



ELSEVIER

Contents lists available at SciVerse ScienceDirect

## Research in International Business and Finance

journal homepage: [www.elsevier.com/locate/ribaf](http://www.elsevier.com/locate/ribaf)



# Realizing the volatility impacts of sovereign credit ratings information on equity and currency markets: Evidence from the Asian Financial Crisis

Sirimon Treepongkaruna<sup>a</sup>, Eliza Wu<sup>b,\*</sup>

<sup>a</sup> UWA Business School, University of Western Australia, Perth, WA 6009, Australia

<sup>b</sup> UTS Business School, University of Technology, Sydney, PO Box 123 Broadway, Sydney, NSW 2007, Australia

### ARTICLE INFO

#### Article history:

Received 19 July 2011

Received in revised form 23 January 2012

Accepted 26 January 2012

Available online 16 February 2012

#### JEL classification:

G15

F30

F31

#### Keywords:

Sovereign ratings

Realized volatility

Realized correlations

Foreign exchange

Stocks

### ABSTRACT

We examine the effects of different types of sovereign rating announcements on realized stock and currency market volatilities and cross-asset correlations around periods of financial crises. Using intraday market data and sovereign ratings data for nine sample countries in the Asia-Pacific region over 1997–2001, we find that currency and stock markets react somewhat heterogeneously to various rating announcements and that stock markets are more responsive to rating news than currency markets. We find new evidence that ratings events have significant and asymmetric impacts on intraday market data and that national market attributes influence rating impacts during financial crises.

© 2012 Elsevier B.V. All rights reserved.

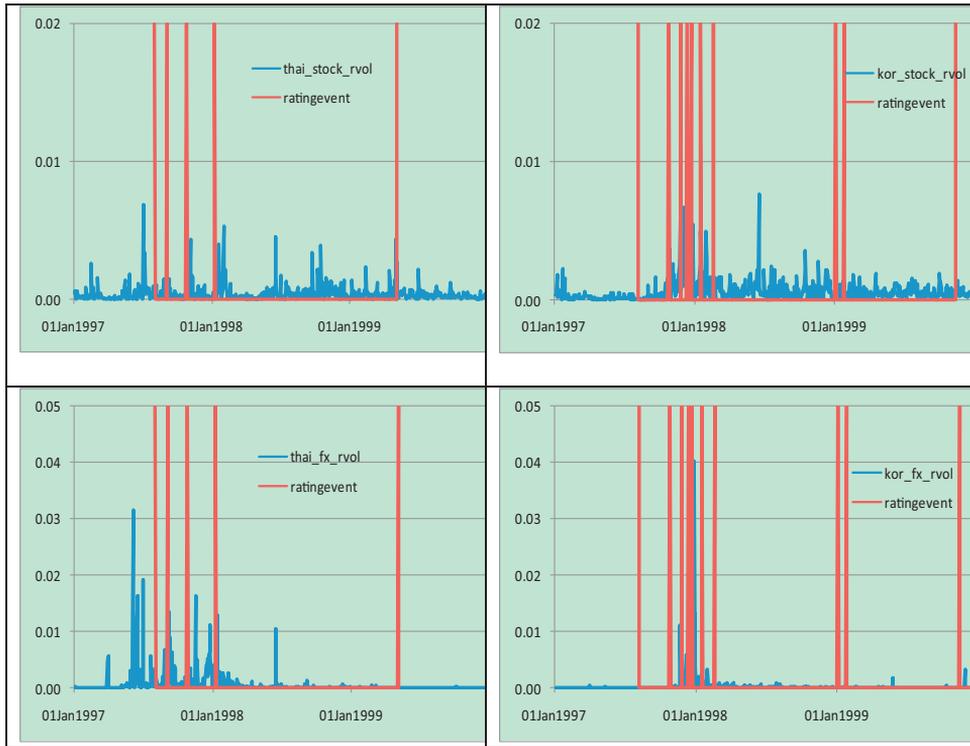
## 1. Introduction

Credit rating agencies are entrusted as specialist information providers in international financial markets and should in theory facilitate the efficient operation of financial markets. Yet, the informational value of ratings and the role of rating agencies in the international financial system remains widely debated.

This paper aims to examine the effect of sovereign credit rating and outlook change announcements on the realized second moments of stock returns and foreign exchange rates for nine sample

\* Corresponding author. Tel.: +61 2 95143905; fax: +61 295147722.

E-mail address: [eliza.wu@uts.edu.au](mailto:eliza.wu@uts.edu.au) (E. Wu).



**Fig. 1.** Stock and FX realized volatilities and rating event dates for Thailand and Korea during the Asian Financial Crisis. This figure shows the rating event dates (in red) and the daily realized volatilities for stock and foreign exchange markets (in blue) for Thailand and Korea – two of the most affected countries during the Asian Financial Crisis period. (For interpretation of the references to colour in this figure legend, the reader is referred to the web version of the article.)

countries in the Asia-Pacific region as previous studies like Kim (2003) and Evans and Speight (2010) have documented significant impacts of public information releases on the second moments of stock and currency returns, respectively. Sovereign credit ratings provide publicly available assessments on a national government's ability and willingness to service debts in a timely manner. As can be seen in Fig. 1, credit rating agencies are generally more active in re-rating countries during international financial crises, which are correspondingly highly volatile periods. The procyclical nature of credit ratings generates concern that credit rating agencies may work to amplify financial crises (Ferri et al., 1999). Thus, it is important to assess the wider impacts of rating agencies' credit assessments on the volatilities of financial markets as this evidence remains lacking. Hence, we focus on the volatility impacts of sovereign rating events over the period from 1997 to 2001 to cover previous episodes of financial crises in East Asia and other parts of the world. We employ a flexible panel data methodology for capturing a country's own rating impacts and its spill-over effects to other countries by using intraday currency and stock market data to compute realized volatilities and realized cross-market correlations.

We find that currency and stock markets react somewhat heterogeneously to ratings announcements with stock markets responding more significantly to rating news than currency markets. Changes on sovereign credit outlooks have more significant impact on stock market realized volatilities than actual rating changes but not so in currency markets. We also find clear evidence that rating events have significant and asymmetric impacts on higher moments of both asset market returns under normal market conditions but during financial crises financial markets are particularly sensitive to rating downgrades and investment grade ratings. Realized cross-market stock–FX correlations increase with downgrades and decrease with upgrades but this asymmetry is not affected by financial

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات