

Non-linear effects of energy commodities on the EUR/USD spot exchange rate: An Oil and Gas Perspective on Parity Conditions.

Seminar in Applied Financial Economics: Applied Econometrics of FX Markets - Professor Reitz

Josef Fella and Robert Hennings

Christian Albrechts University of Kiel

josef.fella@stu.uni-kiel.de and robert.hennings@stu.uni-kiel.de

GitHub: <https://github.com/RobertHennings>

Kiel - 14.11.2025

Outline

1 Research Hypothesis

Energy Commodity Price Shocks: The Pass-Through Effect and implications for Monetary Policy
Formulated Research Hypothesis

2 Literature Review

Systematic Literature Overview: Main Approaches

3 Theoretical Framework

Impact of Inflation on Measurements: What are prices and how are they measured?
A simple model of exchange rates and commodity prices
Theoretical Framework

4 Methodology Overview

Systematic Methodology Overview: Linear vs. Non-linear approaches

5 Model Results

Regime identification - Model comparison and selection

6 Conclusion and Discussion

Seminar Project Summary
Seminar Project Limitations
Future Research

7 Appendix

Figures and Tables
Data and Definitions

8 References

Literature
Data

Intro: Energy Commodities and Exchange Rates

This has led some to suggest that an unidentified real factor may be causing persistent shifts in real equilibrium exchange rates.

— R.A. Amano, S. van Norden¹

This may in fact be the case or it is also possible that the relationship between exchange rates and oil shocks is non-linear and not being detected by a linear regression framework.

— S. A. Basher, A. A. Haug, P. Sadorsky²

The long-run real exchange rate of these 'commodity currencies' is not constant but is time varying, being dependent on movements in the real price of commodity exports.

— P. Cashin, L. F. Cespedes, R. Sahay³

¹[AN98], p.301

²[BHS16], p.17

³[CCS04], p.239

Intro: The PPP puzzle⁵ and Commodity Currencies

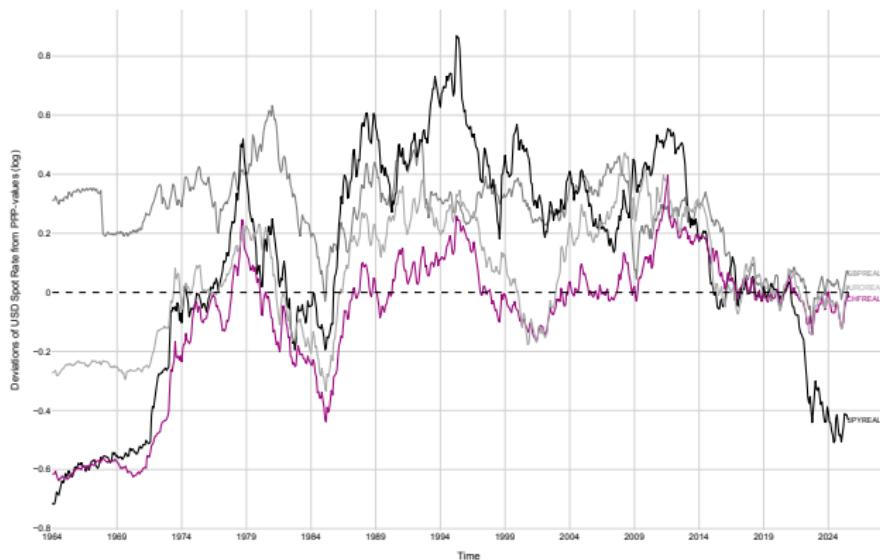


Figure: Monthly deviations of USD Spot Rate from PPP-values (in log terms) over the time: 1964 - 2025.⁴

⁴Own Illustration based on [Rei25], section "Modeling Trends: Unit Roots in Time Series", page 18/18 and data taken from [Int25], last accessed 24.10.25, own calculations.

⁵This puzzle concerns the finding of many researchers that the speed of mean reversion of real exchange rates is too slow to be consistent with PPP, which is the proposition that exchange rates are determined by movements in relative prices.

Research Hypothesis

Energy Price Contributions to Inflation - USA

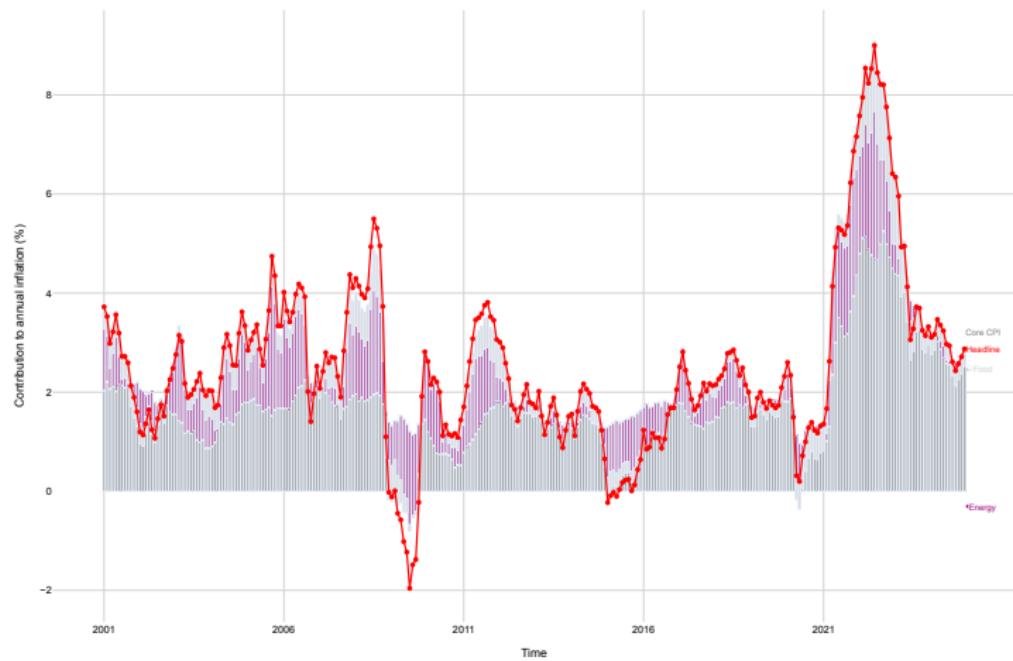


Figure: Monthly US CPI: Headline and component contributions over the time: 2001 - 2024.⁶

⁶Own Illustration based on [Ban22], Chart A and data taken from [St 25a], last accessed 24.10.25, own calculations.

Energy Price Contributions to Inflation - EU area

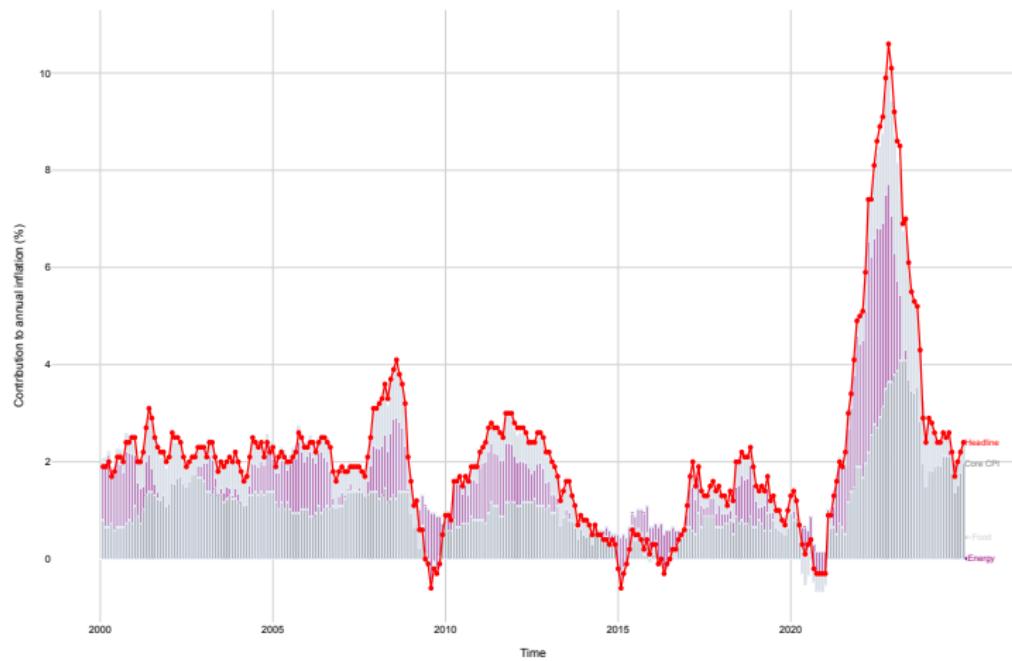


Figure: Monthly EU Area CPI: Headline and component contributions over the time: 2000 - 2024.⁷

⁷ Own Illustration based on [Ban22], Chart A and data taken from [Ban25], last accessed 24.10.25, own calculations.

