2014) whose hedging strategy depends on how option market participants anticipate extreme depreciation in currency markets. Our jump robust carry trade is similar to the good carry of Bekaert and Panayotov (2017) in that it can supplement the existing risk-based explanations of carry trade returns. However, the good carry uses currencies with high Sharpe ratios, while our jump robust carry trade uses currencies with low jump frequencies and sizes.

Third, we suggest the GJR approach to connect intraday jumps with market information. It is an important methodological contribution, as this approach allows jumps to be used for an application in various markets. Our approach differs from jump regressions in Li, Todorov, and Tauchen (2017) in that they study relationship between jumps in asset prices and aggregate risk factors, while we study potentially nonlinear relationship between jump sizes and intensities and various information variables that can include aggregate risk factors. Our study of jump predictors based on information releases appears similar to studies that investigate the effect of macroannouncements on jumps and relate jumps to economic events.⁸ However, this paper provides the new theoretical supports for jump analyses. The literature investigates coincidence of jumps with an event and the conditional probability of jumps. For example, the inference method of Lahaye, Laurent, and Neely (2011), which is based on a Tobit-Probit framework, can be considered the special case of our GJR approach. In addition, the existing papers use the same frequencies of jumps as the data frequencies of information variables and announcements, while this paper, because of the GJR method, allows us to

⁸Lahaye, Laurent, and Neely (2011) characterizes jump dynamics in four exchange rates, stock market indexes, and bond futures and relates these jump arrivals to news releases. Using one currency, Evans (2011) shows that approximately one-third of jumps occur because of U.S. macroeconomic news announcements. Separating jumps into news-related jumps and non-news-related jumps, Evans (2011) reports that news-related jumps show more persistence and greater effects on microstructure variables (e.g., trading volume, tick frequency). Analyzing four currencies, Chatrath et al. (2014) reports that U.S. announcements can explain 9-15% of jumps and 22-56% of jump returns and that news-related jumps are not persistent. Chernov, Graveline, and Zviadadze (2018) indicates that many jumps are associated with macroeconomic and political news. Piccotti (2018) uses 14 exchange rates for four years and investigates the relationship between intraday jumps and macroeconomic news in the context of market efficiency and microstructures.

relate intraday jumps to information variables with low frequencies by aggregating jump sizes and frequencies. Moreover, we exploit the most extensive high-frequency exchange rate dataset in the literature.

Finally, this paper contributes to the literature on intraday patterns of currency returns. Ballie and Bollerslev (1990) and Andersen and Bollerslev (1998b) investigate the calendar day effects on exchange rate volatilities.⁹ This paper newly identifies that exchange rate jumps have deterministic patterns, even at the intraday level. We show how the patterns of jumps differ from those of volatility (e.g., the peak of the jump intensity comes before the peak of the volatility). Our intraday evidence is related to Breedon and Ranaldo (2013), which finds the order flow patterns in currency markets.¹⁰ Regarding the announcement effects, earlier papers, such as Engle et al. (1990) and Andersen et al. (2003), examine market efficiency and the speed of currency returns' reactions, while this paper focuses on extreme market predictions and considers the prediction of jump sizes and frequencies around prescheduled information release days (rather than realized information release days).

The remainder of this paper is organized as follows. Section II presents the testing procedure to identify the determinants of jump sizes and intensities. Section III introduces the sample exchange rates and jump predictors. Section IV characterizes the intraday patterns of foreign exchange rate jumps and the effects of scheduled U.S. information releases on jumps. Section V shows the relationship between jumps and macroeconomic fundamentals. Section VI proposes jump robust carry trades. Section VII concludes.

⁹Ballie and Bollerslev (1990) reports that the hourly patterns are similar across currencies and are related to opening and closing hours. Andersen and Bollerslev (1998b) shows that foreign exchange volatility increases at the opening times of the Tokyo and London markets and has a U-shaped pattern for a day.

¹⁰Breedon and Ranaldo (2013) finds that local currencies tend to depreciate during their own market opening hours. Using intraday quotes, trade intensity, and order flow data on DM/USD, Evans (2002) argues that the transactions driven by non-common knowledge can give rise to an equilibrium distribution of transaction prices rather than a single price level. When trade intensity is high, non-common knowledge yields significant variances and price movements.

II. Inference for Currency Jumps

In this section, we provide a model for foreign exchange rate processes and justify the use of aggregated jumps in the various regression analyses. We first describe a multiple currency market model that incorporates intraday volatility patterns and jump risks. A process for the k -th foreign exchange rate is represented by the following stochastic differential equation:

$$ds_{k,t} = \mu_{k,t}dt + \sigma_{k,t}f_{k,t}dW_{k,t} + Y_{k,t}dJ_{k,t}, \quad (1)$$

where $s_{k,t}$ is a log spot foreign exchange rate k at time t . The drift $\mu_{k,t}$ and volatility $\sigma_{k,t}f_{k,t}$ are $\mathcal{F}_t$ -adapted and bounded processes, where $\{\mathcal{F}_t : t \in [0, T]\}$ is information filtration and $W_{k,t}$ is a standard Brownian motion. $Y_{k,t}$ is the jump size at time t , and $dJ_{k,t}$ is the jump arrival process at time t .

$f_{k,t}$ is an adjustment factor for the k -th exchange rate's intraday volatility pattern around time t . As indicated by Andersen and Bollerslev (1998b), the intraday patterns of foreign exchange volatility exist and are closely related to the trading cycles of currency markets. If the volatility at time t is substantially higher than that in the previous period, the return around time t is more likely to be detected as a jump even if no jump occurs around time t . To avoid such spurious detection of jumps driven by trading mechanisms, we control for this pattern by incorporating it into the jump filtering procedure.¹¹ To confirm the performance of our approach, we perform a Monte Carlo simulation study, which shows that this jump detection method is effective in distinguishing jumps from the intraday volatility patterns. The details and results of the simulation is explained in Appendix B.

¹¹This consideration is motivated by Boudt, Croux, and Laurent (2011). We include $f_{k,t}$ to reduce jumps that are spuriously detected because of only the higher volatility associated with trading mechanisms. We estimate this quantity as $f_{k,t_i} = \text{Max}(1, RIV_{k,t_i})$ with $i \in \{0, 1, 2, \dots, n\}$, where t_i is the $(i + 1)$ -th observation and RIV_{k,t_i} is an average intraday volatility at time t_i . Practically, when 15-minute intraday data for D days are used, $RIV_{k,t_i} = \sum_{d=1}^D |r_{k,d,m}| / (\frac{1}{96}) \sum_{m=1}^{96} \sum_{d=1}^D |r_{k,d,m}|$, where $r_{k,d,m}$ is the m -th 15-minute log changes in the k -th foreign exchange rate on day d and $m = i - [i/96] \times 96 + 1$.

A. General Jump Regression Models

To characterize the patterns of jump sizes and arrivals in relation to information variables, we impose a regression framework that can link the jump sizes or arrivals to the information variables available at frequencies chosen by analysts. We consider a general regression model for a jump size $Y_{k,t}$ on which we impose no distributional assumption, except for the existence of its mean μ_Y and standard deviation σ_Y . The jump size $Y_{k,t}$ for the k -th currency is specified by a general regression model with a parameter θ , as shown in the following equation:

$$\int_{s \in [t, t+\delta]} E[h(Y_{k,s})] ds = \gamma_{\text{size}}(t, X_{k,t}; \theta), \quad (2)$$

where $X_{k,t}$ denotes the information variable that affects the jump sizes over time interval $[t, t + \delta]$ in the k -th exchange rate with δ chosen to reflect the frequency of analysis. $h(\cdot)$ is a continuous function of jump sizes that allows for the transformation of jump sizes.¹² γ_{size} is a general function of the time and information variables and can be currency specific or related to broader market conditions. Accordingly, with this jump size model, we can investigate how risks related to jump sizes are linked to various economic variables.

For the jump intensity regression, we consider a model similar to that in Lee (2012).¹³ Each currency jump follows a doubly stochastic Poisson process $J_{k,t}$ with an integrated stochastic intensity $\Lambda_{k,t|\theta} = \int_t^{t+\delta} d\Lambda_{k,s|\theta}$. Its integrated intensity process $\Lambda_{k,t|\theta}$ is specified as

$$\Lambda_{k,t|\theta} = \int_{s \in [t, t+\delta]} E[dJ_{k,s}] = \gamma_{\text{intensity}}(t, X_{k,t}; \theta), \quad (3)$$

where $X_{k,t}$ denotes the information variable that affects the likelihood of aggregated jump arrivals over the time interval $[t, t + \delta]$ and $\gamma_{\text{intensity}}$ is a general function of time and information covariates.

¹²The time interval can be an intraday time interval for an intraday analysis, a one-day interval for a daily analysis, a one-month interval for a monthly analysis, or a one-quarter interval for a quarterly analysis.

¹³Lee (2012) proposes an inference technique called the jump predictor test, which is based on a likelihood inference for stochastic jump intensity models within a jump diffusion framework.

We assume a time horizon of $[0, T]$ and n observations within the horizon. The total number of days is D , and the total number of quarters is Q , such that $[0, T] = \cup_{d=1}^D D_d = \cup_{q=1}^Q Q_q$ with the daily interval D_d for day d and the quarterly interval Q_q for quarter q . The observation of the k -th exchange rate $s_{k,t}$ and the informational variables $X_{k,t}$ occurs only at discrete times $0 = t_0 < t_1 < \dots < t_n = T$. For the sake of simplicity, we set equally spaced observation times: $\Delta t = t_i - t_{i-1} = T/n$. The assumptions imposed on each component of this model are presented in Appendix A. The assumptions allow for stochastic drift, volatility, and jumps, which accommodate most of the general models in the literature.

B. *Inference for the General Jump Regression Model*

To identify latent jump sizes and times in continuous time models, as established in the previous subsection, we first employ multiple jump detection tests on the time series of exchange rate data. Using these filtered jumps, we estimate jump size and intensity regression models by linking jumps with information variables via chosen estimating functions.¹⁴ We can choose estimation functions in accordance with intended jump regression models and make likelihood inferences and other least square error approaches. The limiting distribution of parameter estimates allows us to perform significance tests to determine important information variables for jump size and intensity predictions. In addition, we make proper time aggregation of jumps, depending on the frequency of information data, because jumps are detected at intraday levels, while information variables can be observable at longer frequencies (e.g., daily and quarterly). The time aggregation allows us to link intraday jumps to information variables with lower frequencies.

We make the simple but important generalization of the inference method proposed in Lee (2012) in multiple dimensions. First, we estimate jump size regressions, which are not considered in the aforementioned study. Separate analyses on jump size determinants

¹⁴Appendix A provides all the related technical details, including the formal definition of the estimating functions and the justification for why optimizing the partial estimating function is sufficient to make an inference regarding the generalized jump regression that we assume in this paper.

are important because the outcomes can offer additional insights into the severity of jump events, which may not be adequately captured by the jump intensity studies alone. Second, our approach accommodates the use of information data available at various frequencies – from intraday to quarterly levels. Accordingly, researchers can perform more flexible research that uses jumps and investigate how intraday jumps are related to economic variables with a lower frequency. This generalization is new to the literature and accommodates many generalized linear models, such as logistic regressions, Poisson regressions, and regular panel regressions, for jumps embedded in the jump diffusion model framework in this paper.

III. Data

A. *Intraday Exchange Rates*

To investigate the predictability of foreign exchange rate jumps, we use 18 bilateral spot rates from January 1999 to December 2015. The sample includes the following currencies: the Australian Dollar (AUD), Brazilian Real (BRL), Canadian Dollar (CAD), Euro (EUR), Hungarian Forint (HUF), Indian Rupee (INR), Japanese Yen (JPY), Korean Won (KRW), Norwegian Krone (NOK), New Zealand Dollar (NZD), Polish Zloty (PLN), Russian Ruble (RUB), Singapore Dollar (SGD), South African Rand (ZAR), Swedish Krona (SEK), Swiss Franc (CHF), Turkish Lira (TRY), and British Pound (GBP). We select these currencies by considering the trading volumes and data availability and believe that our data are very comprehensive intraday exchange rate data in the literature. These data are obtained from Olsen Financial Technologies, which collects and provides credible high-frequency data by using different consolidation services such as Reuters, Knight Ridder, GTIS, and Tenfore. In addition, intraday exchange rate data from Olsen Financial Technologies are widely used in the literature (e.g., Andersen and Bollerslev (1998a), Andersen et al. (2001b), Lahaye et al. (2011)). The main analysis in this paper uses the mid quotes obtained every 15 minutes, but the results are robust to different data frequencies (e.g., five minutes to one hour) and

the consideration of bid-ask spreads. All the exchange rates are expressed in USD per unit of foreign currency. The specified time is based on Greenwich Mean Time (GMT).

Although the foreign exchange markets operate 24 hours a day, trading intensity tends to decrease on weekends and holidays. To avoid such a clear calendar day effect, we eliminate weekends and holidays including Christmas, Independence Day, Thanksgiving, and New Year’s Eve/Day. To obtain the undistorted distributional characteristics of returns and to delete uncaptured (e.g., irregular or foreign) holidays, we omit days with fewer than 50 observations. In addition, following Lustig, Roussanov, and Verdelhan (2011), we remove observations that clearly violate the covered interest rate parity (CIP).¹⁵ Finally, this paper analyzes 1,100-4,400 days (of 6,209 days in total) or 71,000-410,000 observations (of 596,064 observations in total) per exchange rate (see Column “# Test” in Table 2).

We first report the distributions of the daily realized returns and normalized returns for the 18 foreign exchange rates as summary statistics. We calculate realized moments by following earlier studies.¹⁶ Panel A of Table 1 shows the distribution of the returns. The absolute values of the means are much smaller than the standard deviations for all the foreign exchanges. The returns of 13 foreign exchange rates are negatively skewed. The distributions of daily realized returns for all exchange rates have fatter tails than a normal distribution because the kurtosis for each exchange rate is greater than three. However, the

¹⁵E.g., we delete the observations from October 2000 to November 2001 for TRY. In addition, we investigate the absolute differentials between forward rates and CIP implied exchange rates and then remove the observations whose deviations are more than five times of the standard deviation. For example, we remove the observations in December 2008 for KRW and March 1999 for NZD.

¹⁶See, e.g., Andersen et al. (2001a, 2001b), Bollerslev, Law, and Tauchen (2008), and Amaya et al. (2015). Without a confusion, “return” $r_{.,t}$ means changes in exchange rates, and “excess return” or “carry trade return” $rx_{.,t}$ includes the interest rate differential. If the price process is assumed to follow Equation (1), the daily realized return (DR) of foreign exchange rate k on day d is

$$DR_{k,d} = \sum_{t_i \in D_d} r_{k,t_i}, \quad \{t_i | d = [i/96] + 1, \quad 0 \leq t_i \leq T\} \in D_d, \quad d \in [1, 2, \dots, D-1, D],$$

where $r_{k,t_i} = s_{k,t_i} - s_{k,t_{i-1}}$ is the (15-minute) log return (i.e., changes in the exchange rate). D_d is the time interval for day d , D is the total number of days over $[0, T]$, and t_i is the i -th observation. The normalized return (NR) is defined as the daily return divided by the daily realized standard deviation (DRSD) as follows:

$$NR_{k,d} = DR_{k,d} / DRSD_{k,d} \quad \text{with} \quad DRSD_{k,d} = DRV_{k,d}^{1/2}, \quad \text{where} \quad DRV_{k,d} = \sum_{t_i \in D_d} r_{k,t_i}^2.$$

distributions of the normalized returns are closer to a normal distribution than those of the realized returns because the average skewness decreases in absolute values and because the kurtosis for each currency ranges from 2.6 to 3.4 after normalization.¹⁷

B. *Jump Predictor*

To predict jump arrivals and sizes at various frequencies, we use jump predictors with intraday to quarterly frequencies. We include such a high frequency pattern because investors can have specific rebalancing hours and because this intraday analysis can capture jump arrivals that are incurred by routine trading flows. In addition, we are motivated by the intraday volatility patterns in currency markets (Andersen and Bollerslev, 1998b) and the higher jump likelihood in the U.S. stock markets during the market opening times (Lee, 2012). Specifically, if jumps have an intraday pattern, times can be used to predict jumps. Therefore, we hypothesize that the likelihood of exchange rate jump arrivals is related to market hours. Another possible jump predictor at intraday frequencies is based on jump clustering effects. If jumps tend to be clustered, an observed (or realized) jump implies the higher likelihood of jumps in a subsequent period.

We examine whether prescheduled information releases predict jumps. As argued in the literature on jumps, news flows are the important drivers of jumps in financial markets. Therefore, the releases of economic policies and information that are related to exchange rates can trigger exchange rate jumps. Because this paper aims to predict jumps, we need to know the times of information releases in advance. Therefore, we focus on the U.S. information whose releases are prescheduled. The U.S. oriented news is likely to be systematic because of the creation of our exchange rates, and its release timings are usually prespecified.¹⁸ Specifically, considering the literature, we use the prescheduled times of FOMC

¹⁷These results are consistent with the previous results for the U.S. stock market (Andersen et al., 2001a) and the results of a previous paper for currency markets (Andersen et al., 2001b).

¹⁸Information in other countries is likely to be idiosyncratic. Central banks and government agencies in our sample countries tend to announce release schedules on a daily basis without a specific time. However, we also include the realized announcements of monetary policies and (un)employment information in the

announcements, GDP, international trade, nonfarm payroll employment, personal income, producer price index (PPI), and consumer price index (CPI) to identify important news releases.¹⁹ We do not use the surprise measures of the above announcements. Because the surprise is the difference between realization and expectation, it cannot be obtained before the announcements and are not proper to jump prediction.

We use various sources to collect the information release times. Following the scheduled meetings of the FOMC, which occur eight times annually, FOMC announcements have been released at 14:15 Eastern Standard Time (EST) since 1994 (Lucca and Moench, 2015). To find the scheduled times of FOMC announcements, we use Lucca and Moench (2015) and the Federal Reserve web-site. The BEA releases GDP, trade, and personal income information at 08:30 EST every month. The Bureau of Labor Statistics provides nonfarm payroll employment, PPI, and CPI information at 08:30 EST every month. To make the time zones consistent, we convert these times to the GMT-based times, considering daylight saving time in the U.S. Over the entire sample period, we consider 136 FOMC, 204 GDP, 203 trade, 204 personal income, 204 nonfarm payroll employment, 204 PPI, and 204 CPI information releases.²⁰

For longer-term (i.e., quarterly) analysis, we choose the national characteristics of countries that use our sample currencies. Considering the theories on exchange rate determination, we employ the following macroeconomic variables as proxies for national characteristics. GDP is adopted as a proxy for country sizes, which can affect currency returns as indicated by Hassan (2013). Interest rates are also important in currency returns according to Ready, Roussanov, and Ward (2016) and are directly included in computing excess returns. In addition, interest rates can affect foreign exchange rates via covered and uncovered interest

euro zone and Japan. We find that this additional inclusion does not qualitatively change our results and that the effect of these additional releases is weak for the other sample countries.

¹⁹See Andersen et al. (2003) and Lahaye, Laurent, and Neely (2011) for the list of macroeconomic news releases.

