International News and Relationship Between Exchange Rate of Yen, TOPIX Index and Sectoral Stock Indices

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Abstract: In this paper, we examine how news about the results of important international economic and political events such as the Brexit referendum and the United States presidential election affected returns, volatility and co-movements of the exchange rate of yen, TOPIX index and sectoral stock indices in Japan. The sectoral stock indices include the TOPIX components with the weight of five percent and more, namely, transportation equipment index, electric appliances index, banks index, information and communication index, chemicals index and machinery index. Applying autoregressive conditionally heteroscedastic type models and cross-correlation function to daily data we estimate how the returns, volatility and co-movement of the exchange rate and stock price change when the news about some important international economic and political events is spread. Furthermore, the relationship between the possibility of the indirect impact of news on exchange rate through stock price (and on stock price through exchange rate) will be tested. Finally, we investigate how the sectoral stock indices in Japanese could be exposed to the sudden changes in financial markets caused by the international news impact. Research findings measuring the impact of international news on returns, volatility and co-movements of the exchange rate of yen, TOPIX and sectoral stock indices in Japan contribute to the literature on the impact of information about international political and economic events on the Japanese financial markets

Key Words: international news, financial markets, Japan

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