Rolling Volatility of Exchange Rates and Energy Commodity Prices

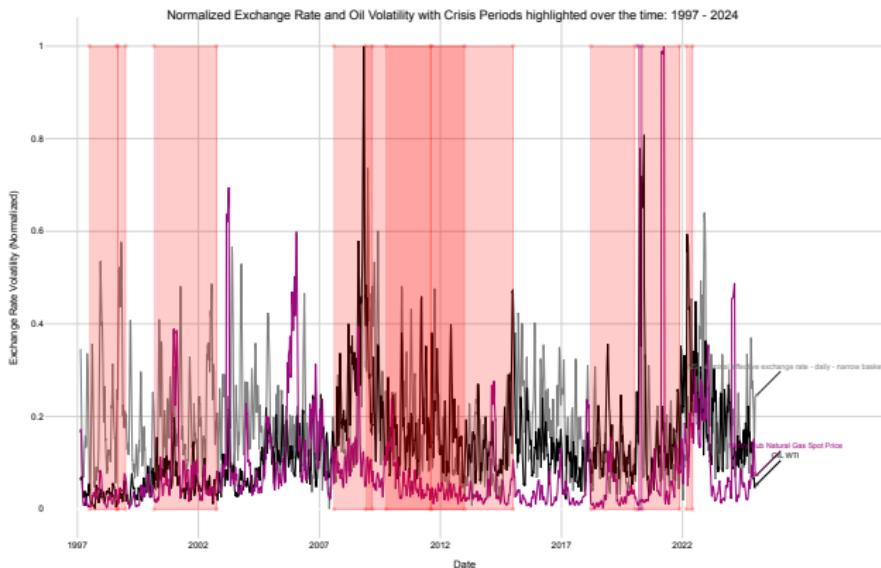


Figure: Daily normalized EUR/USD spot exchange rate, oil and gas log first differences volatility with highlighted crisis periods over the time: 2000 - 2024.⁸

⁸Own Illustration based on [Zub+21], page 7 and data taken from [St 25a], last accessed 24.10.25, own calculations.

Formulated Research Hypothesis

Main Research Hypothesis

"The standard UIP-equilibrium condition is time-dependent and primarily controlled by two main regimes, characterised by either high or low (market-) volatility."

Additional Research Hypothesis I

"Monetary policy, i.e. interest rates are, partly driven by energy commodity prices that induce volatility through the inflationary pass-through channel, especially during phases of market distress in economies heavily relying on import/export of energy commodities."

Additional Research Hypothesis II

"Factoring in variables related to energy commodity prices in combination with using alternative clustering techniques improves the identification of the regimes to better pinpoint the time-dependent testing of the standard UIP relation, compared to Markov-Switching benchmark models."

Chapter 3)

Literature Review

Systematic Literature Overview: Main Approaches

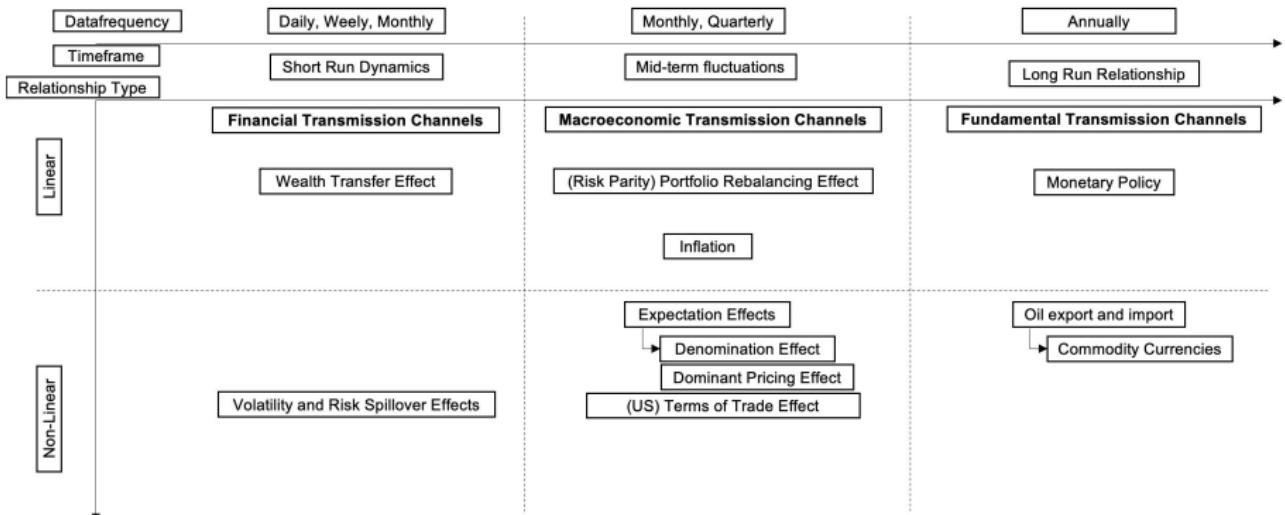


Figure: Systematic Overview about main theoretical approaches.⁹

⁹ Own Illustration based on [OUS20], Figure 5, page 5.