²⁰Although quarterly GDP is announced as an advance (first) estimate in the first month, as a preliminary (second) estimate in the next month, and as a final (third) estimate in two months, our main analysis does not distinguish between these releases.

rate parities.²¹ Exports and imports are included because of the classical argument that an increase in the net exports of a country induces the country’s currency to appreciate toward the equilibrium (see Frenkel and Razin (1987) for Mundell-Fleming model) and because of the possible relationships between trade and foreign exchange volatility (Barron, 1976) and currency misalignment (Dornbusch, 1996). The use of M1 is motivated by the equation of exchange (Fisher, 1911) and purchasing power parity (PPP). The amount of foreign direct investment (FDI) serves as a proxy for foreign currency demand with an investment motivation. The data for export to and import from the U.S. are obtained from the U.S. Department of Commerce. The other variables are collected from Datastream. Panel B of Table 1 summarizes the macroeconomic variables by showing the cross-sectional maximums, means, and minimums.

C. *Summary Statistics of Detected Currency Jumps*

We apply the jump test statistics, as described in Definition 1 of Appendix A, for each foreign exchange rate. For the main analyses in this study, we use jumps that are filtered under the 5% significance level. Considering Huang and Tauchen (2005) and Andersen, Bollerslev, and Dobrev (2007), we also use the 0.1% significance level and find the robust results. Table 2 summarizes the numbers of detected jumps and the realized jump sizes. To examine whether any asymmetric feature exists, we classify jumps as positive or negative ones.

We report the total number of jump tests applied, the number of jumps detected, and the relative frequency. For example, jumps for AUD occur 564 times (#Jp), and the percentage of intraday jumps (%Jp) is 0.14%. Overall, jumps arrive for 0.1-1.4% of the time points, and the average jump frequency is approximately 0.35%. Intuitively, this frequency indicates that a jump is likely to arrive every four to five days. The currency with the most infrequent (frequent) jumps is SEK (INR). Because the number of positive jumps is similar to that of negative jumps, there is symmetry in the number of jump arrivals. In the “# J Day” and “%

²¹The interest rate parity became widely known due to Keynes.

J Day” columns, we report the number of days with at least one jump and the percentage of days with jumps relative to the total number of days. The percentage of jump days ranges from 7.9% for SEK to 38% for KRW, and the average is 13.7%. This frequency is higher than that in the stock market.²² The higher jump frequencies of exchange rates are consistent with Lahaye, Laurent, and Neely (2011), Evans (2011), and Chatrath et al. (2014). The last six columns provide the 25th, 50th, and 75th percentiles of positive and negative jump size distributions. Asymmetry between negative and positive jump sizes is not identified.

The time series for the jump frequencies and sizes are provided in Figure 2. Panel A presents the time series of the daily number of jumps averaged across the 18 exchange rates, which appears to indicate jump clustering. Panel B demonstrates the daily sum of the absolute values of jump sizes averaged across the 18 currencies. The number and size of jumps during the U.S. recession appear to be greater than those during the expansion.²³

IV. Determinants of Intraday Jumps

Currency markets are open for 24 hours a day and the most active financial markets up to intraday levels. It is important to characterize the predictable patterns and dynamics of jumps at intraday levels. If there is a predictable intraday pattern of jumps, investors can use the results for risk management (e.g., setting their rebalancing times to avoid a predictable jumps). This examination of an intraday jump pattern is also important because findings from it can be used to identify other patterns, such as clustering, or to distinguish information-driven jumps from non-information-driven jumps in subsequent analyses. Therefore, in this section, we formally test the intraday seasonality of jump arrivals and potential currency jump clustering effects over times at intraday levels. Another way to improve currency jump prediction is to take advantage of the times of prescheduled information releases.

²²According to Bollerslev, Law, and Tauchen (2008), there are 137 jump days from 2001 to 2005 when jumps are detected at the 5% significance level (on average, a jump arrives every 10 to 15 days). Lee (2012) reports 1.82 jumps per month.

²³According to the National Bureau of Economic Research (NBER), the recession periods are from March 2001 to November 2001 and from December 2007 to June 2009 during the whole sample period.

These tests are performed on jumps in individual currencies and on common jumps.²⁴ Our analyses do not distinguish positive and negative jumps, but the separation of jump signs does not change the main idea.

A. Global Jump Arrivals around the Clock

Before formally testing the existence of intraday jump patterns, we report the percentage of jumps that occur over an hour to understand the overall patterns for all currency jumps in the sample. In Table 3, the 18 foreign exchange rates are listed according to the time zones. The results for the foreign exchange rates of Asian-Pacific countries are presented on the left, those of European and African countries are presented in the middle, and those of American countries are presented on the right. Five arrow lines are added to indicate the operating hours of the major global foreign exchange markets. For example, in the column denoted NZD, we can interpret that 3.4% of the jumps occur between 00:00 and 01:00 GMT. The other results can be interpreted similarly.

Overall, Table 3 demonstrates that foreign exchange jumps are more likely to occur around the times when the major markets open and close. The jumps of a particular currency are more likely to arrive around the opening hours of the corresponding regional or closer global markets. For AUD, more than 20% of the jumps occur from 00:00 to 02:00, when the Tokyo market opens. In the case of all European and African currencies, more than 20% of the jumps arrive between 06:00 and 09:00 (the London market opens 08:00 in the winter and 07:00 in the summer). Furthermore, when the New York market opens (i.e., 11:00 to 13:00), the currency with the highest percentage of jumps is BRL, and CAD also has relatively high jump frequency. Admittedly, there are exceptions, such as JPY and TRY. For instance, the hourly percentages of the jump arrivals for JPY are distributed in a relatively even manner compared with the others. For TRY, jumps most frequently occur from 05:00 to 07:00 when the local market in Istanbul opens (Panel B). Such a tendency can arise because of the high

²⁴The intraday pattern of jump sizes is not reported in this section because it does not provide direct implications for this study. However, we show jump size clustering in Appendix C.

dependence on the local and U.S. markets.

B. *Time-of-Day Effect*

The strong time dependence of jump arrivals in the previous subsection indicates the potential for time-of-day effects. In this subsection, we perform a formal significance test to determine whether jump arrivals are driven by market hours. Because foreign exchange markets could show jump clustering effects, similar to the U.S. stock market, we control for the potential jump clustering effects for the formal tests.

We run the following jump intensity regression model for each foreign exchange rate k :

$$d\Lambda_{k,t} = \frac{1}{1 + \exp(-\theta_{k,0} - \sum_{j=1}^7 \theta_{k,j} X_{j,t} - \sum_{h=0}^{22} \delta_{k,h} T_{h,t} - \gamma_k CL_{k,t})}, \quad (4)$$

where $d\Lambda_{k,t}$ is the instantaneous jump intensity for the k -th foreign exchange rate (i.e., $k = 1, 2, \dots, 18$) at time t . $X_{j,t}$ is an indicator that takes the value of unity when a type of information release is scheduled or zero otherwise. $T_{h,t}$ is a time indicator for time t that belongs to each trading hour between h and $h + 1$, and $CL_{k,t}$ is a dummy variable for the jump clustering effects. To investigate the time-of-day effect, we set $\theta_{k,j} = 0$ and use 30 minutes for the clustering periods (i.e., $CL_{k,t} = I_{\left[\int_{t-30}^t \min dJ_{k,s} > 0\right]}$).

This model can be applied to cojumps, which are simultaneous jumps of multiple exchange rates. For risk management and investment purposes, such application is important in that common currency jumps can influence systematic jump arrivals. We define “*cojump m*” as the case in which jumps simultaneously occur for at least m exchange rates during the same period. We identify 1,283 cojumps 2, 163 cojumps 5, and 29 cojumps 9. Considering the total number of jumps, we use cojumps 2 and 5 in our analysis.

Table 4 indicates that jumps in all currency markets are more likely to occur from 06:00 to 12:00 GMT than at other times. This time period coincides with Tokyo market closing hours and London market opening hours. The magnitude and significance of the coefficients

of the time indicators decrease at 04:00 for currencies in the Asian-Pacific area. After 06:00, jumps are more likely to occur with the exception of Asian-Pacific currencies such as the AUD and SGD and American currencies such as the BRL. Then, the likelihood of jumps is significantly higher near the opening time of the New York market and the closing time of the London market, after which the level of significance drops rapidly. Along with the findings in the previous subsection, these results can arise because of the local market dependency of currency investments. The average coefficients of the time indicators for the 18 foreign exchange rates and the coefficients for cojumps 2 and 5 are graphically presented in Figure 3, which also confirms that a change in the jump likelihood substantially depends on the operating hours of the major global markets.

C. Jump Clustering Effect

Motivated by the volatility clustering effect, we hypothesize that there is a jump clustering effect in currency markets, which suggests that a current exchange rate jump tends to increase the likelihood of subsequent jumps. This jump clustering effect can enhance jump predictions. Therefore, we thoroughly investigate the existence of the jump clustering effect and examine how long this effect remains by varying the clustering periods.

We apply the same jump intensity model as in the previous subsection (i.e., Equation (4)) to individual exchange rate jumps and cojumps. However, we use various jump clustering indicators with different clustering periods (i.e., 30 minutes, 1 hour, 2 hours, 4 hours, 8 hours, 16 hours, and 1 day) and consider time indicators as control variables.

In Table 5, the positive coefficients on the cluster dummies strongly indicate the existence of jump clustering for every foreign exchange rate at the 1% significance level. Accordingly, if we observe a jump for an exchange rate, we can expect that another jump for that exchange rate is more likely to occur within the clustering periods. For all the exchange rates, the clustering effect does not disappear for one day, but the strength decreases over time. The 30-minute jump cluster has the strongest effect in terms of the magnitudes and z -statistics

of coefficient estimates. In addition, cojumps provide results similar to those of individual exchange rates. Because the jump clustering effect is the strongest for the 30-minute period, we use the 30-minute cluster when we need to control this clustering effect for our analyses.

D. *Informational Effect on Jump Intensity and Size*

Because macroeconomic news is often periodically released at prespecified times and such announcements can result in jumps, we investigate whether jump intensities and sizes at scheduled information release times are greater than usual ones. To examine potential increases in the likelihood of jumps that result from U.S. news announcements, we use Equation (4) and remove the restriction of $\theta_{k,j} = 0$. For information releases (i.e., $X_{j,t}$), We use FOMC announcement, GDP, trade, personal income, nonfarm payroll employment, PPI, and CPI.²⁵

Table 6 presents estimation results for the jump intensity model, indicating that the impact of FOMC announcements and nonfarm payroll employment is significant for 17 of the 18 currencies and for cojumps. Similarly, the coefficients of GDP news for 11 exchange rates, trade news for 8 exchange rates, and CPI news for 12 exchange rates are significant at the 5% level. Notably, FOMC announcements are the most important in terms of the magnitude of the impact and the precision of the results. By contrast, for personal income and PPI news releases, the small numbers of currencies provide positively significant coefficients. The coefficients in this table can be interpreted as changes in jump likelihood relative to times when there is no corresponding information release. For example, for AUD, the coefficient on the indicator for FOMC announcement times is 4.1, which means that the odds ratio increases $e^{4.1} (\approx 60.34)$ times when FOMC announcements are scheduled.

Separate analyses for jump size prediction can offer additional insights into the impact of jump events. Hence, we test how these information events contribute to unusual uncertainty

²⁵Although there are other scheduled information releases, we include these seven variables. First, in Lahaye, Laurent, and Neely (2011), the conditional probability of jump arrivals at the other information release times are negligible. Second, specifying the narrow time spans for information releases in other countries is difficult. Because of these features, other information releases are not appropriate for our research purpose.

and generate extreme volatility through jumps by running the following jump size models:

$$E(|Y_{k,t}|) = \theta_{k,0} + \sum_{j=1}^7 \theta_{k,j} X_{j,t} + \sum_{h=0}^{22} \delta_{k,h} T_{h,t} + \gamma_{k,in} SC_{k,t}^{inner} + \gamma_{k,out} SC_{k,t}^{outer}, \quad (5)$$

where $|Y_{k,t}|$ is the absolute value of the jump size for the k -th foreign exchange rate and cojumps 2 and 5 (i.e., $k = 1, 2, \dots, 18, \text{coj}(2), \text{and } \text{coj}(5)$) at time t . Unlike the jump intensity model above, this jump volatility model controls for jump size clustering because it examines the impact on jump sizes.²⁶ $SC_{k,t}^{size}$ with $size = inner, outer$ is an indicator for the 30-minute jump size cluster, which takes the value of unity when at least a jump with an inner (or outer) quartile size arrives within 30 minutes prior to time t .

Table 7 shows the results for the jump size model. The impacts of U.S. GDP and trade information releases are positively significant for only two and five exchange rates, respectively, whereas those of FOMC announcements and nonfarm payroll employment are positively significant for 16 and 17 individual currencies and cojumps, respectively. Personal income, PPI, and CPI also provide positive and significant coefficients for the only a few currencies. The larger coefficients on FOMC announcements indicate that FOMC announcements amplify instantaneous volatility through jumps. For example, the size of the AUD jump coinciding with FOMC announcements tends to be, on average, 3.0 b.p. larger than usual ones.

In both jump intensity and size analyses, the effects of FOMC announcements are more distinct in both magnitude and significance, whereas those of the other information releases are weaker or nearly negligible for some currencies.²⁷ The strong results for FOMC announcements reflect the direct effect of monetary policies in foreign exchange markets. First, FOMC decisions, including decisions related to government intervention, interest rates, and money supply, are directly related to the value of the USD. Second, FOMC decisions are related to

²⁶The jump size clustering issue can be studied at intraday levels, as shown in Appendix C.

²⁷Although this paper emphasizes the important contribution of FOMC announcements to exchange rate jumps, it differs from Mueller, Tahbaz-Salehi, and Vedolin (2017) and Karnaukh (2017). Our paper predicts jumps on FOMC announcement days, while Mueller, Tahbaz-Salehi, and Vedolin (2017) explains higher returns on FOMC announcement days. In addition, this paper uses FOMC announcements as jump predictors, while Karnaukh (2017) uses other variables as the predictors of returns on FOMC announcement days.

future discrete changes in the economy, while the releases of macroeconomic information are the periodic announcements of flow variables about the past.

The results in Tables 6 and 7 are robust to the additional inclusion of other information releases in other countries. We add the most influential information and economies (i.e., monetary policy announcements and (un)employment information releases in the euro zone and Japan) as independent variables. This analysis provides similar results, and the added information releases show a weak or insignificant influence on other countries' currencies. To consider whether there is a difference in response times for information releases, we aggregate intraday jumps over a longer time horizon and link the aggregated jumps to information variables as indicated in Appendix D.

V. The Effect of National Characteristics

Because carry trades involve taking positions on multiple currencies, it would be useful to know whether national characteristics are significantly associated with currency jump sizes and frequencies. According to cross-sectional differences in jump sizes and frequencies across currencies, we can choose carry trade currencies with intended risk profiles and manage jump risks. For this analysis, we extend our analysis horizon to longer periods because much of the data on national characteristics are available on a quarterly basis and because economic fundamentals are unlikely to change dramatically over a short period of time. Therefore, we make the time aggregations of jump arrivals and sizes over a quarter to link them to the corresponding information. Although the results in this section are based on the full sample, subsample analyses that use only the currencies of relatively large countries and/or periods beyond those associated with the U.S. recessions provide robust results.

A. Quarterly Effect on Expected Number of Jumps

In this subsection, we use a jump intensity regression to identify national characteristics that are more likely to influence jump arrivals. Specifically, we aggregate the number of intraday currency jumps detected in the k -th foreign exchange rates over quarter q and denote it by $\int_{s \in Q_q} dJ_{k,s}$ with $Q_q = \{s | s \text{ belongs to quarter } q\}$. Then, we set the integrated currency jump intensity model for quarter q using the following Poisson linking function:

$$E\left(\int_{s \in Q_q} dJ_{k,s}\right) = \exp\left(\alpha + \sum_{l=1}^7 \theta_l X_{k,q,l} + \sum_{i=1}^{17} \delta_i C_i + \delta_{18} REC_q\right), \quad (6)$$

where $X_{k,q,l}$ is the l -th macroeconomic variable of the country with exchange rate k during quarter q , C_i is a dummy variable to control for the fixed effects of country i , and $REC_q = I_{[\text{quarter } q \text{ belongs the recession in the U.S.}]}$ is an indicator to control for the time effect due to business cycles. The regressors X 's, national characteristics, are defined as follows:

$X_{k,q,1} = \log(GDP_{k,q}) - \log(GDP_{US,q})$ is the GDP difference between country with currency k and the U.S.;²⁸

$X_{k,q,2} = Export_{k,q} - Import_{k,q}$ is the trade balances (net exports) between a country with currency k and the U.S.;

$X_{k,q,3} = interest_{k,q} - interest_{US,q}$ is the quarterly average of the interest rate differential between a country with currency k and the U.S.;

$X_{k,q,4} = (\Delta M1/M1)_{k,q} - (\Delta M1/M1)_{US,q}$ is the difference in the M1 growth rates between a country with currency k and the U.S.;²⁹

$X_{k,q,5} = Export_{k,q} + Import_{k,q}$ is the trade volume in relation to the U.S.;

$X_{k,q,6} = FDI_{k,q} - FDI_{US,q}$ is the net FDI inflows of a country with currency k minus those of the U.S.;

and $X_{k,q,7} = X_{k,q,5}/GDP_{k,q}$ is the U.S. related trade propensity. Because every foreign

²⁸We use the log of GDP because the euro area and the U.S. have much greater GDP than other countries.

²⁹We use quarter-to-quarter money base changes for unit consistency. Money base data are provided in local currencies.

exchange rate in this paper is the relative price of a currency denoted in USD, the regressors are expressed against the corresponding values in the U.S.

The first and third columns of Table 8 show the expected number of jumps that is estimated from the jump intensity models integrated over a quarter. The first column includes the results based on the contemporaneous regressors, and the third column includes those based on the one-quarter lagged regressors (i.e., $E\left(\int_{s \in Q_{q+1}} dJ_{k,s}\right) = \exp\left(\alpha + \sum_{l=1}^7 \theta_l X_{k,q,l} + \sum_{i=1}^{17} \delta_i C_i + \delta_{18} REC_q\right)$). Both columns provide similar results.

The coefficients of the GDP difference are significantly negative at the 1% level, implying that the number of individual currency jumps for a quarter is expected to be lower for countries with greater GDP. This finding arises because economies with greater GDP tend to be better at diversifying shocks and, in turn, experience less extreme excess volatility in the form of individual currency jumps. Other national characteristics are not significant in both contemporaneous and predictive regressions.

B. *Quarterly Effect on Expected Jump Sizes*

In this subsection, we study the relationship between national characteristics and jump sizes. We aggregate intraday jump sizes by taking the sum of the absolute values of jump sizes in the k -th exchange rate in quarter q (i.e., $\int_{s \in Q_q} |Y_{k,s}| ds$). We then set the jump size regression model over a quarter, as shown in the following panel regression model:

$$E\left(\int_{s \in Q_q} |Y_{k,s}| ds\right) = \alpha + \sum_{l=1}^7 \theta_l X_{k,q,l} + \sum_{i=1}^{17} \delta_i C_i + \delta_{18} REC_q, \quad (7)$$

where $X_{k,q,l}$, C_i , and REC_q are all defined as in the previous subsection.

