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Does Gold act as a Safe haven against Exchange Rate Fluctuations? The case of Pakistan Rupee

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Does Gold act as a Safe haven against Exchange Rate Fluctuations? A Case of Fragile Currency

Abstract

Investors often look for a refuge to avoid undesirable exposures to risk during period of extreme downturns in currency returns. We investigate daily gold and Rupee exchange rates depreciation against set of currencies over the period of 1992-2015. Using Wavelets at multiple time horizons; we find that gold act as a consistent short run hedge against exchange rate hence validating the exchange rate destruction hypothesis. This finding is helpful for speculators in their decision making while taking long and short positions accordingly. This finding suggests that central bank also need to keep other safe haven assets in reserves because the hedging ability of gold is only limited to short run. Further, the role of gold in providing protection against currency risks is also confirmed using Quintile regression. These results assist portfolio managers and governments in formulating effectual diversification strategy for preserving investment portfolio any extreme event condition.

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