Theoretical Framework

Definitions - prices and measurements

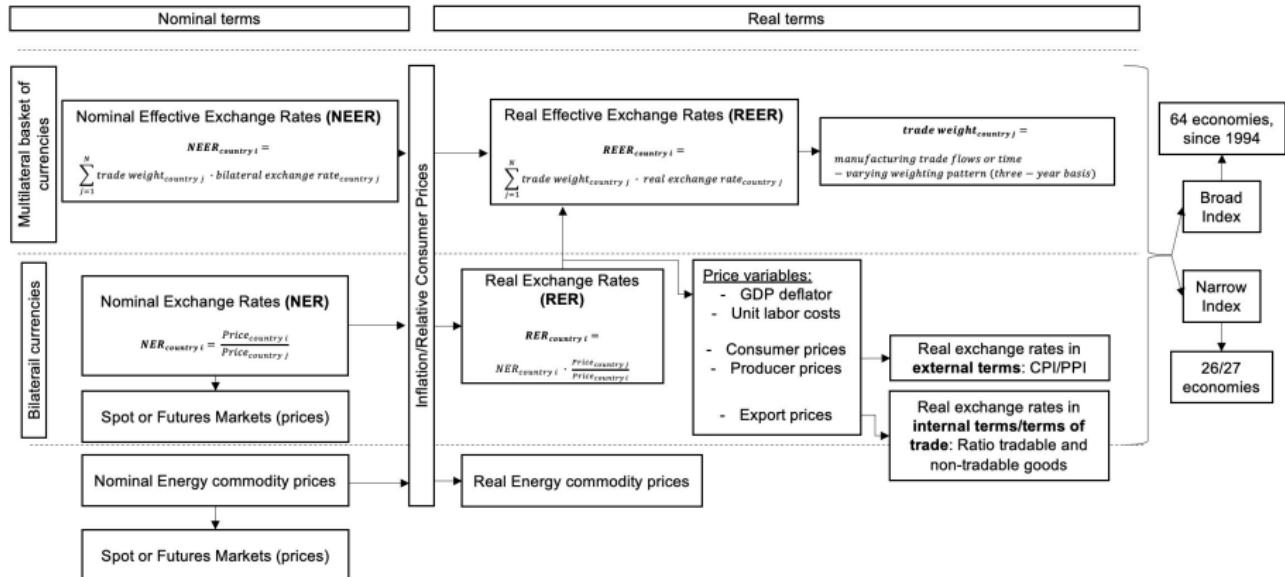


Figure: Schematic overview of prices and measurements of various exchange rate types.¹⁰

¹⁰ Own illustration based on [Ros03], page 8, exchange rates in natural logarithm (geometric averages) and data definitions from [Int25].