The regression results are presented in the second and fourth columns of Table 8. As in the previous subsection, the second column reports the results found with the contemporaneous regressors, whereas the fourth column presents those found with the one-quarter lagged regressors. The contemporaneous and predictive analyses provide qualitatively similar re-

sults. Jump sizes are negatively related to GDP and trade propensity, and the coefficients are significant at the 5% level.

In the regressions of this section, the macrovariables are not dramatically changing in a quarter-to-quarter basis. The results mainly show the cross-sectional relationship between currency jumps and national characteristics. Moreover, our results in this section indicate that GDP can be used to predict jump frequencies and jump sizes in the subsequent quarter. These findings are valuable for longer-term investors and currency risk managers. Considering that jumps are more frequent and larger for the currencies of countries with lower GDPs, investors who are concerned about extreme losses during volatile periods can exclude the currencies of small economies in their carry trades.

VI. Implications for Carry Trades

This section shows how investors use the results in the previous sections (i.e., jump predictability) to avoid unusual risks during extremely volatile periods and how effective the suggested approach is.

A. Introduction of Jump Robust Carry Trades

One simple way to reduce exposure to a risk is to avoid taking any investment position during the times with greater expected risks. Carry trade returns are lower when jumps occur frequently and/or larger-sized jumps arrive. If investors take a zero position when jumps are expected to occur, they can enhance their investment performance. Using this intuition, we consider carry trade strategies that temporarily reduce the exposure to currency jump risks and call the strategies *jump robust carry trades*.³⁰ We demonstrate how investors who take advantage of our findings can construct the jump robust carry trades.

³⁰The jump robust carry trade described in this section differs from the trading strategy in Novotny, Petrov, and Urga (2015); the former is designed to avoid jumps, while the latter is designed to speculate on jump size clustering.

Specifically, considering the time-of-day effect, jump robust investors hold no carry trade position around the Tokyo market closing time and the London market opening time because approximately 30% of jumps arrive from 06:00 to 10:00 GMT (Subsection IV.B). Another way of constructing jump robust carry trades is that investors unwind their carry trade position if they observe jumps in exchange rates. Because of jump and jump size clustering effects (Subsection IV.C), a jump in the current period can predict another jump in the subsequent period. Moreover, investors can avoid times when important information (e.g., FOMC announcements and nonfarm payroll employment) is scheduled to be released (Subsection IV.D). Finally, motivated by evidence from the quarterly analysis (Section V), investors can use only the currencies of larger countries for their carry trades (instead of all 18 currencies). By using a smaller number of currencies and holding no position at prespecified times, these investors are less likely to have a carry trade position when large jumps arrive. If unusually severe losses occur during periods of higher volatility and if the jump prediction is, on average, correct, jump robust carry trades are expected to circumvent losses and achieve higher returns.³¹ Although we suggest four approaches for the jump robust carry trades, investors can combine some of the above approaches by considering their investment purposes and frequencies.

The jump robust carry trades are different from the crash neutral carry trades in Jurek (2014). For the crash neutral carry trades, investors use a put option to hedge extreme depreciation of a foreign currency, while for the jump robust carry trades, they take a zero position if frequent and/or large jumps are predicted. The strategy in Jurek (2014) differs from the jump robust strategy in this paper because its hedge depends on market expectations of extreme depreciation implied in put options. Moreover, the jump robust carry trade differs from the jump modified carry trade in Lee and Wang (2019) in terms of the purposes and approaches. The jump robust carry trade is to cut the left tail of carry

³¹The losses during high-volatility periods can result from the appreciation of funding currencies. If we consider volatility to be a proxy for uncertainty, increased uncertainty motivates investors to move to safe haven currencies, such as JPY and CHF, which are usually lower interest rate currencies.

trade returns by reducing the investments during a certain period of times, while the jump modified carry trade is to achieve high returns of carry trades by selecting currencies with high expected returns as investment currencies. Because of such differences, the jump robust carry trade shows lower volatility, while the jump modified carry trade gives higher returns.³²

B. Performance of Jump Robust Carry Trades

This subsection shows the effectiveness of the jump robust carry trades by comparing the performance of the jump robust carry trades with that of the regular carry trades. To be specific, we define regular carry traders as investors who invest in the five highest interest rate currencies and sell the five lowest interest rate currencies among the 18 currencies in the sample. These investors review the interest rates at 10:00 GMT every day and rebalance their carry trade portfolios.³³ Unlike the regular investors, jump robust carry traders do not take a carry trade position if jumps are highly likely to arrive; instead, they take the same position as regular investors during other periods.

We will consider jump robust carry traders who use all approaches that are explained in the previous subsection. First, they clear their position at 6:00 GMT and initiate the next day carry trades at 10:00 GMT to avoid the frequent jumps during the market opening hours. Second, using the jump and jump size clustering, if investors observe a cojump 2, they take a zero position until the next rebalancing time (i.e., 10:00 GMT). Third, as the analysis of the information release times indicates, jump robust investors can have a zero carry trade position for 12 hours around FOMC announcements. Fourth, investors are assumed to drop the currencies of the two smallest countries from their carry trade candidates.

Figure 4 describes the differences in the cumulative carry trade returns between regular and jump robust carry trades. The investment horizon for Panel A is the same as the whole sample period (January 1999 to December 2015). The lines with different colors represent different investment strategies. The blue line shows the returns for the regular

³²See Lee and Wang (2019) for the numerical performance comparison of these two carry trades.

³³We assume daily investors to use our findings up to intraday levels.

carry trade. The red line indicates the cumulative returns for investors who avoid the market opening/closing hours from 06:00 to 10:00 GMT. The gray line is for investors who use jump clustering effects. The yellow line depicts cumulative carry trade returns for investors who avoid jumps around FOMC announcements. As a comprehensive version of jump robust carry trades, the dark blue line is for investors who avoid the market opening/closing times and jump clusters and use the currencies of the 16 largest countries.

At the end of the investment horizon, the cumulative returns indicated by the red line are approximately 80% higher than those of the regular carry trade. The difference implies that this jump robust carry trade provides approximately 4.3% higher returns per annum than the regular carry trade. Such a high return contributes to the enhancement of the Sharpe ratio from 0.5 to 1.2. Such a high Sharpe ratio implies that the jump robust carry trade is effective in avoiding high volatility and crash periods. The cumulative returns represented by the gray line are 24.5% higher than those of the regular strategy. However, the yellow line indicates that if investors do not hold a carry trade position around FOMC announcements, the cumulative carry trade returns are lower than those of regular carry trades. This outcome results from the uniqueness of FOMC announcements.³⁴ Together with the strategy of avoiding the first two time periods, which are implied by the market opening/closing hours and the jump clustering effects, if investors remove the two smallest GDP currencies from their carry trade currencies, the cumulative returns increase by approximately 84% (compared with those of regular carry trades). In the jump robust carry trades, investors earn higher cumulative returns by using more jump predictors (except for FOMC announcements). The higher cumulative returns of the jump robust carry trades are consistent with the argument that (regular) carry trade returns are lower during more volatile and crash-like periods. The higher returns of jump robust carry trades are statistically and economically significant.

The jump robust carry trades provide a better hedge against extreme losses than the regular carry trade. As Panel A of Table 9 shows, the skewness of the jump robust carry

³⁴Similar to the stock market, currency markets experience pre-FOMC drift (Lucca and Moench, 2015). More detailed research is left for future studies.

trade (in the last column) is higher than that of the regular carry trade. The maximum drawdown is lower for the jump robust carry trades. The certainty equivalent, which is computed by the approach of Janacek (2004), shows that the jump robust carry trades achieve higher performance than the regular carry trade. In addition, as Panel A of Figure 5 shows, the returns of the jump robust carry trade returns have a less dispersed distribution than those of the regular carry trade. This result implies that the jump robust carry trade is effective in cutting the left tail in carry trade returns.

If we consider transaction costs, the differences decrease but remain significant. For the carry trade to reflect on transaction costs, we assume that investors take long positions at ask quotes and short positions at bid quotes. As Panel B of Table 9 shows, these bid-ask spreads of exchange rates decrease the returns of all carry trades in this paper. However, in terms of the relative performance, the jump robust carry trades provide significantly higher returns and lower standard deviations than the regular carry trade. As described in Panel B of Figure 5, the probability density function of the jump robust carry trades continues to have a less dispersed distribution than that of the regular carry trade. We do not consider the different lending and borrowing rates because our current comparison provides a conservative result. Inclusion of the different interest rates reduces the interest rate differentials that carry trade investors obtain as gains. The jump robust carry trades require a shorter time for investors to hold a certain carry trade position than the regular carry trade. If we allow the different lending and borrowing legs, the return differences between the jump robust and regular carry trades are expected to be greater than those for the current comparison. As another robustness check, when we use jumps that are detected at the 0.1% significance level, the relative performance of the carry trades does not change.

For the carry trades in this paper, we use daily interest rates that we obtain from Datastream and assume that interest rates do not change dramatically within a day because it is difficult and costly to obtain intraday interest rate or short-term government bond data for the 18 currencies over our full sample period. Because of this data limitation, our analysis

of carry trade returns might show unrealistic results if extreme changes in interest rates frequently occur during periods when jump robust carry traders take a zero position. For example, if interest rates for investment currencies substantially increase (or jump) around macroeconomic and monetary policy announcement times, our comparison may underestimate the performance of the regular carry trade. In addition, we admit that the use of daily interest rate data prevents us from distinguishing various ways of implementing carry trades (e.g., using forward and spot rates, carrying government bonds, and depositing investment currencies). For example, without firm intraday quotes, it is difficult to address the transaction costs associated with short-term trading.

Despite the issues resulting from the limitations of the daily interest rate data, we believe that our analysis still provides meaningful implications. The assumption of stable interest rates is not extremely strong because the volatilities of interest rates and short-term bond prices are lower than those of exchange rates.³⁵ In addition, jumps in interest rates would not frequently occur during specific times or favor investment currencies. Although government bond markets can have a liquidity problem, investors can take or unwind their carry trade positions in the rebalancing times (i.e., 6:00 and 10:00 GMT) because major global financial markets such as London and Tokyo markets are operating; because currency trading intensity is fair enough, according to the Federal Reserve; and because large banks can deposit currencies by using their corresponding banking relationships.³⁶

C. Comparison with Volatility-Managed Portfolios

Volatility tends to be higher when jumps occur frequently and/or when jump sizes are large.

Despite our formal control for intraday volatility in jump identification,³⁷ there can be doubt

³⁵For example, Abbassi, Fecht, and Tischer (2017) implies that changes in interest rate are at most 15 b.p. from 2006 to 2012, which is much smaller than the average standard deviation of changes in exchange rates (i.e., 85 b.p.) during the same period.

³⁶To address the liquidity concern for feasibility of our proposed carry trades, we also construct the subsample by excluding BRL, HUF, INR, KRW, PLN, RUB, and TRY. Although investors use only relatively liquid currencies, we can still find superior performance of the jump robust carry trades as shown below.

³⁷The jump test used in this paper essentially scales down realized returns with instantaneous volatility to control for their magnitudes.

about the marginal benefit of considering the jump robust carry trades because we already have other carry trades with reduced exposure to volatility risks. To clearly demonstrate the different benefit of using jump information, we perform comparative analyses.

Specifically, we consider two different carry trades with reduced exposure to volatility risks. First, we consider the volatility-managed portfolio proposed by Moreira and Muir (2017). The volatility-managed portfolios are rebalanced monthly with the current month's investment weight depending on the previous month's realized volatility level. To make the volatility-managed portfolios comparable to our jump modified carry trades that are rebalanced daily, we modify their original definition for the volatility-managed portfolios by adjusting the investment weights over time depending on the previous day's realized volatility level. During our sample period, we find the cumulative return of volatility-managed portfolios is 44% higher than that of the regular carry trades and is 40% lower than that of the jump robust carry trades with the highest cumulative returns.

The second strategy we consider for comparison involves taking into account the intraday volatility pattern in the foreign exchange markets. In particular, we consider investors who take a zero position during periods when volatility is expected to be higher. Previous studies on intraday volatility pattern such as Andersen and Bollerslev (1998b) and others indicate that volatility in currency markets is the highest from 12:00 to 16:00 GMT. Investors can avoid taking any positions during the highly volatile periods by rebalancing their carry trade portfolios at 16:00 and unwinding their positions the next day at noon. This volatility-based strategy provides lower returns than the jump robust carry trade strategy.

The difference between the performances of the jump robust and volatility-based carry trades indicates that jumps and volatility can capture different information. However, these two strategies are not exclusive to each other. For example, investors can determine their investment weights over time by considering the current realized volatility (as indicated by the volatility-managed portfolios) and set their rebalance times and carry trade currencies by avoiding predictable jumps (as indicated by the jump robust carry trades).

D. Out-of-Sample Performance

The jump robust carry trades can be implemented on an ex ante basis. Investors can specify in advance the rules to circumvent jump risks in carry trades because the information relevant for the prediction of jump sizes and frequencies is available before investors make trades. As the previous sections show, market opening/closing hours are fixed and deterministic. Most of economic news releases are prescheduled, and the release times are known in advance. To take advantage of the jump clustering effect, carry traders can rebalance their portfolios after observing previous jumps. If they aim to include the currencies of larger countries, GDP information from the previous quarter can be used. Therefore, with the prespecified rules, investors can control their exposure to the left tail risk and hedge against extreme losses to some extent with the large jump-triggering information found in our analyses.

Despite the aforementioned advantage in the implementation with the prespecified rules, there can be concerns regarding the out-of-sample performance of our proposed trading strategy. To demonstrate that our results continue to hold, we split the whole sample period into the first and second half period samples (i.e., the first period from 1999 to 2006 and the second period from 2007 to 2015). We perform the same analyses as those in the previous sections to confirm the results on jump predictability for the first half period sample and analyze the performance of the jump robust carry trades using the second half period sample.

Using the first half period sample, we find that the results are qualitatively similar to those using the full sample. We also check whether the second half period sample provides similar implications for the jump robust carry trades. Panel B of Figure 4 shows the cumulative returns of the same carry trades as in the previous subsection. The only difference is that the carry trades in this subsection adopt the second half period sample (instead of the whole sample). As indicated in Panel B of Figure 4, we confirm that the out-of-sample performance is consistent with our main results, showing that the jump robust carry trades provide higher returns than regular carry trades. Specifically, during the latter sample period, the cumulative returns of the jump robust carry trades of dropping small countries and avoiding

jumps that are predicted by the market opening hours and the jump clustering effects are 44% higher than those of the regular carry trades. Other jump robust carry trades also have significantly higher returns (one exception is the jump robust carry trades that take zero position around FOMC announcements as in the previous subsection).

For numerical performance comparison, we report the first four central moments, Sharpe ratios, maximum drawdown, and certainty equivalents of the regular and jump robust carry trades in Panel C of Table 9. During the latter sample period, the jump robust carry trades provide approximately 8.3% higher returns and 0.8% lower standard deviation (per annum) than the regular carry trades. The certainty equivalent of the jump robust carry trade is higher than that of the regular carry trade. Because of the exceptional period, the fourth quarter of 2007, the maximum drawdown of the jump robust carry trade is marginally higher than that of the regular carry trade. However, as Panel C of Figure 5 shows, the return distribution of the jump robust carry trade is clearly less dispersed than that of the regular carry trade. As in Panel D of Table 9 and Panel D of Figure 5, we also find consistent results when we consider the bid-ask spreads of exchange rates. As acknowledged for the in-sample tests in Subsection VI.B, because of our intraday quote data limitation, we use daily interest rate data from Datastream, which can underestimate the effect of transaction costs in the out-of-sample tests as well.

VII. Conclusions

We study currency jumps and their relationship with information from the real economy to provide implications for currency risk management. We first provide a general jump regression method to estimate the important determinants of jump sizes and intensities. We then exploit rich information from data sampled up to intraday levels to identify relevant jump determinants over an arbitrary horizon through various regression models.

Using the generalized approach and comprehensive data, we provide a variety of novel

evidence about jump predictions. We first characterize the distinct intraday pattern of currency jump arrivals in relation to deterministic trading mechanisms. Notably, jumps are more likely to occur around the opening hours of the major global markets. We also find a jump clustering effect in currency jumps. Furthermore, we present similar time-of-day and clustering effects for cojumps.

We examine the effects of U.S. information releases on foreign exchange jumps after controlling for the deterministic intraday patterns. The effects of FOMC announcements are the most significant for all exchange rates. Nonfarm payroll employment information releases are also associated with greater jump frequencies and sizes. Aggregating currency jumps over a quarter, we also discover that jump risks are significantly related to contemporaneous and lagged national economic fundamentals. The expected frequencies and absolute sizes of exchange rate jumps over a quarter are negatively related to the GDP of the country with the corresponding currency.

Using these findings, carry trade investors who intend to mitigate the extreme losses of carry trades during extremely volatile periods can construct jump robust carry trades. The jump robust carry trades show higher returns and lower standard deviations than the regular carry trade, and their certainty equivalents and skewness are also larger. Therefore, investors and risk managers can better predict unusually high volatility of exchange rates by elucidating the fundamental patterns of foreign exchange jumps and their relationships with macroeconomic variables and use predictable jumps for their currency investments.

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Table 1. Summary Statistics

A. Daily Realized Return of Foreign Exchange Rates

Country (Currency code)	Daily realized return				Normalized Daily realized return			
	Mean	Stddev	Skew	Kurt	Mean	Stddev	Skew	Kurt
Australia (AUD)	0.000100	0.0076	-0.35	6.14	0.0482	0.92	-0.04	2.60
Brazil (BRL)	-0.000860	0.0166	0.05	6.48	-0.0440	1.00	0.06	3.18
Canada (CAD)	-0.000019	0.0054	-0.44	6.12	0.0105	0.90	-0.06	2.61
Euro (EUR)	-0.000023	0.0062	-0.05	3.97	0.0038	0.97	-0.01	2.60
Hungary (HUF)	-0.000060	0.0090	-0.18	5.41	0.0045	0.89	-0.04	2.86
India (INR)	0.000447	0.0121	0.23	10.12	0.0044	0.61	-0.16	5.56
Japan (JPY)	-0.000013	0.0061	0.05	4.23	-0.0284	0.93	-0.10	2.54
Korea (KRW)	0.000240	0.0061	0.19	6.82	0.0360	0.72	0.04	3.37
Norway (NOK)	-0.000103	0.0076	-0.14	4.34	0.0014	0.92	-0.03	2.82
New Zealand (NZD)	0.000137	0.0081	-0.36	5.11	0.0402	0.87	-0.07	2.73
Poland (PLN)	0.000002	0.0093	-0.24	6.52	0.0350	0.96	-0.08	2.68
Russia (RUB)	-0.000425	0.0087	-1.18	16.01	-0.0281	0.92	-0.10	3.14
Singapore (SGD)	0.000002	0.0033	-0.26	5.55	0.0210	0.89	-0.06	2.84
South Africa (ZAR)	-0.000399	0.0120	-0.54	6.20	-0.0187	0.97	-0.11	2.87
Sweden (SEK)	-0.000066	0.0078	-0.12	4.43	-0.0008	0.96	-0.01	2.77
Switzerland (CHF)	-0.000018	0.0066	0.04	3.79	-0.0091	0.95	0.01	2.62
Turkey (TRY)	-0.000721	0.0098	-0.64	10.59	-0.0950	0.98	-0.09	2.72
United Kingdom (GBP)	0.000021	0.0054	-0.21	5.00	0.0079	0.94	-0.02	2.70
Avg. of 18 FX	-0.000098	0.0082	-0.23	6.49	-0.0006	0.91	-0.05	2.96

B. National Characteristics

	Q. GDP (\$B)	Q. FDI (\$M)	Q. M1 (%)
Max	3,068(Euro area)	8,335(Brazil)	6.98(Turkey)
Mean	440	-1,934	2.82
Min	32(Hungary)	-27,452(Euro area)	1.39(Japan)
U.S.	3,621	-17,458	1.54

	M. Export (\$M)	M. Import (\$M)	Forward premium (%)
Max	26,304(Euro area)	19,136(Canada)	8.98(Turkey)
Mean	4,478	3,302	2.89
Min	224(Poland)	100(Hungary)	-2.07(Japan)

Note: This table summarizes changes in foreign exchange rates and national characteristics. The exchange rate data cover 18 spot rates from 1999 to 2015. Panel A reports the distributions of realized daily returns and normalized daily returns. The daily return is defined as the daily sum of changes in the log exchange rate at 15-minute intervals. The normalized daily return is defined as the daily return divided by the realized daily standard deviation, which is calculated by the square root of the daily realized variance. Panel B provides the maximum, mean, and minimum of averages across the 18 countries for quarterly GDP, net FDI inflow, M1 growth rate, forward premium, and monthly exports to and imports from the U.S.

