

## **MACROECONOMIC IMPLICATIONS OF THE BELIEFS AND BEHAVIOR OF FOREIGN EXCHANGE TRADERS**

We report findings from a survey of United States foreign exchange traders. Our results indicate that (i) technical trading best characterizes about 30% of traders, with this proportion rising from five years ago; (ii) news about macroeconomic variables is rapidly incorporated into exchange rates; (iii) the importance of individual macroeconomic variables shifts over time, although interest rates always appear to be important, and; (iv) economic fundamentals are perceived to be more important at longer horizons. The short run deviations of exchange rates from their fundamentals are attributed to excess speculation and institutional customer/hedge fund manipulation. Speculation is generally viewed positively, as enhancing market efficiency and liquidity, even though it exacerbates volatility. Central bank intervention does not appear to have a substantial effect, although there is general agreement that it increases volatility. Finally, traders do not view purchasing power parity as a useful concept, even though a significant proportion (40%) believe that it affects exchange rates at horizons of over six months. **Yin-Wong Cheung**

**Menzie D. Chinn** To read more, Please download the book.

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