A simple model of exchange rates and commodity prices

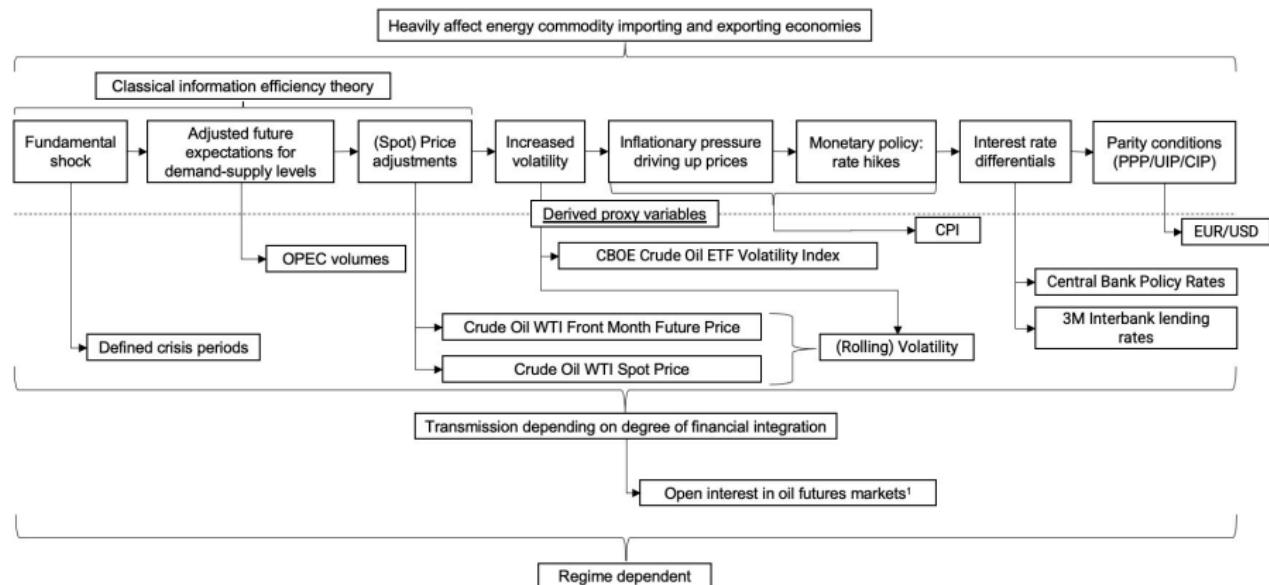


Figure: Main theoretical framework for the seminar project analysis, inflation pass-through effect of energy commodity prices.¹¹

¹¹ Own Illustration based on [OUS20], Figure 3, page 3.

Theoretical Framework (I)

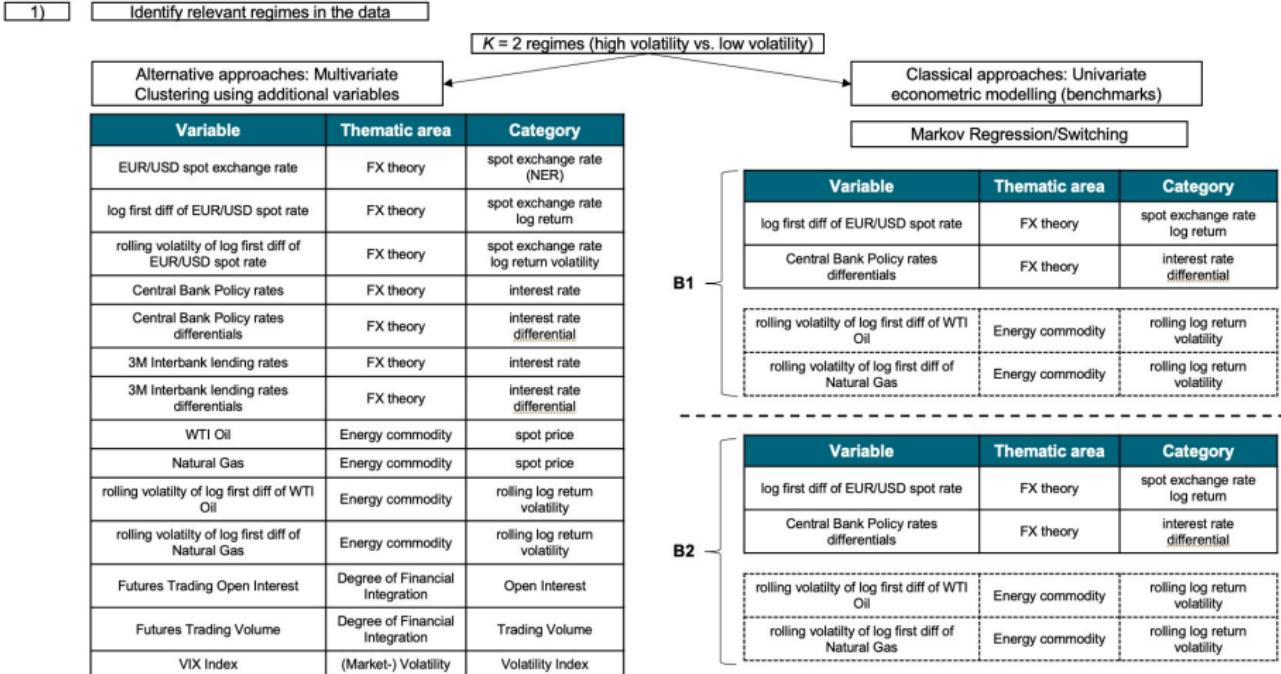


Figure: Main theoretical framework for the seminar project analysis, main variables and benchmark models used.¹²

¹²Own Illustration.