Table 2. Summary Statistics for Detected Currency Jumps

Country (Currency code)	# Test	# Jp	% Jp	# Jup	# Jdn	# J Day	% J Day	Positive jump 25p 50p 75p	Negative jump 25p 50p 75p
Australia (AUD)	404,721	564	0.14	255	309	466	10.72	0.0030 0.0038 0.0049	-0.0048 -0.0039 -0.0031
Brazil (BRL)	71,013	488	0.69	252	236	161	14.29	0.0024 0.0045 0.0068	-0.0069 -0.0047 -0.0028
Canada (CAD)	402,079	519	0.13	267	252	396	9.11	0.0015 0.0024 0.0030	-0.0030 -0.0022 -0.0015
Euro (EUR)	409,738	617	0.15	328	289	502	11.53	0.0023 0.0030 0.0038	-0.0036 -0.0030 -0.0023
Hungary (HUF)	407,309	759	0.19	365	394	462	10.58	0.0024 0.0038 0.0049	-0.0052 -0.0039 -0.0027
India (INR)	190,005	2,672	1.41	1,339	1,333	591	23.69	0.0016 0.0030 0.0057	-0.0061 -0.0033 -0.0016
Japan (JPY)	409,679	753	0.18	425	328	561	12.90	0.0023 0.0029 0.0036	-0.0036 -0.0030 -0.0022
Korea (KRW)	289,574	3,436	1.19	1,764	1,672	1,267	38.34	0.0029 0.0038 0.0049	-0.0049 -0.0038 -0.0029
Norway (NOK)	403,662	450	0.11	217	233	367	8.45	0.0027 0.0037 0.0046	-0.0043 -0.0036 -0.0026
New Zealand (NZD)	402,351	703	0.17	299	404	561	12.91	0.0036 0.0045 0.0053	-0.0053 -0.0045 -0.0034
Poland (PLN)	328,185	927	0.28	467	460	416	11.70	0.0013 0.0025 0.0039	-0.0043 -0.0026 -0.0014
Russia (RUB)	214,006	1,081	0.51	542	539	457	18.39	0.0019 0.0030 0.0047	-0.0048 -0.0029 -0.0016
Singapore (SGD)	378,539	712	0.19	334	378	484	11.35	0.0015 0.0019 0.0023	-0.0023 -0.0019 -0.0015
South Africa (ZAR)	316,214	754	0.24	374	380	444	11.64	0.0023 0.0042 0.0061	-0.0065 -0.0045 -0.0024
Sweden (SEK)	402,930	417	0.10	208	209	342	7.87	0.0030 0.0037 0.0046	-0.0044 -0.0035 -0.0026
Switzerland (CHF)	406,233	628	0.15	336	292	504	11.58	0.0025 0.0033 0.0042	-0.0043 -0.0034 -0.0024
Turkey (TRY)	242,040	694	0.29	288	406	391	13.15	0.0019 0.0035 0.0054	-0.0047 -0.0031 -0.0020
United Kingdom (GBP)	407,759	487	0.12	246	241	400	9.18	0.0020 0.0027 0.0034	-0.0034 -0.0026 -0.0020
Avg. of 18 FX	338,113	926	0.35	461	464	487	13.74	0.0023 0.0033 0.0046	-0.0046 -0.0034 -0.0023

Note: This table provides descriptive statistics for currency jumps detected by the test in Definition 1.c in Appendix A, which considers the intraday volatility patterns in respective currency markets. A significance level of 5% is applied for jump detection. This table reports the number of detected jumps and their size distribution for the 18 foreign exchange rates. The country names and currency codes in parentheses are listed in alphabetical order. “# Test” is the number of times that we apply jump detection tests. “# Jp” is the number of detected jumps. “% Jp” is the percentage of detected intraday jumps out of the total number of test times (# Test). “# Jup” is the number of positive jumps. “# Jdn” is the number of negative jumps. “# J Day” is the number of days when at least one jump occurs. “% J Day” is the percentage of jump days relative to the total number of tested days. This table reports jump size distributions for positive and negative jumps, separately. The last six columns list the first, second, and third quartiles of their distributions.

Table 3. Deterministic Intraday Jump Patterns in Currency Markets

A. Intraday Jump Frequency and Market Hour																								
Hour	NZD	AUD	JPY	KRW	SGD	INR	TRY	RUB	HUF	PLN	CHF	SEK	NOK	EUR	GBP	ZAR	BRL	CAD	Avg.	Market hour				
0:00	3.4	7.6	0.7	1.8	2.7	4.6	1.4	3.2	2.2	1.6	2.2	2.2	3.8	2.9	1.4	2.0	3.5	1.5	2.7					
1:00	3.7	13.3	4.4	2.4	1.8	2.4	2.7	2.0	2.8	1.0	2.5	1.7	1.3	2.8	1.6	1.6	3.1	0.6	2.9					
2:00	4.6	3.2	3.7	2.9	3.4	2.1	2.2	3.6	1.3	0.8	1.6	1.0	1.1	1.3	1.2	2.1	1.4	1.7	2.2					
3:00	2.1	3.9	2.9	5.3	4.5	4.2	1.7	2.1	1.6	1.0	1.8	1.0	1.3	1.3	0.8	2.8	2.9	0.6	2.3					
4:00	3.1	5.0	3.9	3.8	4.6	4.7	6.5	5.8	2.8	1.9	1.9	3.4	2.0	2.9	2.7	3.3	2.0	0.8	3.4					
5:00	1.7	2.0	5.3	3.8	5.1	7.6	9.9	15.8	6.9	6.7	1.9	5.0	4.7	2.3	3.3	10.5	1.4	4.2	5.4					
6:00	4.7	3.4	4.4	8.1	3.4	6.6	8.5	9.8	15.2	15.1	8.0	12.2	13.6	6.5	13.1	13.1	2.9	8.3	8.7					
7:00	2.1	2.7	6.2	2.7	1.8	5.4	6.9	5.5	8.7	11.5	6.2	11.8	8.7	5.8	6.6	7.2	2.3	11.0	6.3					
8:00	3.7	2.1	5.7	1.7	2.4	4.9	8.1	4.4	6.6	9.8	6.4	9.4	7.3	6.3	12.3	5.8	0.6	9.1	5.9					
9:00	3.8	4.1	5.2	1.4	3.2	4.8	4.0	3.4	5.1	6.6	4.9	2.6	8.9	5.2	7.8	4.5	1.6	5.6	4.6					
10:00	3.6	4.8	5.6	2.1	2.5	5.0	3.7	3.4	4.6	5.7	7.6	5.5	4.7	6.6	4.5	4.6	2.5	9.1	4.8					
11:00	3.3	4.4	4.4	2.6	4.4	5.2	3.7	3.0	5.1	4.3	6.8	4.1	3.8	6.3	4.5	4.2	11.1	9.8	5.1					
12:00	6.0	7.3	11.0	6.5	7.7	6.0	8.8	4.3	5.7	5.1	9.2	9.4	8.0	9.1	7.0	5.7	14.8	8.5	7.8					
13:00	3.8	3.5	5.3	5.5	4.9	6.4	4.8	2.0	3.4	2.5	7.2	3.6	4.7	7.3	5.1	1.7	11.5	4.4	4.9					
14:00	2.8	2.5	3.9	5.6	4.4	5.1	1.2	2.2	1.3	2.4	2.9	2.4	1.6	3.2	2.9	1.2	8.0	0.8	3.0					
15:00	2.8	2.5	3.5	6.3	3.1	4.2	1.0	2.3	1.6	1.5	2.7	2.2	1.3	2.3	2.3	0.5	6.6	1.0	2.6					
16:00	3.7	3.7	4.1	5.4	4.6	3.1	1.2	2.5	2.8	2.0	2.2	2.9	2.2	2.9	6.0	1.7	4.5	2.5	3.2					
17:00	1.7	2.7	2.7	5.0	3.8	2.4	1.9	2.3	3.6	3.0	4.9	3.4	3.8	6.5	3.1	3.7	2.0	2.1	3.3					
18:00	7.4	9.0	7.7	5.0	6.9	2.8	4.8	4.7	5.3	5.8	8.0	8.6	6.7	9.2	7.6	7.7	2.3	8.1	6.5					
19:00	3.6	4.4	3.6	5.6	3.9	3.2	2.7	2.7	4.0	3.1	4.1	2.9	3.1	3.9	3.5	3.7	2.5	4.4	3.6					
20:00	6.5	1.2	1.5	6.1	3.8	2.9	3.2	4.7	3.4	1.5	1.4	1.2	0.4	0.8	0.4	2.3	2.3	1.2	2.5					
21:00	10.1	0.9	1.6	4.6	5.6	3.4	3.3	3.7	3.0	2.9	1.4	0.7	1.1	1.1	0.4	5.0	3.7	2.3	3.1					
22:00	8.4	3.2	0.7	3.1	6.2	2.0	4.3	3.4	2.0	2.5	1.6	1.0	3.3	2.1	0.8	3.8	2.5	1.2	2.9					
23:00	3.3	2.7	2.3	2.7	5.3	1.3	3.5	2.9	1.2	1.6	2.4	2.2	2.7	1.3	1.0	1.1	4.3	1.3	2.4					

B. Other Market Hours

Market	Hour	Market	Hour	Market	Hour
Sydney	22:00 - 07:00	Singapore	02:00 - 11:00	Istanbul	06:30 - 14:30
Hong Kong	01:00 - 10:00	Frankfurt	07:00 - 16:00		

Note: Panel A shows the percentage of jumps that occur over one hour (e.g., 3.4% of the New Zealand Dollar's jumps arrive between 00:00 and 01:00 GMT). The currencies in the Asia-Pacific area, Europe and Africa, and America are presented in the left, middle, and right columns, respectively. If the relative jump frequency for a particular hour is higher (lower) than those for other hours, the number in the table is shaded in red (blue). The five arrow lines are added to indicate the opening hours of the global foreign exchange markets. The London market and New York market have two lines; the line on the left is for the winter, and the line on the right is for the summer. In addition, the opening hours (based on GMT) of other global and local markets are provided in Panel B.

Table 4. Time-of-Day Effect of Currency Jump Arrivals

	Cons.	0:00	2:00	4:00	6:00	8:00	10:00	12:00	14:00	16:00	18:00	20:00	22:00	Cluster
Coj2	-6.709***	-0.102	-0.087	0.419	1.500***	1.109***	0.917***	1.669***	0.694***	0.601**	1.295***	-0.338	-0.233	3.138***
z-stat	-32.96	-0.34	-0.29	1.58	6.69	4.73	3.80	7.50	2.78	2.36	5.72	-1.10	-0.77	35.47
Coj5	-9.861***	0.051	1.672	0.000	2.294**	1.649	1.437	3.121***	1.111	1.843*	3.490***	0.999	-0.041	4.179***
z-stat	-9.86	0.04	1.53	0.00	2.19	1.51	1.29	3.05	0.96	1.71	3.44	0.86	-0.03	14.28
AUD	-7.459***	1.015***	0.080	0.615*	0.229	-0.214	0.549*	0.966***	-0.083	0.329	1.162***	-0.744	0.192	3.746***
z-stat	-28.80	3.37	0.23	1.92	0.66	-0.55	1.70	3.19	-0.22	0.97	3.96	-1.63	0.55	23.25
BRL	-7.619***	-0.143	-0.991**	-0.560	-0.237	-1.680***	-0.328	0.696**	0.263	0.083	-0.421	-0.514	-0.604	6.655***
z-stat	-31.00	-0.41	-2.11	-1.38	-0.65	-2.68	-0.84	2.47	0.90	0.26	-1.09	-1.31	-1.53	64.04
CAD	-8.192***	0.123	0.251	-0.556	1.725***	1.770***	1.790***	1.723***	-0.583	0.603	1.705***	-0.171	-0.169	3.868***
z-stat	-21.81	0.24	0.50	-0.89	4.23	4.35	4.40	4.22	-0.93	1.29	4.18	-0.31	-0.31	25.33
EUR	-8.065***	0.800*	0.002	0.810*	1.555***	1.521***	1.569***	1.861***	0.858**	0.800*	1.857***	-0.471	0.490	3.479***
z-stat	-22.84	1.88	0.00	1.91	4.01	3.91	4.05	4.91	2.05	1.88	4.91	-0.83	1.09	21.92
HUF	-8.023***	0.627	0.106	0.825**	2.106***	1.460***	1.245***	1.355***	0.085	0.805**	1.315***	0.952**	0.497	4.780***
z-stat	-24.27	1.54	0.23	2.08	6.01	4.04	3.35	3.68	0.19	2.03	3.55	2.48	1.19	48.70
INR	-6.832***	0.896***	0.364*	0.868***	0.969***	0.915***	0.941***	1.015***	0.898***	0.608***	0.606***	0.521**	0.182	5.113***
z-stat	-40.67	4.47	1.68	4.49	5.12	4.78	4.94	5.32	4.66	2.98	2.93	2.48	0.82	118.05
JPY	-7.313***	-1.237**	0.440	0.490	0.580*	0.835***	0.823***	1.445***	0.461	0.537*	1.120***	-0.444	-1.223**	3.796***
z-stat	-30.16	-2.43	1.43	1.61	1.94	2.91	2.86	5.39	1.51	1.78	4.06	-1.15	-2.41	30.77
KRW	-5.819***	-0.399**	0.061	0.160	0.803***	-0.430**	-0.232	0.703***	0.516***	0.426***	0.459***	0.588***	0.011	4.054***
z-stat	-57.26	-2.43	0.42	1.17	6.53	-2.59	-1.49	5.63	4.05	3.33	3.58	4.73	0.08	100.48
NOK	-7.683***	0.342	-0.831	-0.266	1.511***	0.932***	0.545	1.052***	-0.545	-0.160	0.856**	-1.761**	0.225	3.908***
z-stat	-26.70	0.91	-1.56	-0.60	4.76	2.76	1.50	3.15	-1.15	-0.37	2.51	-2.31	0.58	22.67
NZD	-7.173***	0.157	0.412	0.084	0.473*	0.234	0.198	0.669**	-0.037	0.234	0.862***	0.737***	0.938***	3.918***
z-stat	-33.94	0.54	1.50	0.28	1.73	0.81	0.68	2.56	-0.12	0.81	3.42	2.87	3.78	30.23

Table 4. Time-of-Day Effect of Currency Jump Arrivals (continued)

	Cons.	0:00	2:00	4:00	6:00	8:00	10:00	12:00	14:00	16:00	18:00	20:00	22:00	Cluster
PLN	-7.609***	0.042	-0.649	0.245	1.692***	1.405***	1.002***	0.933***	0.286	0.235	1.006***	-0.082	0.380	5.262***
z-stat	-30.07	0.12	-1.43	0.71	6.14	5.08	3.45	3.12	0.85	0.69	3.41	-0.22	1.15	65.27
RUB	-7.051***	0.117	0.261	0.689***	0.656***	0.334	0.148	0.291	-0.227	-0.122	0.457**	0.452**	0.171	5.470***
z-stat	-40.33	0.48	1.11	3.16	3.10	1.46	0.61	1.23	-0.84	-0.46	2.01	1.99	0.71	74.51
SGD	-6.725***	-0.658**	-0.375	-0.088	-0.446*	-0.668**	-0.667**	0.327	-0.195	-0.110	0.185	-0.289	0.111	4.805***
z-stat	-41.53	-2.32	-1.43	-0.37	-1.70	-2.29	-2.31	1.52	-0.80	-0.46	0.85	-1.15	0.50	48.40
ZAR	-8.135***	0.623	0.706	1.065***	2.053***	1.481***	1.306***	1.497***	0.118	0.512	1.761***	0.744*	1.131***	4.918***
z-stat	-23.25	1.43	1.64	2.63	5.55	3.86	3.33	3.87	0.24	1.15	4.67	1.75	2.86	52.42
SEK	-7.950***	-0.019	-0.798	0.451	1.602***	1.337***	0.889**	1.379***	0.072	0.273	1.292***	-0.584	-0.792	4.029***
z-stat	-23.82	-0.04	-1.33	1.06	4.41	3.59	2.26	3.71	0.16	0.62	3.46	-1.05	-1.32	22.51
CHF	-7.448***	-0.068	-0.399	-0.209	1.136***	0.922***	1.085***	1.281***	0.129	-0.059	1.104***	-0.510	-0.386	3.622***
z-stat	-28.85	-0.18	-0.98	-0.54	3.85	3.04	3.66	4.41	0.37	-0.16	3.74	-1.21	-0.95	24.16
TRY	-7.177***	-0.809***	-0.411	0.591**	0.670***	0.596**	0.018	0.649**	-0.989**	-0.970**	0.271	-0.015	0.177	5.274***
z-stat	-36.00	-2.19	-1.28	2.36	2.75	2.42	0.06	2.59	-2.42	-2.40	1.02	-0.05	0.65	54.84
GBP	-8.525***	0.332	0.174	0.945*	2.415***	2.361***	1.409***	1.861***	0.984*	1.703***	1.911***	-0.918	-0.218	3.751***
z-stat	-19.06	0.57	0.29	1.80	5.19	5.06	2.84	3.88	1.89	3.51	4.01	-1.10	-0.33	22.37
Avg 18	-7.489	0.097	-0.089	0.342	1.083	0.728	0.683	1.095	0.112	0.318	0.973	-0.139	0.062	4.469

Note: This table provides parameter estimates for the following jump intensity model for the k -th foreign exchange rate at time t : $d\Lambda_{k,t} = \frac{1}{1 + \exp\left(-\theta_{k,0} - \sum_{h=0}^{22} \theta_{k,h+1} T_{t,h} - \theta_{k,24} CL_{k,t}\right)}$, where $T_{t,h}$ is an indicator that takes the value of unity when the time t belongs to GMT hour h to $h+1$ and zero otherwise. The dependent variables used for this estimation are jump arrival indicators. This model is also applied to the same analysis for the time-of-day effect of simultaneous jump (cojump) arrivals. Coj m denotes multiple jump arrivals, which indicate that at least m foreign exchange jumps arrive simultaneously ($m = 2$ and 5). $CL_{k,t}$ is an indicator that controls for the clustering effect of foreign exchange rate k or cojumps m at time t , taking the value of unity when at least one (co)jump occurs between the period from 30 minutes prior to time t to time t and zero otherwise. Odd-numbered hours are omitted for the sake of simplicity. The last row, "Avg 18", is the cross-sectional average of the coefficients across the 18 individual currencies. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 5. *Jump Clustering*

