

Insights

COVID-19, Economy and FX: Past, Present and Future

Analyzing pandemic economic effects and foreign exchange rate movements

Abstract

This paper offers an extensive analysis of the economic impact of COVID-19 and the effects of the pandemic on several currencies. We then explain a predictive model that utilizes COVID-19 indicators to generate FX trading signals.

Over a portfolio of 28 currency pairs, the model applies a simple linear regression to the number of daily new COVID-19 cases in each country to, mainly, short the currencies against the USD. After optimizing the model's hyper-parameters over the validation data, this model results in a +3.50 return, with 0.84 standard deviation, resulting in 4.01 return-to-risk (information ratio), over the out-of-sample period.



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