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WORKING PAPER

Macroeconomic announcements, communication and order flow on
the Hungarian foreign exchange market

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Macroeconomic announcements, communication and order flow on the Hungarian foreign exchange market*

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Abstract

We investigate the relation between the intradaily HUF/EUR exchange rate on the one hand and news announcements and order flow on the other hand. We extend the existing literature on foreign exchange market microstructure by considering a small open transition economy. We find that the intradaily exchange rate depends on both, news announcements and order flow. We conclude that news on the HUF/EUR market are transmitted directly via immediate reactions to news announcements as well as indirectly via order flow. We decompose the news' total effect on exchange rate and find that order flow accounts for approximately three quarters, compared to one quarter for direct news impact. Although the HUF is pegged to the EUR, the exchange rate shows similar characteristics as reported in the literature for major currencies. It does, however, differ in quantitative terms: the importance of indirect news transmission is remarkably higher on the HUF/EUR market. Furthermore, we extend the commonly used set of news by communication of central bankers and significantly improve the explanatory power of the estimates. Thus, central bank communication can be regarded as an important determinant for the HUF/EUR rate.

JEL: F31, G14, G15

Keywords: microstructure, order flow, exchange rate, macroeconomic news, central bank communication, Hungary

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