	Cons.	30min	Cons.	1hr	Cons.	2hr	Cons.	4hr	Cons.	8hr	Cons.	16hr	Cons.	1day
Coj2	-6.709	3.138***	-6.726	2.817***	-6.731	2.371***	-6.753	1.934***	-6.814	1.467***	-6.884	1.083***	-6.883	0.873***
z-stat	-32.96	35.47	-33.00	35.74	-33.02	31.95	-33.10	27.39	-33.35	22.11	-33.65	17.59	-33.62	14.84
Coj5	-9.861	4.179***	-9.863	3.729***	-9.861	3.299***	-9.896	3.014***	-9.997	2.539***	-9.994	2.128***	-9.974	1.828***
z-stat	-9.86	14.28	-9.86	13.32	-9.86	11.93	-9.89	11.63	-9.98	10.68	-9.97	9.31	-9.96	8.39
AUD	-7.459	3.746***	-7.473	3.293***	-7.471	2.830***	-7.473	2.346***	-7.524	1.918***	-7.560	1.526***	-7.612	1.376***
z-stat	-28.80	23.25	-28.84	22.15	-28.86	20.68	-28.91	18.13	-29.03	16.44	-29.09	14.41	-29.16	14.00
BRL	-7.619	6.655***	-7.753	6.385***	-7.971	6.044***	-8.073	5.743***	-8.152	5.359***	-8.332	4.885***	-8.344	4.652***
z-stat	-31.00	64.04	-31.31	64.56	-32.34	63.09	-32.89	60.22	-33.40	55.67	-34.10	49.16	-34.55	45.44
CAD	-8.192	3.868***	-8.195	3.490***	-8.213	3.188***	-8.251	2.876***	-8.322	2.496***	-8.491	2.124***	-8.439	1.751***
z-stat	-21.81	25.33	-21.78	24.90	-21.81	24.78	-21.90	23.95	-22.13	22.17	-22.52	20.89	-22.39	17.92
EUR	-8.065	3.479***	-8.082	3.294***	-8.080	2.818***	-8.093	2.358***	-8.153	1.821***	-8.243	1.518***	-8.243	1.330***
z-stat	-22.84	21.92	-22.87	24.95	-22.87	22.74	-22.90	20.20	-23.04	16.40	-23.27	15.23	-23.26	14.31
HUF	-8.023	4.780***	-8.054	4.458***	-8.104	4.060***	-8.181	3.616***	-8.291	3.141***	-8.412	2.631***	-8.428	2.284***
z-stat	-24.27	48.70	-24.37	49.24	-24.43	46.92	-24.59	43.94	-24.91	39.67	-25.32	35.12	-25.41	31.15
INR	-6.832	5.113***	-7.051	4.985***	-7.497	4.834***	-7.841	4.580***	-7.968	4.327***	-8.202	4.093***	-8.410	4.023***
z-stat	-40.67	118.05	-40.81	119.53	-42.62	114.16	-44.23	103.99	-45.00	92.29	-46.13	80.21	-46.94	73.01
JPY	-7.313	3.796***	-7.315	3.397***	-7.324	2.937***	-7.357	2.536***	-7.448	2.170***	-7.568	1.781***	-7.577	1.552***
z-stat	-30.16	30.77	-30.16	30.43	-30.19	28.36	-30.36	26.54	-30.68	24.67	-31.10	21.87	-31.16	19.85
KRW	-5.819	4.054***	-5.919	3.787***	-6.093	3.505***	-6.293	3.152***	-6.397	2.768***	-6.510	2.462***	-6.712	2.417***
z-stat	-57.26	100.48	-57.64	100.03	-58.37	96.41	-59.86	88.80	-60.72	79.07	-61.33	67.05	-62.61	61.46
NOK	-7.683	3.908***	-7.699	3.578***	-7.709	3.220***	-7.707	2.752***	-7.758	2.317***	-7.841	1.861***	-7.837	1.573***
z-stat	-26.70	22.67	-26.72	23.35	-26.74	22.61	-26.72	19.97	-26.85	18.00	-27.07	15.60	-27.05	14.09
NZD	-7.173	3.918***	-7.219	3.458***	-7.277	3.019***	-7.238	2.439***	-7.215	1.968***	-7.206	1.515***	-7.205	1.319***
z-stat	-33.94	30.23	-34.15	29.11	-34.25	27.79	-34.25	23.46	-34.32	20.32	-34.34	16.85	-34.38	15.51

Table 5. *Jump Clustering (continued)*

	Cons.	30min	Cons.	1hr	Cons.	2hr	Cons.	4hr	Cons.	8hr	Cons.	16hr	Cons.	1day
PLN	-7.609	5.262***	-7.708	5.036***	-7.796	4.680***	-7.865	4.276***	-8.094	3.862***	-8.225	3.349***	-8.259	3.047***
z-stat	-30.07	65.27	-30.22	66.77	-30.28	64.63	-30.42	62.18	-31.10	56.82	-31.57	49.96	-31.74	45.24
RUB	-7.051	5.470***	-7.116	5.176***	-7.207	4.819***	-7.338	4.387***	-7.391	3.917***	-7.511	3.398***	-7.617	3.091***
z-stat	-40.33	74.51	-40.20	73.65	-40.44	71.45	-41.02	67.00	-41.24	61.12	-41.56	53.70	-42.22	48.73
SGD	-6.725	4.805***	-6.776	4.397***	-6.820	3.871***	-6.792	3.300***	-6.815	2.710***	-6.855	2.203***	-6.855	1.914***
z-stat	-41.53	48.40	-41.77	48.02	-41.90	44.17	-41.85	38.77	-41.95	33.08	-42.14	27.85	-42.05	24.57
ZAR	-8.135	4.918***	-8.233	4.637***	-8.369	4.249***	-8.434	3.802***	-8.505	3.259***	-8.552	2.659***	-8.573	2.384***
z-stat	-23.25	52.42	-23.48	54.43	-23.72	52.51	-23.85	48.35	-24.01	42.24	-24.17	35.62	-24.22	32.53
SEK	-7.950	4.029***	-7.954	3.612***	-7.952	3.255***	-7.974	2.859***	-8.047	2.382***	-8.128	1.891***	-8.100	1.514***
z-stat	-23.82	22.51	-23.83	22.01	-23.84	21.72	-23.89	20.25	-24.09	17.52	-24.21	14.87	-24.23	12.59
CHF	-7.448	3.622***	-7.463	3.373***	-7.456	2.905***	-7.475	2.437***	-7.538	1.987***	-7.627	1.564***	-7.585	1.201***
z-stat	-28.85	24.16	-28.99	26.38	-28.98	24.14	-29.03	21.39	-29.28	18.74	-29.57	15.90	-29.42	12.62
TRY	-7.177	5.274***	-7.256	4.866***	-7.363	4.533***	-7.389	4.110***	-7.384	3.570***	-7.560	2.983***	-7.537	2.635***
z-stat	-36.00	54.84	-35.74	53.47	-36.10	52.11	-36.39	48.91	-36.32	43.47	-36.82	38.02	-36.75	34.59
GBP	-8.525	3.751***	-8.532	3.363***	-8.530	2.902***	-8.540	2.403***	-8.613	2.071***	-8.701	1.687***	-8.701	1.449***
z-stat	-19.06	22.37	-19.07	22.10	-19.09	20.34	-19.11	17.41	-19.26	16.39	-19.48	14.51	-19.47	13.38
Avg. 18 FX	-7.489	4.469	-7.544	4.144	-7.624	3.759	-7.684	3.332	-7.756	2.891	-7.862	2.452	-7.891	2.195

Note: This table includes the parameter estimates of the jump intensity model for the individual currency markets. The model uses 18 foreign exchange rates sampled at 15-minute intervals over the sample period from 1999 to 2015. For each foreign exchange rate k , the model estimates $d\Lambda_{k,t} = \frac{1}{1+\exp(-\theta_{k,0}-\theta_{k,l}CL_{k,l,t})}$, where $CL_{k,l,t} = I\left[\int_{t-l}^t dJ_{k,s} > 0\right]$ is a cluster dummy for the period of time l , and $l = 30$ minutes, 1 hour, 2 hours, 4 hours, 8 hours, 16 hours, and 1 day. The dependent variable in this jump intensity regression model is the time series indicator of the k -th currency jump arrival $dJ_{k,t}$ within a 15-minute interval. This model can be applied to simultaneous jumps (cojumps). This table reports the results for cojump 2 and cojump 5, which are defined as jumps that simultaneously occur with at least two and five exchange rates, respectively. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 6. Intraday Effect of Information Releases on Currency Jump Arrival

	Cons.	FOMC	GDP	Trade	Income	Employ	PPI	CPI
Coj2	-6.709***	4.454***	1.889***	1.199***	-0.294	3.807***	0.904*	1.980***
z-stat	-32.96	21.16	5.42	3.55	-0.45	21.75	1.77	6.07
Coj5	-9.856***	4.706***	2.426***	1.871***	0.000	4.494***	0.000	2.626***
z-stat	-9.86	13.86	3.20	3.72		12.41		4.06
AUD	-7.458***	4.076***	2.265***	1.718***	0.000	4.192***	0.000	3.230***
z-stat	-28.79	12.84	3.62	3.43		13.55		7.65
BRL	-7.621***	1.677	1.895**	0.000	0.318	1.049	1.104	0.000
z-stat	-30.97	1.00	2.56		0.48	1.32	1.10	
CAD	-8.191***	4.261***	0.000	0.695	0.377	2.618***	1.759***	1.454**
z-stat	-21.80	13.86		0.89	0.36	5.75	2.78	2.00
EUR	-8.062***	4.572***	2.207***	1.763***	0.507	3.555***	0.000	2.056***
z-stat	-22.83	16.51	4.65	4.17	0.66	12.71		4.21
HUF	-8.023***	4.044***	1.680**	0.453	0.000	4.076***	1.120	2.875***
z-stat	-24.27	9.23	2.13	0.63		13.88	1.10	6.01
INR	-6.832***	1.416**	0.750	0.000	0.486	1.717***	0.120	-0.042
z-stat	-40.67	2.03	1.34		0.98	4.06	0.19	-0.06
JPY	-7.311***	4.112***	1.876***	0.446	0.380	3.446***	1.747***	1.963***
z-stat	-30.15	13.23	3.79	0.72	0.49	12.08	3.32	4.19
KRW	-5.820***	1.913***	-0.195	0.822**	0.408	1.220***	0.220	1.121***
z-stat	-57.26	5.60	-0.36	2.30	0.94	3.29	0.43	3.08
NOK	-7.680***	4.607***	1.772**	1.622***	0.000	3.933***	2.116***	1.482*
z-stat	-26.69	12.10	2.31	3.10		11.78	3.47	1.94
NZD	-7.168***	3.950***	0.896	1.465***	0.072	3.854***	0.000	2.783***
z-stat	-33.91	12.15	0.87	2.74	0.07	12.14		6.10
PLN	-7.611***	3.538***	2.124***	0.899	0.000	4.030***	1.123	2.562***
z-stat	-30.08	6.07	3.04	1.53		13.42	1.10	4.84

*Table 6. Intraday Effect of Information Releases on Currency Jump Arrival
(continued)*

	Cons.	FOMC	GDP	Trade	Income	Employ	PPI	CPI
RUB	-7.053***	2.609***	-0.386	0.019	1.423*	2.626***	1.074	1.786**
z-stat	-40.33	3.72	-0.33	0.02	1.84	4.99	1.06	2.43
SGD	-6.737***	3.286***	2.152***	1.600***	0.000	4.346***	0.795	1.157
z-stat	-41.49	6.96	3.63	3.52		17.17	0.82	1.44
ZAR	-8.135***	3.813***	0.768	0.870	0.000	4.084***	1.186	1.702**
z-stat	-23.25	9.18	0.67	1.24		13.23	1.15	2.08
SEK	-7.947***	4.855***	2.418***	2.566***	0.000	3.669***	0.687	1.556**
z-stat	-23.82	13.21	3.98	5.54		9.87	0.69	2.01
CHF	-7.445***	4.764***	1.901***	1.704***	-0.317	3.474***	0.000	1.466**
z-stat	-28.84	16.33	3.62	3.78	-0.30	12.30		2.41
TRY	-7.177***	4.104***	1.092	1.234*	-1.246	2.596***	0.000	0.000
z-stat	-35.99	9.43	1.41	1.75	-1.15	5.25		
GBP	-8.523***	4.647***	2.368***	1.070*	0.000	4.218***	0.000	1.138
z-stat	-19.05	13.32	3.92	1.80		14.36		1.12
Avg. 18 FX	-7.489	3.680	1.421	1.053	0.134	3.261	0.725	1.572

Note: This table shows how scheduled U.S. macroeconomic news releases affect the likelihood of currency jump arrivals at the intraday level. The table reports the parameter estimates for the following jump intensity model that controls for time-of-day and clustering effects: $d\Lambda_{k,t} = \frac{1}{1 + \exp(-\theta_{k,0} - \sum_{j=1}^7 \theta_{k,j} X_{j,t} - \sum_{h=0}^{22} \delta_{k,h} T_{h,t} - \gamma_k CL_{k,t})}$. This table shows the results for each individual currency jump indicator for foreign exchange rate k and cojumps 2 and 5, which are $dJ_{coj(m),t} = I_{\left[\sum_{k=1}^{18} dJ_{k,t} \geq m\right]}$ with $m = 2$ and 5. $X_{j,t}$'s are dummy variables that take the value of one if FOMC announcements and information releases regarding GDP, trade, personal income, nonfarm payroll employment, PPI, and CPI (listed in the first row) are scheduled at time t . $T_{h,t}$ is a time indicator, and $CL_{k,t}$ is the indicator for a 30-minute cluster that takes the value of one when at least one jump occurs within 30 minutes prior to time t . The estimated coefficients of time indicators and jump clusters are not reported in this table for the sake of simplicity. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 7. Intraday Effect of Information Releases on Currency Jump Size

	Cons.	FOMC	GDP	Trade	Income	Employ	PPI	CPI
Coj2	0.040***	8.128***	0.871**	0.765**	-0.101	6.227***	0.190	0.951***
<i>t</i> -stat	4.18	7.99	2.59	2.23	-0.57	7.87	1.03	2.82
Coj5	0.001	3.739***	0.149	0.377*	-0.078***	1.791***	-0.040***	0.330
<i>t</i> -stat	0.82	5.23	1.18	1.77	-3.50	4.12	-2.85	1.58
AUD	0.024***	2.971***	0.240	0.466*	-0.095***	2.006***	-0.061***	0.694**
<i>t</i> -stat	3.54	4.46	1.45	1.85	-3.87	4.19	-3.32	2.57
BRL	0.040***	0.388	0.309	-0.085***	0.178	0.514	0.068	-0.127***
<i>t</i> -stat	3.16	0.86	1.39	-3.85	0.57	1.38	0.53	-2.71
CAD	0.004**	2.200***	-0.033***	0.054	0.014	0.552**	0.197	0.159
<i>t</i> -stat	2.24	4.57	-6.41	0.54	0.21	2.44	1.41	1.15
EUR	0.007**	3.569***	0.325*	0.526**	0.079	1.925***	-0.077***	0.309*
<i>t</i> -stat	2.47	5.63	1.82	2.18	0.57	4.57	-4.20	1.80
HUF	0.011**	3.254***	0.283	0.113	-0.107***	2.138***	0.058	0.714**
<i>t</i> -stat	2.31	4.24	1.23	0.58	-3.93	3.99	0.57	2.19
INR	0.039***	0.525	0.059	-0.174***	-0.114	0.440*	0.008	-0.061
<i>t</i> -stat	2.77	1.02	0.37	-6.97	-0.74	1.95	0.04	-0.76
JPY	0.022***	2.883***	0.283*	0.010	0.049	1.991***	0.272	0.425**
<i>t</i> -stat	3.90	4.99	1.78	0.08	0.39	4.73	1.60	1.97
KRW	0.109***	1.073**	0.018	0.383	0.288	0.854**	0.026	0.468*
<i>t</i> -stat	7.15	2.35	0.09	1.50	1.03	2.32	0.17	1.92
NZD	0.016***	2.448***	0.194	0.349	-0.097***	1.748***	0.262	0.139
<i>t</i> -stat	3.11	4.26	1.21	1.61	-4.17	3.82	1.47	0.94
NOK	0.029***	3.098***	0.010	0.357	-0.031	2.171***	-0.070***	0.647**
<i>t</i> -stat	3.30	4.29	0.15	1.55	-0.39	4.24	-3.67	2.20

Table 7. Intraday Effect of Information Releases on Currency Jump Size (continued)

	Cons.	FOMC	GDP	Trade	Income	Employ	PPI	CPI
PLN	0.015***	2.698***	0.396	0.212	-0.091***	1.885***	0.119	0.523*
<i>t</i> -stat	2.96	4.00	1.57	1.01	-3.68	3.81	0.73	1.86
RUB	0.037***	0.824*	-0.070	0.031	0.042	0.571**	0.028	0.073
<i>t</i> -stat	3.79	1.91	-0.92	0.25	0.69	2.11	0.52	1.05
SGD	0.027***	0.663***	0.115	0.240*	-0.071***	1.548***	0.008	0.064
<i>t</i> -stat	5.08	3.19	1.40	1.86	-4.05	5.33	0.22	0.89
ZAR	0.011*	4.471***	0.113	0.158	-0.191***	2.625***	0.047	0.212
<i>t</i> -stat	1.87	4.36	0.61	0.70	-4.07	3.80	0.48	1.08
SEK	0.012***	3.270***	0.331	0.819**	-0.096***	1.445***	0.046	0.176
<i>t</i> -stat	2.76	4.82	1.60	2.54	-4.41	3.60	0.38	1.01
CHF	0.015***	4.350***	0.266	0.532**	-0.052	2.290***	-0.090***	0.214
<i>t</i> -stat	3.33	5.73	1.55	1.98	-0.56	4.49	-4.35	1.21
TRY	0.032***	2.324***	0.325	0.278	-0.070	1.151***	-0.191***	-0.079***
<i>t</i> -stat	3.56	3.40	1.35	1.27	-0.39	2.85	-4.35	-4.30
GBP	0.006**	2.532***	0.210	0.164	-0.087***	1.751***	-0.030***	0.060
<i>t</i> -stat	1.97	4.83	1.50	1.13	-4.13	4.48	-3.14	0.68
Avg. 18 FX	0.025	2.419	0.188	0.246	-0.025	1.534	0.034	0.256

