

Impacts of US Quantitative Easing on East Asian Currencies

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Abstract

This study investigates the impacts of Quantitative Easing (QE) in the US on currency behavior in East Asia. Since the global financial crisis, the Federal Reserve Board (FRB) has promoted untraditional monetary policies, including QE, in response to economic slowdowns in the US. However, the enormous supply of the US dollar has global spillover effects on foreign exchange markets, especially currencies in East Asia. Thus, it is noteworthy to focus on the relationships between US QE and East Asian currencies to obtain some implications for the effects of the FRB's QE exit strategy on the currencies. For this purpose, we identify the contribution of US QE on the dynamics of estimated currencies with a three-step approach, and then calculate the impulse responses of East Asian currencies to US QE. The results lead to the conclusion that the FRB's QE exit strategy would appreciate most East Asian currencies.

Keywords: quantitative easing; currency behavior; spillover effect

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