Theoretical Framework (II)

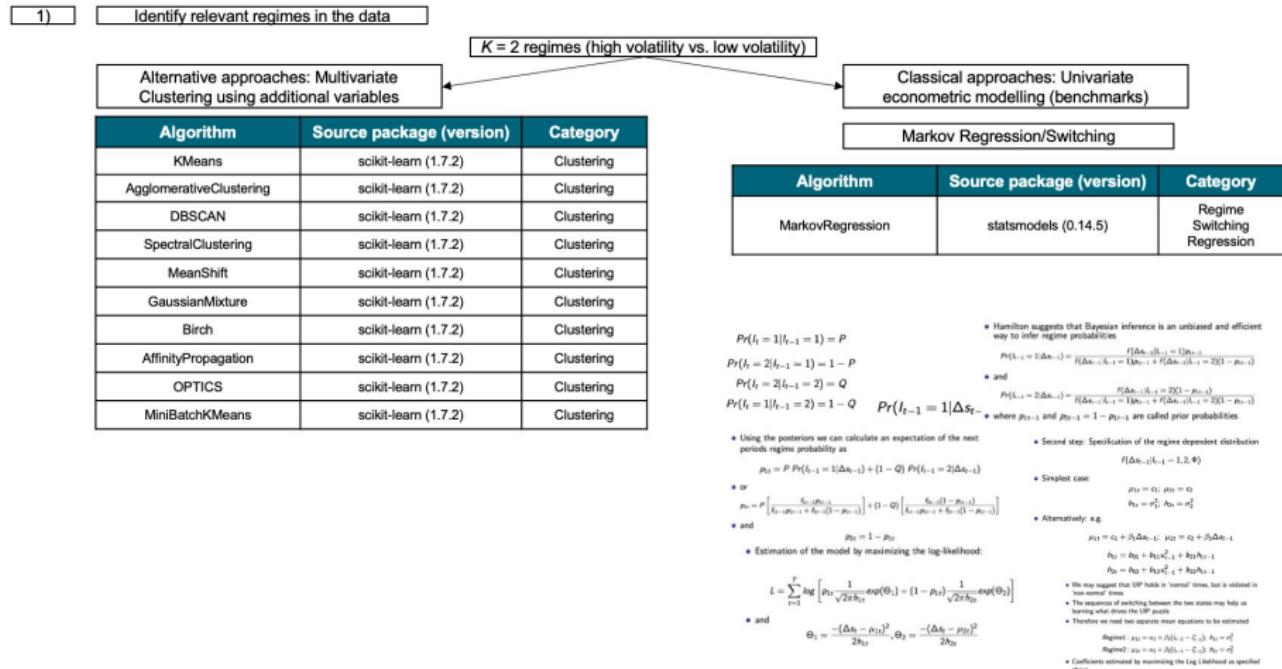


Figure: Main theoretical framework for the seminar project analysis, main algorithms used.¹³

¹³Own Illustration based on formulas taken from [Rei25], section "Modeling Nonlinearities I: Markov-Switching", page 7-15.

Theoretical Framework (III)

2)

Analyze and compare the regimes

Model evaluation and selection

Evaluation metric	Source package (version)	Category	Value range	Interpretation
Silhouette Score	scikit-learn (1.7.2)	Clustering Scores	[-1, 1]	1 being best, -1 being worst, values near 0 indicate overlapping clusters.
RCM	Paper		[0, 100]	
Crisis overlap percentage	Own computation			

Theoretically affecting crisis periods - major global shocks and us recessions

No.	Start-date	End-date	Event-Type	Event	Source
1	1970-01-01	1970-12-01	US-Recession	US Recession 1970-1970	FRED: USREC
2	1971-08-15	1973-03-19	Major Global Crisis	Bretton Woods Breakdown	Various
3	1971-08-15	1973-03-19	Major Global Crisis	Nixon Shock	Various
4	1973-10-17	1974-03-01	Major Global Crisis	Oil Crisis I	Various
5	1973-12-01	1975-04-01	US-Recession	US Recession 1973-1975	FRED: USREC
6	1979-01-01	1981-03-01	Major Global Crisis	Oil Crisis II	Various
7	1980-02-01	1980-08-01	US-Recession	US Recession 1980-1980	FRED: USREC
8	1981-08-01	1982-12-01	US-Recession	US Recession 1981-1982	FRED: USREC
9	1987-10-19	1987-10-19	Major Global Crisis	Black Monday Crash	Various
10	1990-08-01	1991-04-01	US-Recession	US Recession 1990-1991	FRED: USREC
11	1997-07-02	1998-12-31	Major Global Crisis	Asian Financial Crisis	Various
12	1998-08-17	1998-09-01	Major Global Crisis	Russian Crisis	Various
13	2000-03-01	2002-10-01	Major Global Crisis	Dot-com Bubble	Various
14	2001-04-01	2001-12-01	US-Recession	US Recession 2001-2001	FRED: USREC
15	2007-08-09	2009-03-09	Major Global Crisis	Global Financial Crisis	Various
16	2008-01-01	2009-07-01	US-Recession	US Recession 2008-2009	FRED: USREC
17	2008-11-25	2014-12-31	Major Global Crisis	US QE	Various
18	2009-10-01	2012-12-31	Major Global Crisis	European Debt Crisis	Various
19	2011-08-20	2011-08-05	Major Global Crisis	US Debt Ceiling Crisis	Various
20	2018-03-22	2020-01-15	Major Global Crisis	US-China Trade War	Various
21	2020-02-20	2021-11-16	Major Global Crisis	COVID-19 Pandemic	Various
22	2020-03-01	2020-05-01	US-Recession	US Recession 2020-2020	FRED: USREC
23	2022-02-24	2022-06-01	Major Global Crisis	Russia-Ukraine War	Various