Note: This table presents how scheduled U.S. macroeconomic news releases affect the absolute size of currency jumps at the intraday level. We report the parameter estimates for the following jump size model that controls for the time-of-day effect and the jump size clustering effect: $E(|Y_{k,t}|) = \theta_{k,0} + \sum_{j=1}^7 \theta_{k,j} X_{j,t} + \sum_{h=0}^{22} \delta_{k,h} T_{h,t} + \gamma_{k,in} SC_{k,t}^{inner} + \gamma_{k,out} SC_{k,t}^{outer}$. We report the results for each individual currency jump size for foreign exchange rate k , cojump 2, and cojump 5. $X_{j,t}$'s are dummy variables that take the value of one if FOMC announcements and information releases regarding GDP, trade, personal income, nonfarm payroll employment, PPI, and CPI (listed in the first row) are scheduled at time t . $T_{h,t}$ is a time indicator, and $SC_{k,t}^{size}$ with $size = inner, outer$ is an indicator for the 30-minute jump size cluster that takes the value of one when at least one jump with an inner (or outer) quartile size arrives within 30 minutes prior to time t . The estimated coefficients of time indicators and jump size clusters are not reported in this table for the sake of simplicity. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 8. Quarterly Effect of National Characteristics on Jump Frequency and Size

	Contemporaneous		Predictive	
	Frequency (I)	Size (II)	Frequency (III)	Size (IV)
GDP Diff.	-3.194***	-0.467***	-2.960***	-0.440***
<i>t/z</i> -stat	-9.59	-4.65	-8.87	-4.55
Interest Diff.	0.0057	0.0015	0.0037	-0.0006
<i>t/z</i> -stat	0.23	0.28	0.26	-0.18
M1 Diff.	-1.480	-0.194	0.849	0.083
<i>t/z</i> -stat	-1.32	-1.16	1.16	0.79
FDI Diff.	-0.468	-0.058	-0.356	0.010
<i>t/z</i> -stat	-0.42	-0.35	-0.51	0.09
Trade volume	0.005	0.001	0.007**	0.001***
<i>t/z</i> -stat	1.52	1.63	2.15	2.61
Trade balance	0.001	-0.004*	-0.010	-0.004***
<i>t/z</i> -stat	0.05	-1.91	-0.91	-2.62
Trade propensity	-5.223**	-0.596**	-3.702	-0.590**
<i>t/z</i> -stat	-2.17	-2.07	-1.49	-2.25
Fixed effect:				
Country	O	O	O	O
Recession	O	O	O	O
Adj. R^2 (%)	57.67	44.10	56.64	43.46

Note: This table examines how the expected number and size of intraday currency jumps are related to national characteristics when aggregated at a quarterly frequency. This table reports the coefficients resulting from two types of panel regressions. The jump frequency model is $E(\int_{s \in Q_q} dJ_{k,s}) = \exp(\alpha + \sum_{l=1}^7 \theta_l X_{k,q,l} + \sum_{i=1}^{17} \delta_i C_i + \delta_{18} REC_q)$, where $Q_q = \{s | s \text{ belongs to quarter } q\}$. The dependent variable is the number of jumps in foreign exchange rate k over each quarter q and is normalized to reflect the different numbers of tests for each currency. $X_{k,q,l}$ is the l -th macroeconomic variable for the country of foreign exchange rate k , C_i is a country dummy variable for country i , and $REC_q = I_{[\text{quarter } q \text{ belongs to the recession period of the US}]}$ is an indicator for the U.S. recession periods. The jump size model estimates $E(\int_{s \in Q_q} |Y_{k,s}| ds) = \alpha + \sum_{l=1}^7 \theta_l X_{k,q,l} + \sum_{i=1}^{17} \delta_i C_i + \delta_{18} REC_q$. The left part of this table shows a contemporaneous relationship between national characteristics and jumps, whereas the right part illustrates a predictive relationship. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 9. Performance comparison of carry trades

A. Full sample analysis without a bid-ask spread

	Regular	No open	No cluster	No FOMC	Drop small + No open & No cluster
Mean	4.167	8.405	5.587	3.063	9.069
Std. deviation	8.113	7.199	7.382	8.037	7.257
Skewness	-0.288	-0.254	-0.217	-0.312	-0.146
Kurtosis	6.941	7.425	8.423	7.086	8.435
Sharpe ratio	0.514	1.167	0.757	0.381	1.250
Max drawdown	7.032	1.204	5.878	6.190	1.232
CE (CRRA, p=1)	1.141	1.977	1.332	1.075	2.184
CE (CRRA, p=30)	1.004	1.023	1.010	1.002	1.026
CE (CRRA, p=100)	1.001	1.007	1.003	1.001	1.008

B. Full sample analysis with a bid-ask spread

	Regular	No open	No open + No cluster	Drop small + No open & No cluster
Mean	1.236	5.102	5.422	5.498
Std. deviation	8.115	7.201	6.601	7.261
Skewness	-0.298	-0.267	-0.237	-0.157
Kurtosis	6.943	7.442	8.874	8.445
Sharpe ratio	0.152	0.708	0.821	0.757
Max drawdown	13.747	1.673	1.771	2.027
CE (CRRA, p=1)	1.012	1.285	1.401	1.332
CE (CRRA, p=30)	1.000	1.008	1.011	1.010
CE (CRRA, p=100)	1.000	1.003	1.003	1.003

Table 9. Performance comparison of carry trades (continued)

C. Out-of-sample analysis without a bid-ask spread

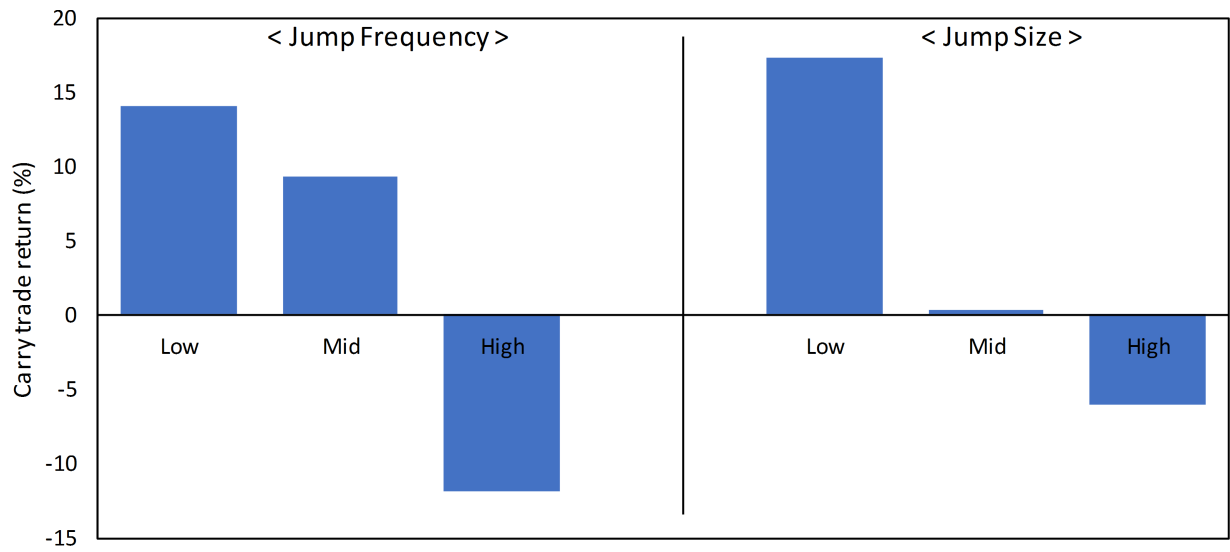
	Regular	No open	No cluster	Drop small + No open & No cluster
Mean	3.507	9.490	6.790	11.793
Std. deviation	10.294	9.024	9.447	9.402
Skewness	-0.340	-0.308	-0.335	-0.269
Kurtosis	5.338	5.868	6.325	6.775
Sharpe ratio	0.341	1.052	0.719	1.254
Max drawdown	5.396	7.130	4.411	6.682
CE (CRRA, p=1)	1.060	1.739	1.295	2.196
CE (CRRA, p=30)	1.002	1.019	1.009	1.027
CE (CRRA, p=100)	1.001	1.006	1.003	1.008

D. Out-of-sample analysis with a bid-ask spread

	Regular	No open	No cluster	Drop small + No open & No cluster
Mean	0.580	5.040	2.339	5.900
Std. deviation	9.596	8.525	8.740	8.818
Skewness	-0.248	-0.227	-0.157	-0.127
Kurtosis	5.991	6.530	7.428	6.913
Sharpe ratio	0.060	0.591	0.268	0.669
Max drawdown	7.854	4.647	2.489	2.708
CE (CRRA, p=1)	1.002	1.191	1.036	1.251
CE (CRRA, p=30)	1.000	1.006	1.001	1.007
CE (CRRA, p=100)	1.000	1.002	1.000	1.002

Note: This table compares the performances of carry trades. The full sample ranges from 1999 to 2015 for Panels A and B, and the out-of-sample covers from 2007 to 2015 for Panels C and D. “Regular” is for a regular carry trade in which investors, reviewing the interest rates of the 18 countries every day, lend the five highest interest rate currencies and borrow the five lowest interest rate currencies. “No open” is for a jump robust carry trade in which investors do not have a carry trade position around the London market opening time or Tokyo market closing time (06:00 - 10:00 GMT). “No cluster” is for a jump robust carry trade in which investors do not have a carry trade position after a cojump 2 arrives (until the next rebalancing time). “No FOMC” is for a jump robust carry trade in which investors do not have a carry trade position around FOMC announcements (for 12 hours). “No open + No cluster” refers to a jump robust carry trade that combines “No open” and “No cluster” strategies. “Drop small + No open & No cluster” is a jump robust carry trade in which investors use a smaller number of currencies for carry trades by eliminating the currencies of the two smallest GDP countries in the carry trade currencies and use “No open + No cluster” strategy. This table shows mean returns and standard deviations (percentage per annum). To characterize the return distribution, skewness and kurtosis are provided. To show performance comparison, this table reports Sharpe ratios, maximum drawdown, and certainty equivalent (denoted in “CE”). We compute the CEs by using the approach of Janecek (2004), which assumes the constant relative risk aversion (CRRA). “p” is the risk aversion parameter. To consider bid-ask spread in Panels B and D, we assume that investors take long positions at ask quotes and short positions at bid quotes.

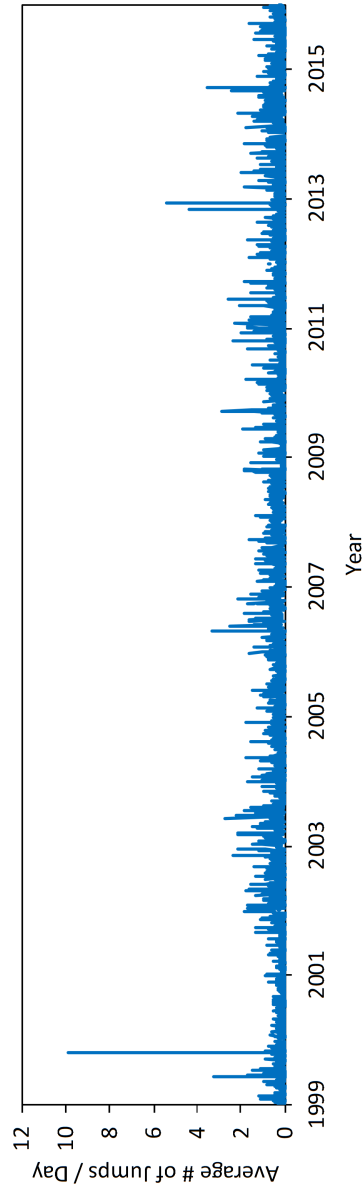
Figure 1. Carry Trade Returns and Jumps



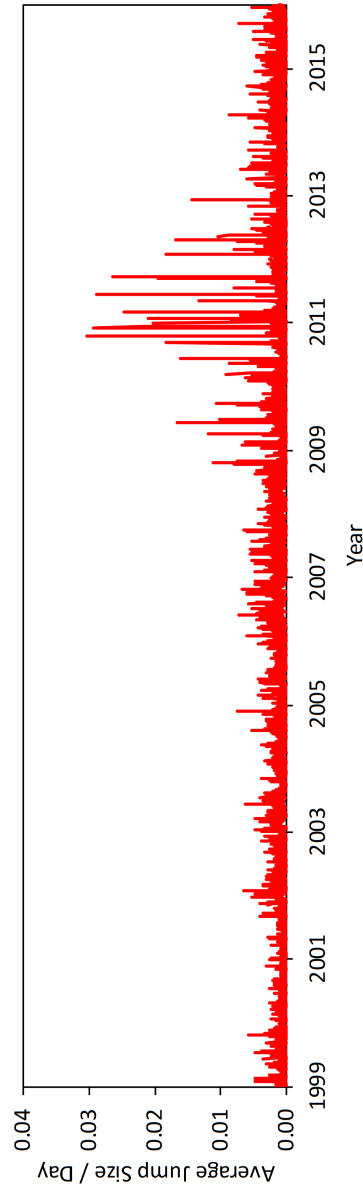
Note: This figure presents the annualized daily carry trade returns depending on jumps. For this figure, the carry trades are defined as an investment in which investors, reviewing the interest rates of the 18 countries every day, lend the five highest interest rate currencies and borrow the five lowest interest rate currencies. The investment horizon is from 1999 to 2015. We sort days on jump frequencies (sizes) and then construct three groups using the 33rd and 67th percentiles. “High” represents high (large) jump frequencies (sizes), and “Low” represents low (small) jump frequencies (sizes).

Figure 2. Time Series Behavior of Number & Size of Currency Jumps

A. Number of Jumps Per Day

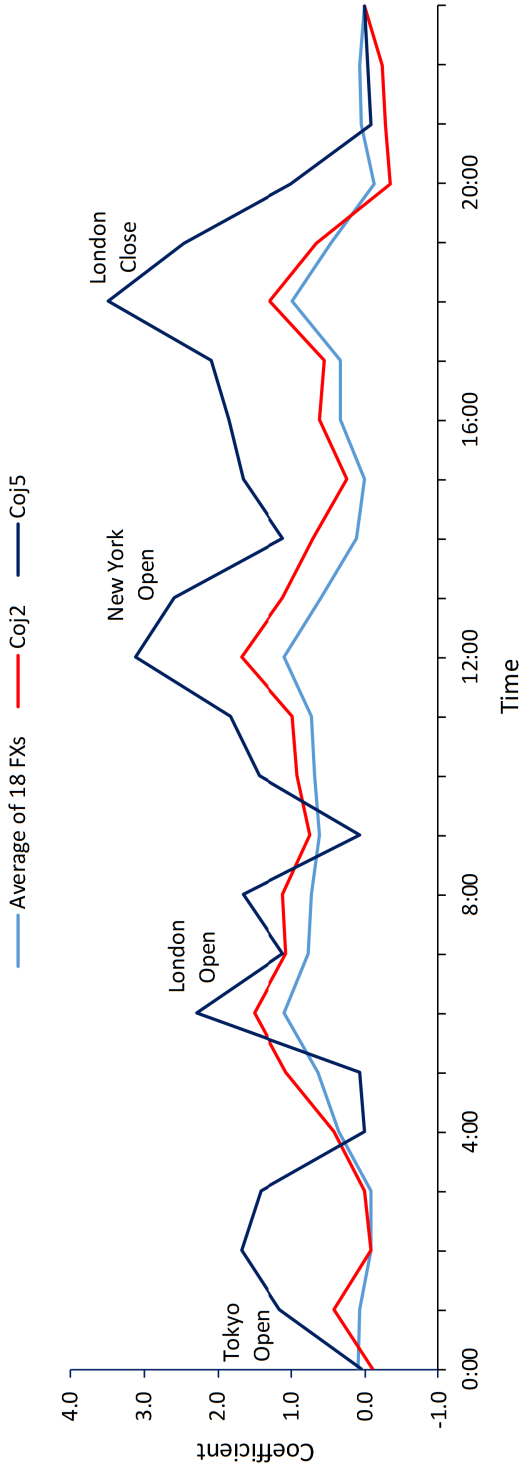


B. Daily Sum of Absolute Jump Size



Note: This figure illustrates the time series of the number and absolute magnitude of currency jumps per day. The figure uses the 18 foreign exchange rates sampled every 15 minutes over the sample period from 1999 to 2015. The currency jumps are detected by the test stated in Definition 1.c in Appendix A. Panel A shows the daily number of jumps averaged across the 18 foreign exchange rates. Panel B shows the daily sum of the absolute jump sizes.

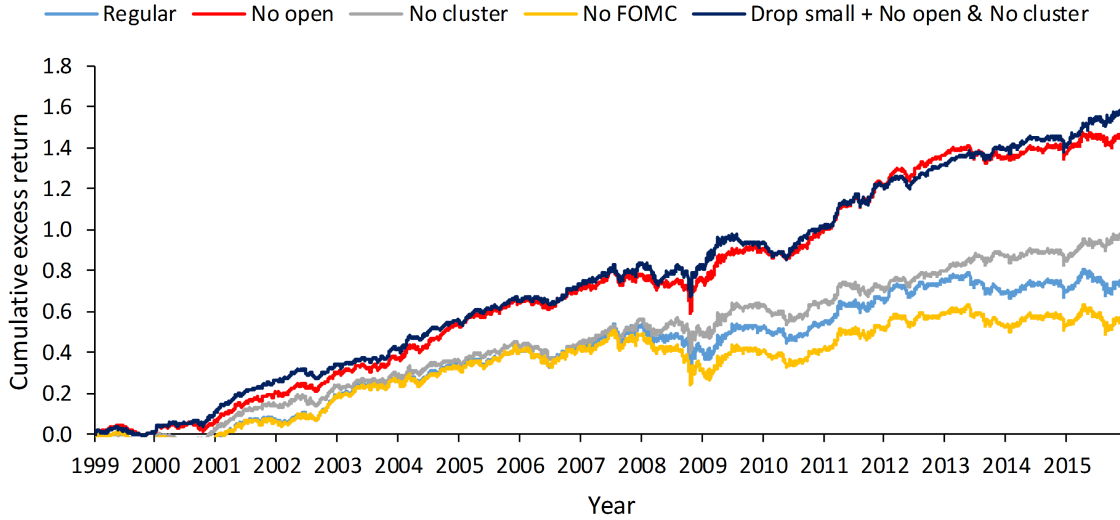
Figure 3. Time-of-Day Effect: Coefficients on Time Indicators



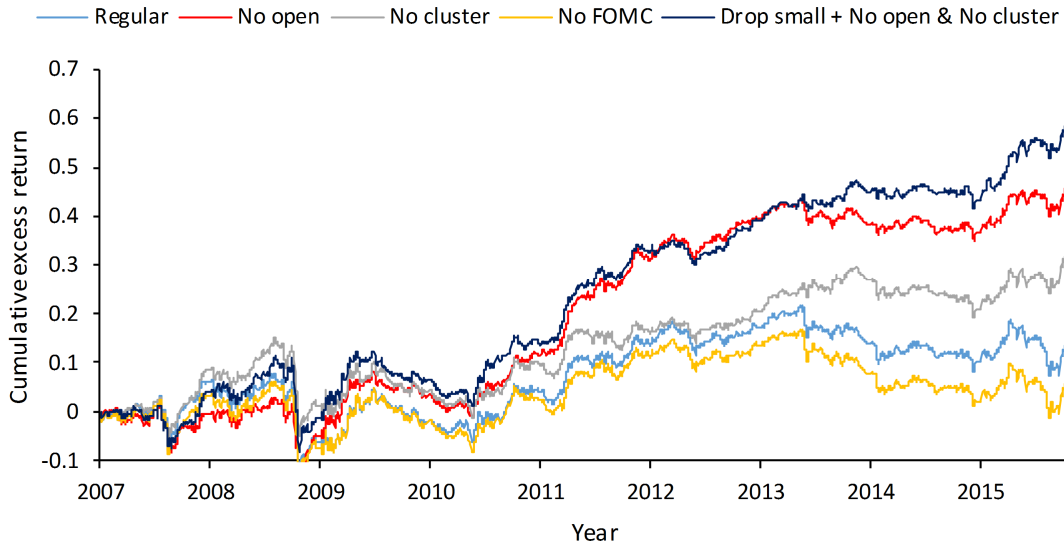
Note: This figure shows the magnitudes of the parameter estimates that are obtained from the jump intensity models reported in Table 4. The estimation is performed after controlling for jump clustering effects. The blue line represents the average coefficients of the time indicators $T_{t,l}$ of the 18 foreign exchange rates. The red line represents the coefficient magnitudes for cojump 2, and the dark blue line represents the coefficient magnitudes for cojump 5. The figure includes the opening and closing hours of the global currency markets.

