



**TOP WORLD FOREIGN CURRENCIES EXPOSURE ON
INTERNATIONAL EQUITY MARKETS**

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ABSTRACT

Foreign exchange risk exposure remain puzzled in finance literature since its discovery in 1970s. Different from existing studies, this research examines the roles of top 5 global foreign currency (USD, UK Pound, EURO, JPY, and CNY) exposure on international stock markets globally. The role of these currencies are examined collectively as global currency basket index and as individual currencies effects. The time frame for the analysis is from year 2002-2017 involving 74 international equity market indices with monthly data observations. The panel regression model with robust estimator is employed to examine the roles of these major currencies on these international equity markets. The analyses are separated according to the respective global financial market segmentation namely; developed, emerging, and frontiers markets. In line with the existing theories prediction and empirical evidences, the present research provides non-homogeneous impact of these foreign currencies on international segmented equity markets. In particular, the currency risk is positively significant in contemporaneous effect and negatively significant for lag effects. In addition, these major currencies are affecting the developed equity markets more compared to emerging markets but not the frontiers market. Furthermore, only JPY is significantly affecting the equity indices in frontiers markets. This research not only highlights new emerging insights on the role of major foreign currencies impact on stock market returns but also practical implications to investors, fund managers, and regulators on how to manage and hedge against the risk of foreign exchange in international equity investments.