Figure: Main theoretical framework for the seminar project analysis, main evaluation metrics and crisis periods used.¹⁴¹⁴ Own Illustration based on data taken from [St 25a], last accessed 24.10.25

Methodology Overview

Systematic Methodology Overview: Linear vs. Non-linear approaches

Chapter 7)

Model Results

Model comparison and selection

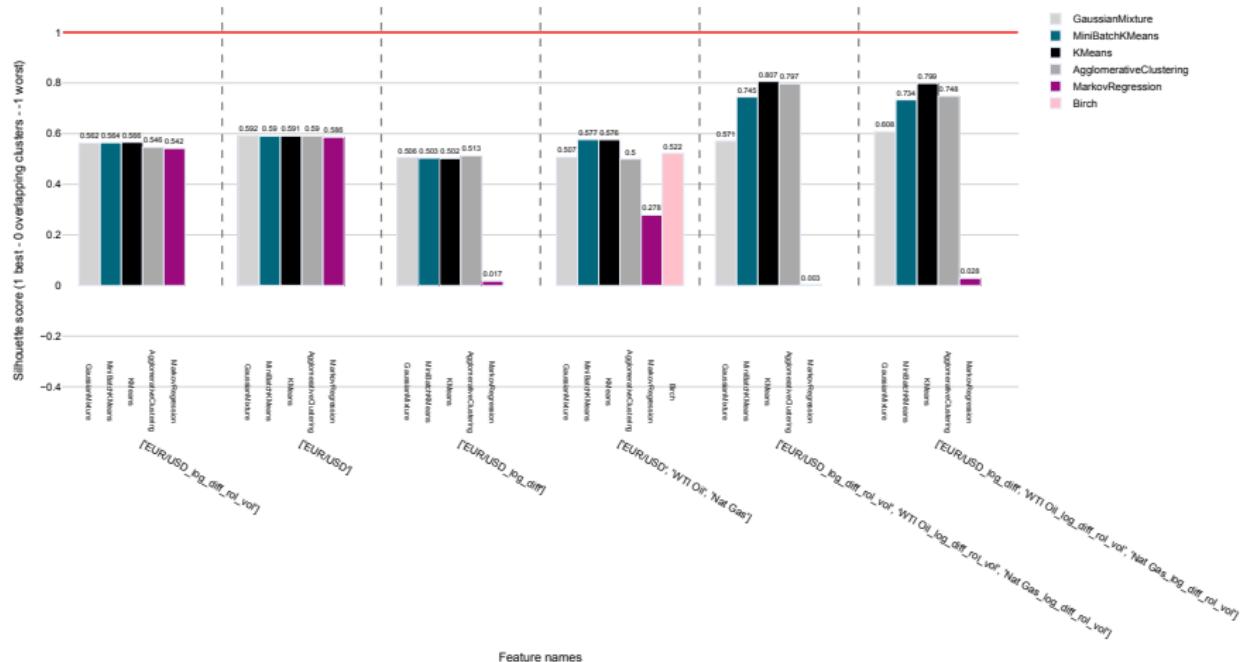


Figure: Model comparison using the silhouette score for various regime identification model configurations.¹⁵

¹⁵ Own illustration based on XYZ (2000), page 7 and data taken from [St 25a], last accessed 24.10.25, own calculations.