Figure 4. Comparison of Carry Trade Returns

A. Full sample analysis



B. Out-of-sample analysis

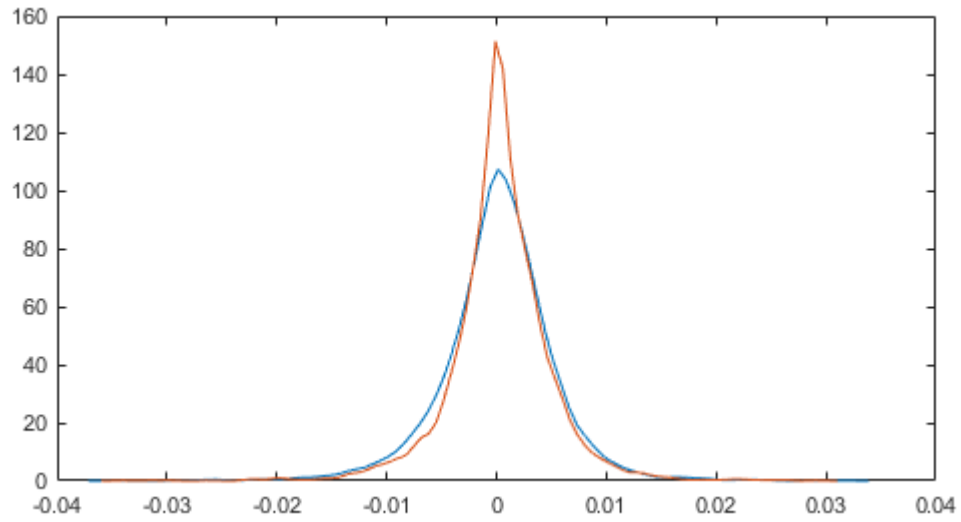


Note: This figure presents the cumulative carry trade returns of various strategies. The blue line (“Regular”) is for a regular carry trade in which investors, reviewing the interest rates of the 18 countries every day, lend the five highest interest rate currencies and borrow the five lowest interest rate currencies. The investment horizon is from 1999 to 2015 for Panel A and from 2007 to 2015 for Panel B. This blue line is provided for comparison purposes. The other lines represent the cumulative carry trade returns of the carry trades in which investors temporarily stop the (regular) carry trades during prespecified time periods. The red line (“No open”) represents the cumulative carry trade returns for investors who do not have a carry trade position around the London market opening time or Tokyo market closing time (06:00 - 10:00 GMT). The

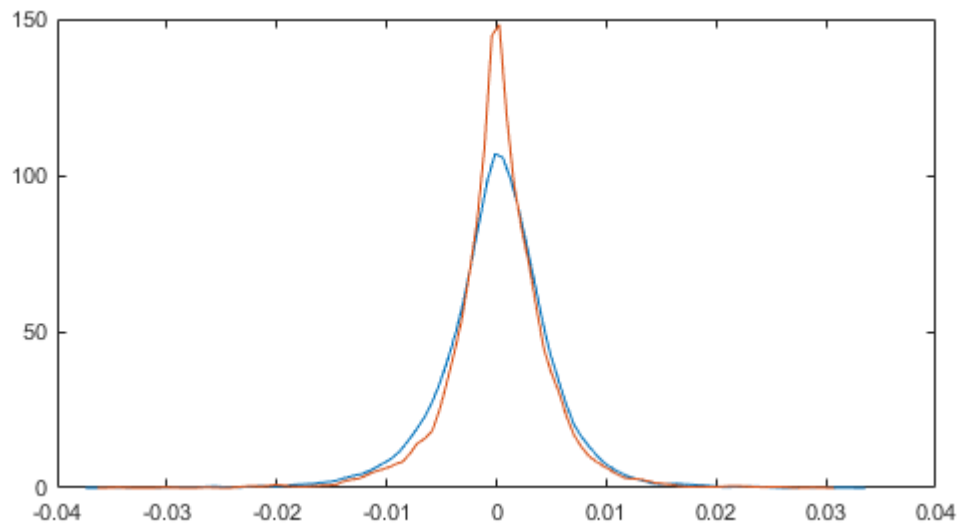
gray line (“No cluster”) reflects the cumulative carry trade returns for investors who do not have a carry trade position after a cojump 2 arrives (until the next rebalancing time). The yellow line (“No FOMC”) refers to the cumulative carry trade returns for investors who do not have a carry trade position around FOMC announcements (for 12 hours). The dark blue line (“Drop small + No open & No cluster”) represents the cumulative carry trade returns for investors who use a smaller number of currencies for carry trades by eliminating the currencies of the two smallest GDP countries in the carry trade currencies and implement the same strategies as represented by the red and gray lines. The horizontal line denotes the time, and the vertical line indicates the cumulative excess returns in raw numbers.

Figure 5. Probability Density Function of Regular and Jump Robust Carry Trades

A. Full sample analysis without a bid-ask spread

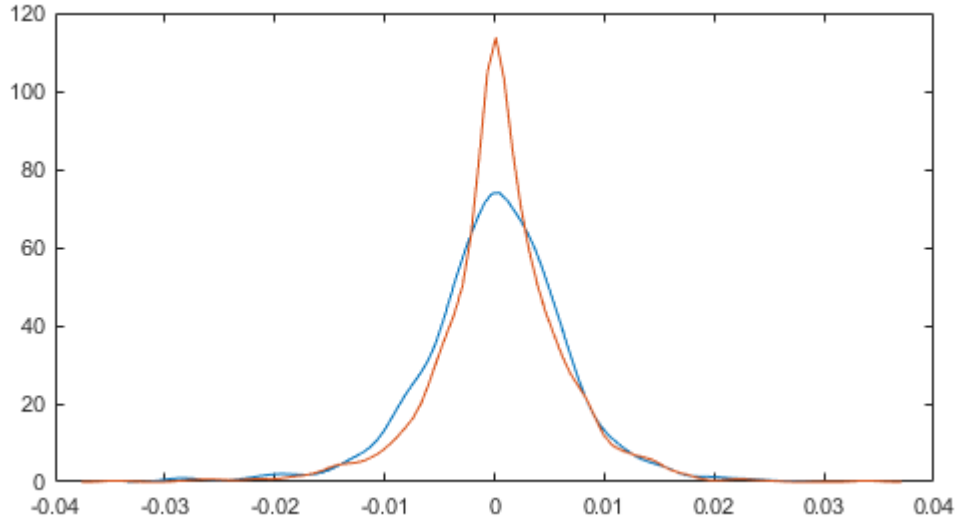


B. Full sample analysis with a bid-ask spread

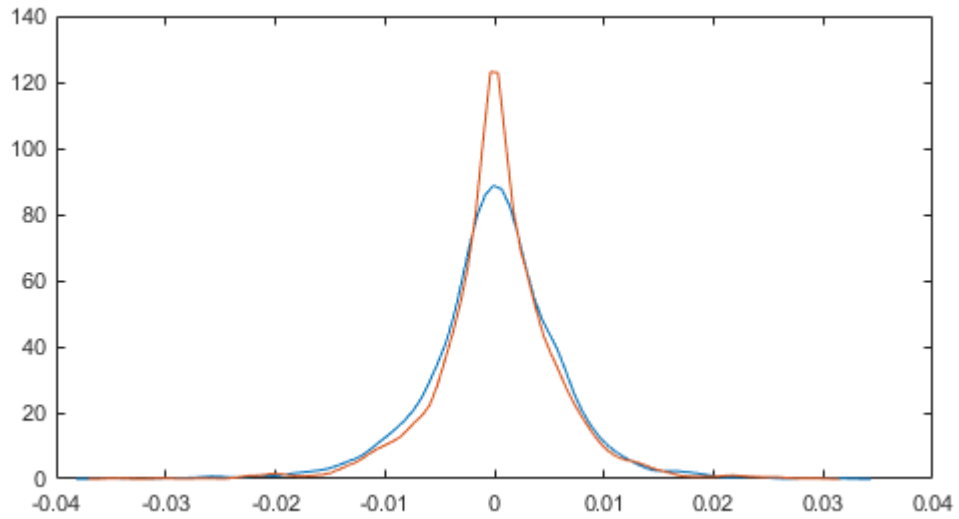


*Figure 5. Probability Density Function of Regular and Jump Robust Carry Trades
(continued)*

C. Out-of- sample analysis without a bid-ask spread



D. Out-of- sample analysis with a bid-ask spread



Note: This figure presents the probability density functions of carry trade returns to fully show the characteristics of return distributions. For comparison, this figure uses “Regular” and “Drop small + No open & No cluster” strategies. The blue curve is for the distribution of the regular carry trade, and the red curve is for that of the jump robust carry trade. The investment horizons are from 1999 to 2015 for Panels A and B and from 2007 to 2015 for Panels C and D. To consider bid-ask spread in Panels B and D, we assume that investors take long positions at ask quotes and short positions at bid quotes.

Appendix A. Theory of Inference for Jump Regression

This appendix defines and justifies our inference method used in this paper. Currency market dynamics are specified by continuous-time models. To better approximate their true dynamics, it is ideal to take advantage of high-frequency data. The general intuition behind the jump regression is that as long as true jumps in continuous time are correctly identified using high-frequency data, one can discover the true relationship between jumps (arrivals and sizes) and information variables.

Assuming instantaneous changes in exchange rates are described by the continuous-time process in Equation (1), we identify jumps by applying the jump test statistics as stated in Definition 1.c below. This approach allows us to incorporate intraday volatility patterns into the test of Lee and Mykland (2008) for jump detection and to make the results robust to a potential distortion due to the intraday volatility patterns in currency markets. For our jump regression method to be valid, it is important to correctly identify jump arrival times and their sizes. Our estimated jumps show necessary properties. In essence, for every discrete time interval during which we do (or do not) have a jump, we do (or do not) detect the jump by conducting our jump tests (see Lee (2012) for more details). Jump sizes can be estimated with the returns from those discrete time intervals with jumps because the absolute magnitudes of those returns are dominated mainly by the jump part in the limit.

These asymptotic properties hold even after taking into account the intraday volatility pattern and its associated estimation errors. Theoretically, in the presence of jumps, the jump magnitude dominates the volatility component including the estimation error for intraday volatility adjustment factor in the limit, and thus, the jump test statistics will fall into our rejection region, which is based on the extreme value distribution (i.e., Gumbel distribution). On the other hand, in the absence of jumps, this jump test statistic is bounded in the limit. Hence, as $\Delta t \rightarrow 0$ and $T \rightarrow \infty$, the probability that this test correctly classifies times with jumps (and no jump) approaches 1. We also confirm the finite sample performance of this theory in Appendix B. Therefore, as long as we use high-frequency data over

a sufficiently long sample period, it is fine to approximate the unobserved true jumps with the estimated jumps for both arrival times and sizes.

Using the estimated jumps, econometricians can establish a jump regression model and estimate parameters by minimizing the estimating function. To provide a more concrete description of our approach, we define the following three estimating functions.

Definition 1. Three Estimating Functions

1.a. True Estimating Function

$$\widehat{G(\theta|\mathcal{F}_T)} = \widetilde{g}(\theta|dJ_{k,s}, Y_{k,s}, X_{k,s}, s \in [0, T]). \quad (8)$$

1.b. Full Estimating Function

$$G_n(\theta|\mathcal{F}_T) = g_n(\theta|dJ_{k,s_i}, Y_{k,s_i}, X_{k,s_i}, s_i \in [t_0 = 0, t_1, \dots, t_n = T]). \quad (9)$$

1.c. Partial Estimating Function

$$\widehat{G_n(\theta|\mathcal{F}_T)} = g_n(\theta|\widehat{dJ}_{k,s_i}, \widehat{Y}_{k,s_i}, \widehat{X}_{k,s_i}, s_i \in [t_0 = 0, t_1, \dots, t_n = T]), \quad (10)$$

where $\widehat{Y}_{k,t_i} = (s_{k,t_i} - s_{k,t_{i-1}})I_{[\mathcal{L}(k,i) \in \mathcal{R}_n(\alpha_n)]}$, $\widehat{dJ}_{k,t_i} = I_{[\mathcal{L}(k,i) \in \mathcal{R}_n(\alpha_n)]}$, with the foreign currency jump detection test statistic $\mathcal{L}(k, i) \equiv \frac{s_{k,t_i} - s_{k,t_{i-1}}}{\widehat{\sigma}_{k,t_i} \widehat{f}_{k,t_i} \sqrt{\Delta t}}$, rejection region for the jump detection test $\mathcal{R}_n(\alpha_n)$, and overall error rate α_n . $\widehat{X}_{k,s_i}$ is the information variable observed at available discrete times. The instantaneous volatility estimator $\widehat{\sigma}_{k,t_i}$ can be scaled to jump robust volatility estimators.³⁸ $\widehat{f}_{k,t_i}$ is an intraday volatility adjustment factor, which can be estimated using data from the same time across different trading days.

The true estimating function defined in Definition 1.a describes the true relationship in continuous time between jumps and information. In practice, it is not available for real ap-

³⁸It can be based on a bipower variation or truncated power variation, among others.

plications but is usually approximated by its discrete time version such as the full estimating function defined in Definition 1.b. Because we cannot directly observe the jump arrivals or sizes at discrete times (only with return data), we estimate them with our jump tests and use the estimated jumps in setting up the partial estimating function as defined in Definition 1.c, which one can make inference with. Essentially, we approximate the true relationship in continuous time with the partial estimating function based on discrete observations. This approximation is valid because the probability that the partial estimating function and the true estimating function are different from each other becomes negligible in the limit. In other words, those two estimating functions are asymptotically equivalent. Given this asymptotic equivalence, we can estimate the relationship between estimated jumps and information variables and expect this estimated relationship to be consistent with the true relationship in continuous time.

We now present the main theoretical results to support our inference using the jump regressions as follows.

Theorem 1. Inference for Jump Regressions in Continuous Time

Suppose that Assumption H stated below holds. Let X_t be the vector of the information variables that could affect jump size or jump intensity in currency markets. Furthermore, let $\hat{\theta}_n$ be the optimal estimate based on the partial estimating function, such that $\widehat{G}_n(\theta|\mathcal{F}_T) = 0$, as outlined in Definition 1. In addition, let θ_0 be the true parameter, such that $\widetilde{G}(\theta|\mathcal{F}_T) = 0$. Then, the following results hold as $\Delta t \rightarrow 0$ and $T \rightarrow \infty$.

A. $\hat{\theta}_n$ is a θ_0 -consistent estimator, which means that the estimate $\hat{\theta}_n$ converges to the true value θ_0 .

B. $\hat{\theta}_n$ exhibits asymptotic normality, such that

$$\sqrt{n}(\hat{\theta}_n - \theta_0) \xrightarrow{\mathcal{D}} -W_0(\theta_0)^{-1}Z \quad (11)$$

where $W_0(\theta)$ is the limit of the matrix of the first-order partial derivatives of the estimating

function $\widehat{G_n(\theta|\mathcal{F}_T)}$, evaluated at θ_0 . Z is a normal random variable with mean zero and covariance matrix V .

C. $X_{k,t,p'}$ is selected as an important information variable for the jump size or intensity in the k -th currency markets if $\text{Prob}\left(z > \frac{\hat{\theta}_{k,p',n}}{SE(\hat{\theta}_{k,p',n})}\right) < \beta$, where β is the chosen significance level and z is a standard normal random variable. The standard error $SE(\hat{\theta}_{k,p',n})$ can be found from B stated above.

Theorem 1 justifies our significance tests on the parameters that relate jump sizes (or arrivals) and information variables in various functional forms. For example, if we aim to study the relation between jump arrivals and some information variables available only at low frequencies, our estimated intraday jumps can be transformed in the estimating function through $g_n(\cdot)$ in Definition 1.c. Specifically, we can aggregate estimated jumps by summing jump arrivals over the longer period of time to have the same lower frequency as that for information variables. With aggregated jumps, usual regression analyses can be performed to identify the relationship. This solution is new and general to accommodate the applications of generalized linear models or nonlinear regression models for panel data, among others. Importantly, this approach allows the linking of intraday jumps to information variables available at lower sampling frequencies. Because the estimation error for the adjustment factor f_{k,t_i} does not affect the asymptotic behavior of jump test statistics in the jump detection stage, it does not matter for the limiting distribution of the regression coefficient estimates, as stated in Theorem 1.

For Theorem 1, we impose the following assumptions, which are general enough to include most of the pricing models in the literature.

Assumption H for Theorem 1

H.1. For each currency k , we assume that drift $\mu_{k,t}$, volatility $\sigma_{k,t}$, and intraday adjustment factor $f_{k,t}$ are all bounded and can be time-varying and stochastic.

H.2. Let θ_0 be the true parameter value under the true probability measure in continuous

time. There is a connected neighborhood Θ_0 of θ_0 in which the linking functions γ_{size} (or $\gamma_{intensity}$) for the regression models are continuous and differentiable to ensure that $G_n(\theta)$ is continuously differentiable for all n , and there is a function W , such that

$$\sup_{\theta \in \Theta_0} \|\partial_{\theta^T} G_n(\theta) - W(\theta)\| \xrightarrow{P} 0,$$

where $\partial_{\theta^T} G_n(\theta)$ the $p \times p$ -matrix, with the ij -th entry is $\partial_{\theta_j} G_n(\theta)_i$.

H.3. $G_n(\theta_0) \xrightarrow{P} 0$ and $\sqrt{n}G_n(\theta_0) \xrightarrow{\mathcal{D}} Z$ with Z being a nondegenerate random variable.

H.4. The matrix $W(\theta_0)$ is invertible with probability 1.

