

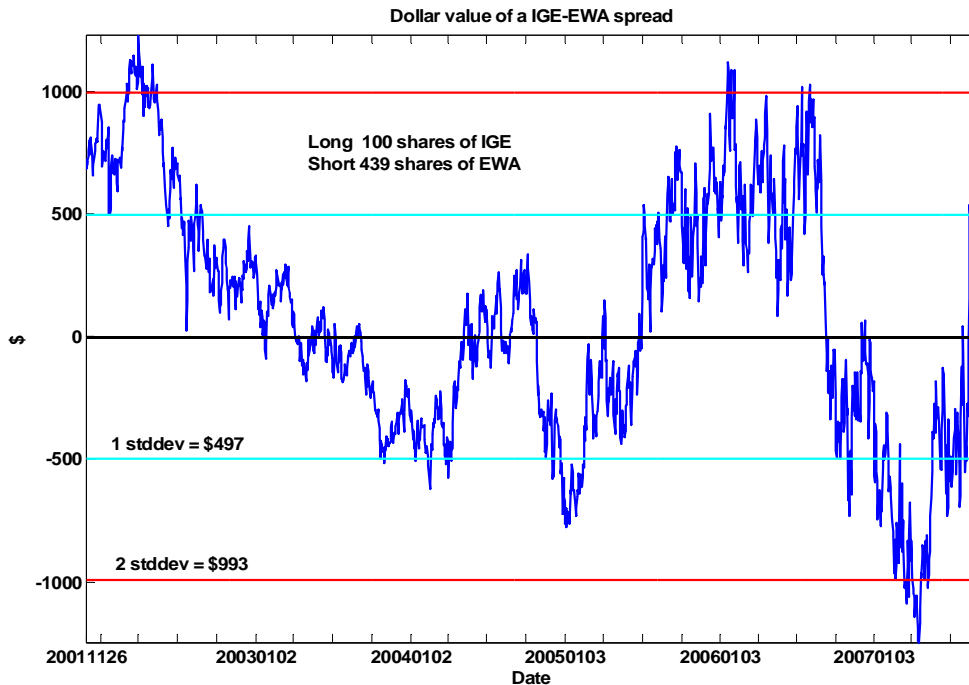
Cointegration between Resource-based Economies

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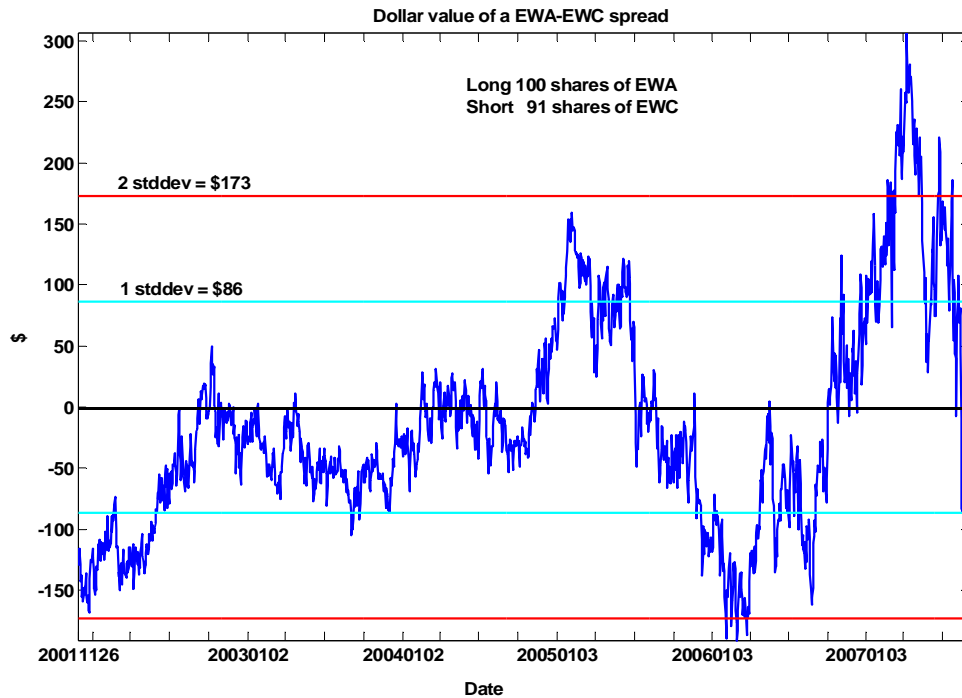
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The recent news coverage of the APEC summit in Australia often highlights the strong growth in Australian economy in recent years due to high commodity prices. This reminds me of the cointegration analysis I have done for the Canadian economy, which is also benefiting greatly from commodities exports. (That analysis has held out extraordinarily well *ex-post*.) Lo and behold, if I add EWA, the Australian stock index ETF, to the mix, we obtain two new cointegrating and tradable spreads: IGE-EWA and EWA-EWC.

I have found that IGE, the natural resource ETF, cointegrates with EWA with a probability higher than 95%. In the chart below, I plotted the value of 100 shares of IGE vs. 438 shares of EWA. The half-life of mean-reversion for this spread is about 37 days.



Similarly, EWA cointegrates with EWC with a probability higher than 95% as well. In the chart below, I plotted the value of 100 shares of EWA vs. 91 shares of EWC. The half-life of mean-reversion for this pair is about 31 days.



For your trading convenience, I have included these two spreads to the Live Spreads table in the subscribers-only area so that you can monitor their up-to-date values.

Disclaimer

This research is for informational purposes only, and is not a recommendation to buy or sell any securities mentioned. As always, past performance is no guarantee of future results!

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