Proof of Theorem 1 We impose Assumption H, which is a modified version of the conditions for Theorems 1.58 and 1.60 of Sorensen (2012) for the asymptotic properties of parameter estimates for our purpose. To prove the results stated in our theorem, it is sufficient to verify that our Assumption H is satisfied not only for $G_n(\theta)$ but also for $\widehat{G_n(\theta)}$. It is straightforward to observe that $G_n(\theta|\mathcal{F}_T)$ and $\widehat{G_n(\theta|\mathcal{F}_T)}$ are asymptotically equivalent. Therefore, $G_n(\theta|\mathcal{F}_T) \xrightarrow{P} 0$ implies $\widehat{G_n(\theta|\mathcal{F}_T)} \xrightarrow{P} 0 = \widetilde{G(\theta|\mathcal{F}_T)}$. Moreover, by combining the Slutsky Theorem in Ferguson (1996), we can also state that $\sqrt{n}\widehat{G_n(\theta)} \xrightarrow{\mathcal{D}} Z$, which causes H.3 to be satisfied. For H.2, notice that

$$\sup_{\theta \in M} \|\partial_{\theta^T} \widehat{G_n(\theta)} - W(\theta)\| \leq \sup_{\theta \in M} \|\partial_{\theta^T} \widehat{G_n(\theta)} - \partial_{\theta^T} G_n(\theta)\| + \sup_{\theta \in M} \|\partial_{\theta^T} G_n(\theta) - W(\theta)\| \xrightarrow{P} 0.$$

The second term is simply due to the condition imposed, and the first term is due to a similar argument used in Proposition 1 in Lee (2012). For H.4, note that the determinants of $\widehat{W}(\theta)$ are positive and, in turn, invertible because the determinant of $W(\theta)$ is positive and $\widehat{W}(\theta)$ takes each component that is asymptotically equivalent to the corresponding component of $\partial_{\theta^T} G_n(\theta)$, making the differences negligible, as n goes to ∞ .

Appendix B. Intraday Patterns of Volatility and Jump

Motivated by Theodosiou and Zikes (2011), we show that our jump detection approach with the adjustment factor of intraday volatilities can distinguish jumps from high volatility patterns. To this end, we perform the following Monte Carlo simulation study.

We simulate returns based on Equation (1). Following Andersen and Bollerslev (1998a, b) and Boudt, Croux, and Laurent (2011), we simulate daily variance with the generalized autoregressive conditional heteroskedasticity (GARCH) model, $d\sigma_{k,t}^2 = -\psi_{k,1}(\sigma_{k,t}^2 - \bar{\sigma}_k^2)dt + \psi_{k,2}\sigma_{k,t}^2 dB_{k,t}$, where $d\sigma_{k,t}^2$ is the instantaneous variance, and $dB_{k,t}$ is the Brownian motion. For the parameter estimates (i.e., $\psi_{k,\cdot}$) to use for volatility simulation, we use six representative exchange rates among our intraday exchange rate data (i.e., the Australian dollar (AUD), Canadian dollar (CAD), euro (EUR), Japanese yen (JPY), Swiss franc (CHF), and British pound (GBP)). With the 15-minute interval data, we impose intraday volatility patterns for each currency by using the volatility levels during a 15-minute interval relative to the unconditional volatility. We apply the same method to the six currencies and the 96 15-minute intervals (per day). To simulate jumps with an intraday pattern, we use Tables 2 and 3. Using the overall probability of jumps for each currency (% Jp in Table 2), we generate indicators for random jumps. Taking advantage of the relative frequencies of Table 3, we set the different jump probabilities for every hour (i.e., $Pr(Jump)_{k,m} = 24/100 \cdot (\text{Average jump probability})_k \cdot (\text{Percentage of hourly jump probability})_{k,m}$, where m denotes the m -th 15-minutes interval a day.).

By combining the stochastic volatilities and jumps, we simulate 15-minute returns for 3,005 days (i.e., 96 returns per day $\times$ 3,005 days). In this simulation study, we use the latter 3,000 days for one run of the simulation, considering that our sample is composed of 1,000-4,400 days. We simulate additional five day returns because we set a burn-in period and need lagged observations (about two days) to apply our jump detection approach. Using these 3,000-day returns, we compare the realized intraday volatilities and jumps and perform statistical tests. We iterate the above simulation 2,000 times, then summarize the results in

Table B.1.

First, we investigate whether the diurnal patterns of volatilities that are estimated from the simulated data are consistent with the imposed patterns in the model. For each run of the simulation (composed of 3,000 days), we perform the test at the 1% significance level. As the first row of Table B.1 shows, we find that 99.2% to 100% of simulation runs indicate that the estimated volatility patterns are not different from the imposed volatility patterns. Then, we examine whether the intraday jump patterns that are estimated from the simulated data are in line with the imposed patterns. As the second row of Table B.1 shows, 95.6% to 100% of simulation runs result in patterns that do not differ from the imposed patterns. These outcomes indicate that our jump detection method can distinguish intraday jump patterns from intraday volatility patterns with fairly low error rates.

We also investigate how many jumps are spuriously detected. The spurious detection is defined as the case in which a jump is detected by our filtering approach even though a jump is not imposed. Such a spurious detection might be driven by a high volatility. However, as the last row of Table B.1 indicates, we find that more than 99% of detected jumps are imposed jumps (i.e., the percentage of spurious detection is lower than 1%).

Table B.1. Simulation Result for Intraday Patterns of Volatilities and Jumps

	AUD	CAD	EUR	JPY	CHF	GBP
% correctly matching volatility pattern among 2,000 simulations	99.800	99.200	100.000	100.000	99.600	99.600
% correctly matching jump arrival pattern among 2,000 simulations	100.000	99.800	99.200	99.800	97.400	95.600
Overall performance of jump detection % of correctly detected jumps	99.946	99.909	99.943	99.970	99.925	99.921

Appendix C. Jump Size Clustering in Foreign Currency Markets

This appendix presents evidence that similar-sized jumps are clustered over time (i.e., jump size clustering effect). To consider different jump sizes, jumps are categorized into two groups according to their jump magnitudes. Larger jumps are called outer quartile jumps (OQJs) and smaller jumps are called inner quartile jumps (IQJs). Specifically, OQJs are jumps with sizes exceeding the upper and lower quartiles of the jump size distribution. IQJs are jumps within the upper and lower quartiles.

To estimate the jump size clustering effect, we use the following jump intensity models:

$d\Lambda_{k,t}^{size} = \frac{1}{1 + \exp(-\theta_{k,0} - \sum_{l=1}^5 \theta_{k,l} SC_{k,l,t}^{size} - \sum_{h=0}^{22} \theta_{k,h+6} T_{k,h})}$, where $d\Lambda_{k,t}^{size}$ with $size = outer, inner$ is the jump intensity for each group, $SC_{k,1,t}^{size} = I[\int_{t-30\min}^t dJ_{k,s}^{size} > 0]$ with $dJ_{k,s}^{outer} = I[Y_{k,s} \in OQJ]$ and $dJ_{k,s}^{inner} = I[Y_{k,s} \in IQJ]$ is a jump size cluster indicator for 30 minutes, $SC_{k,2,t}^{size} = I[\int_{t-2\text{hours}}^{t-30\min} dJ_{k,s}^{size} > 0]$ is a jump size cluster indicator for two hours, $SC_{k,3,t}^{size} = I[\int_{t-8\text{hours}}^{t-2\text{hours}} dJ_{k,s}^{size} > 0]$ is a jump size cluster indicator for eight hours, $SC_{k,4,t}^{size} = I[\int_{t-16\text{hours}}^{t-8\text{hours}} dJ_{k,s}^{size} > 0]$ is a jump size cluster indicator for 16 hours, $SC_{k,5,t}^{size} = I[\int_{t-1\text{day}}^{t-16\text{hours}} dJ_{k,s}^{size} > 0]$ is a jump size cluster indicator for one day, and $T_{k,h}$ is a time dummy to control for the time-of-day effect.

Table C.1 reports the estimation results for selected exchange rates. To save space, we provide the results for cojumps and selected currencies (the results for the other currencies can be provided upon request). For each currency (and cojump), this table shows the information about jump size distributions in the columns on the left and the estimation results in the columns on the right. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

The overall results indicate that IQJ size clustering tends to last longer than OQJ size clustering. For example, both IQJs and OQJs cluster for at least 30 minutes in all the currency markets. IQJs continue to cluster for 8 hours for 18 currencies, whereas OQJ clustering lasts for 11 currencies.

Table C.1. Jump Size Clustering in Foreign Currency Markets

	Inner Quartile Jump					Outer Quartile Jump								
	Min	25p	75p	Max	30 min	2 hr	8 hr	16 hr	1 day	30 min	2 hr	8 hr	16 hr	1 day
Coj 2	-0.0111	-0.0031	0.0032	0.0084	2.812***	1.780***	0.501***	0.416**	0.129	3.062***	1.359***	0.313	-0.220	0.409**
z-stat					15.74	10.09	2.77	2.18	0.65	19.67	7.01	1.64	-0.81	2.31
Coj 5	-0.0055	-0.0036	0.0039	0.0058	4.221***	1.463	1.677**	0.790	0.820	3.937***	0.000***	2.172***	0.000***	0.810
z-stat					7.44	1.25	2.11	0.77	0.81	7.31		3.70		0.81
AUD	-0.0061	-0.0040	0.0036	0.0061	4.042***	1.360***	1.442***	0.815***	1.002***	3.527***	1.770***	0.012	0.653*	1.049***
z-stat					14.33	2.95	5.19	2.60	3.42	11.75	4.36	0.02	1.90	3.60
CAD	-0.0042	-0.0021	0.0024	0.0043	3.919***	2.245***	2.135***	0.462	0.859**	3.219***	2.073***	0.511	0.796*	0.290
z-stat					15.25	7.57	8.02	0.90	2.24	9.82	5.73	1.11	1.91	0.69
EUR	-0.0046	-0.0029	0.0030	0.0046	3.292***	2.516***	0.697*	1.156***	0.451	3.259***	2.007***	-0.297	0.666*	0.648**
z-stat					10.64	8.70	1.91	4.05	1.22	11.02	6.22	-0.51	1.74	2.10
JPY	-0.0048	-0.0027	0.0030	0.0048	4.106***	1.398***	1.596***	0.872***	0.785***	3.263***	1.476***	1.329***	0.215	0.402
z-stat					19.08	4.22	7.54	3.48	3.16	12.43	4.59	6.09	0.62	1.36
NZD	-0.0060	-0.0036	0.0036	0.0060	3.483***	2.911***	0.798*	0.433	0.641	3.638***	1.831***	0.616	0.699	0.952***
z-stat					8.87	7.72	1.72	0.71	1.25	10.92	3.86	1.22	1.55	2.61
SGD	-0.0030	-0.0019	0.0018	0.0030	4.245***	1.954***	1.129***	0.560*	0.800***	4.691***	1.792***	0.954***	0.559*	0.634**
z-stat					15.98	5.74	4.31	1.74	3.02	21.55	5.71	3.48	1.69	2.01
ZAR	-0.0095	-0.0045	0.0042	0.0093	3.564***	2.728***	1.553***	1.141***	0.794**	4.658***	0.978***	0.966***	0.972***	0.976***
z-stat					11.99	9.21	6.22	3.51	2.49	22.72	2.77	3.70	4.29	4.03
SEK	-0.0058	-0.0035	0.0035	0.0057	3.970***	2.217***	1.328***	0.678	0.713	3.307***	1.038	0.936**	0.046	-0.321
z-stat					9.26	4.54	3.23	1.15	1.39	8.09	1.43	2.03	0.07	-0.45
CHF	-0.0054	-0.0032	0.0034	0.0054	3.262***	2.639***	1.251***	0.959***	-0.249	3.276***	1.782***	-0.052	0.115	0.119
z-stat					12.20	10.46	4.80	3.05	-0.49	11.45	5.20	-0.10	0.23	0.31
GBP	-0.0042	-0.0025	0.0026	0.0042	3.714***	1.874***	1.781***	0.842*	0.688*	3.586***	1.312**	0.120	0.291	0.729**
z-stat					12.40	4.91	5.74	1.94	1.73	11.44	2.46	0.21	0.50	2.01

Appendix D. Daily Effect of Information Releases on Expected Number and Size of Jumps

The macroeconomic news releases that we study in this paper are prescheduled, and the timing of the news announcements is known to investors in advance. Depending on market expectations about the announcements, transactions can occur before the actual release times. Conversely, interpretations of the news can be delayed, and the market may not react immediately (Evans and Lyons, 2005, 2008). In addition, because of the jump clustering effects, a news release can incur a series of jumps. To address these issues, we analyze jumps that are aggregated over a day.

We aggregate the intraday currency jump arrivals over day d with daily interval D_d and denote the aggregated jump frequencies by $\int_{s \in D_d} dJ_{k,s}$ ($D_d = \{s | s \text{ belongs to day } d\}$). We set the integrated currency jump intensity model at daily level using the following Poisson linking function:

$$\int_{s \in D_d} E(dJ_{k,s}) = \int_{s \in D_d} d\Lambda_{k,s} = \exp\left(\alpha + \sum_{l=-6}^6 \theta_l B_{l,d} + \sum_{i=1}^{17} \delta_i C_i + \gamma REC_d\right), \quad (12)$$

where $B_{l,d} = I_{[d=v-l]}$ is a day indicator that takes the value of unity if the observation belongs to day $v - l$, where v is the information release day. C_i is a dummy variable that indicates country i to control for country fixed effects, and REC_d is a dummy variable to control for the fixed effect of the U.S. recession period. The intraday patterns are not controlled for because intraday effects are averaged and are reflected in the constant term α . We examine 12 days around information release days to measure the currency market jump reaction around the news.³⁹ We estimate these models using the panel data on all currency jumps and the two separate time series datasets on common currency jumps (cojumps 2 and 5), such that $\int_{s \in D_d} dJ_{coj(m),s} = \int_{s \in D_d} I\left[\sum_{k=1}^{18} dJ_{k,s} \geq m\right]$ with $m = 2$ and 5.

To examine the impact of information releases on jump sizes around scheduled event days, we aggregate intraday jump sizes by taking the sum of the absolute values of the jump

³⁹This model and the graphical representation are motivated by Patton and Verardo (2012).

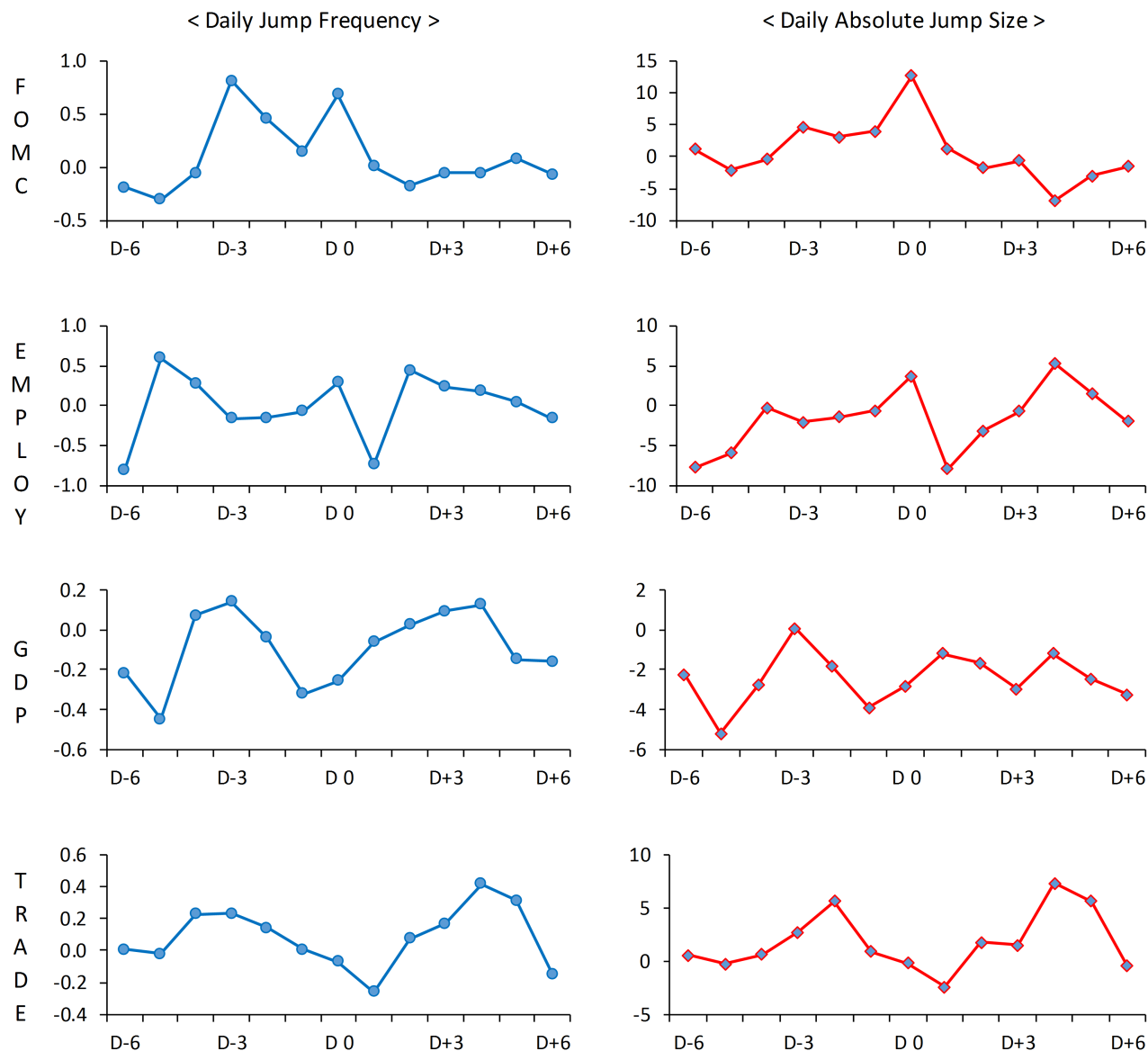
sizes on day d . We then set our jump size regression model over one day as follows:

$$E\left(\int_{s \in D_d} |Y_{k,s}| ds\right) = \alpha + \sum_{l=-6}^6 \theta_l B_{l,d} + \sum_{i=1}^{17} \delta_i C_i + \gamma REC_d. \quad (13)$$

In Figure D.1, the left panels show the results for the jump intensity model. The coefficients for the day of the FOMC announcements are all positive, indicating that the expected number of intraday currency jumps is greater on the FOMC announcement day than on other days. The expected number of jumps for individual currencies on the FOMC announcement day is, on average, greater by $e^{0.68}$ ($\approx .1.97$) than those on other days. For cojumps, we also find that jumps are more likely to occur on FOMC announcement days than on other days. These results demonstrate that the impact of FOMC announcements on simultaneous currency jump arrivals is statistically and economically significant. The daily patterns for the expected number of intraday jumps on the nonfarm payroll release days are similar to, though not as distinct as, the case for the FOMC announcement days. The effects of GDP and trade information releases are negative in the regressions for individual exchange rates. Moreover, the coefficients of the GDP or trade information release days in the regression for cojumps do not show a clear pattern for understanding changes in the jump frequencies, which conflicts with those on an FOMC announcement day.

The right panels of Figure D.1 show the results for the jump size model. Similar to the jump intensity, we note that the coefficient on FOMC announcement days are significantly positive. In addition, on nonfarm payroll employment release days, the expected jump sizes are significantly larger than on usual days. Unlike these two cases, we find only insignificant results for the other information releases.

*Figure D.1. Expected Jump Frequency and Size of Individual Currencies
around Information Release Days*



Note: This figure graphically presents how individual currency jumps respond to scheduled information releases regarding FOMC announcements, nonfarm payroll employment, GDP, and trade. In particular, it shows the regression coefficients estimated by the jump frequency and size models considered in Equations (12) and (13). The horizontal axis indicates the days around information release days, and the vertical axis shows the level of the coefficients. “D 0” indicates the scheduled release day.