Predicted Regimes - Evolution over time with highlighted Crisis Periods

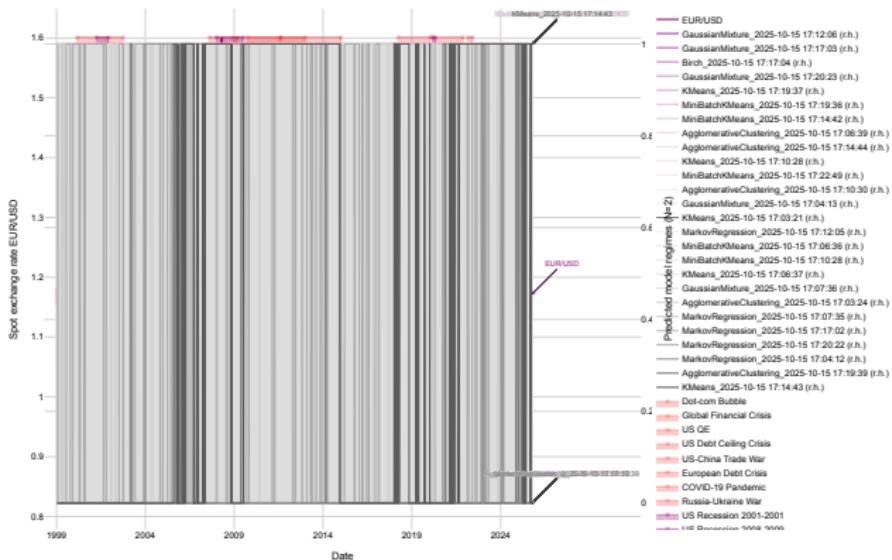


Figure: Predicted regimes over time with highlighted crisis periods.¹⁶

¹⁶Own Illustration based on XYZ (2000), page 7 and data taken from [St 25a], last accessed 24.10.25, own calculations.

Conclusion and Discussion

Seminar Project Summary

Seminar Project Limitations

Evaluation Metrics

Only used one metric for clustering (Silhouette Score).

Future Research - Possible Extensions

Other Spot rate pairs

Extend the Analysis to other Spot Exchange Rate Pairs (focus on the Commodity Currencies with a strong Commodity Linkage)

Other commodities

Extend the Analysis to also include other Commodities (e.g. Natural Gas, Brent Oil, Gold, etc.)

Other macroeconomic/external variables

Extend the Analysis by incorporating other Macroeconomic Variables (e.g. Interest Rates, Inflation Rates, etc.)

Other data frequencies

Extend the Analysis by using intraday data to capture more granular dynamics

Appendix

Appendix - Figures and Tables

Appendix - Figures and Tables

Modern Energy Commodity Markets The current state

Oil: Global Production and Consumption over time

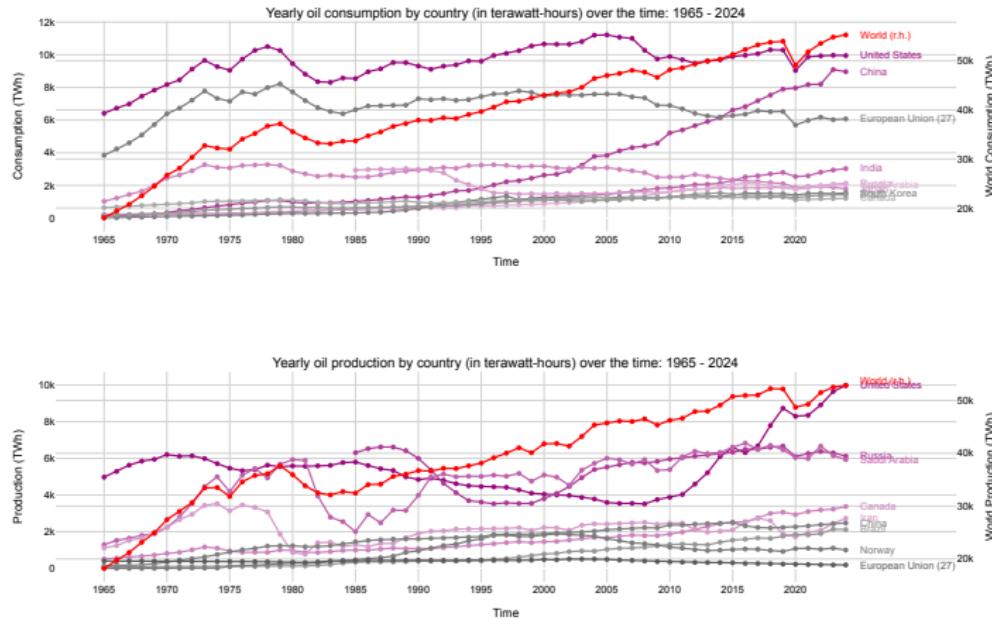


Figure: Yearly oil consumption and production by country over the time: 1965 - 2024 (in terawatt-hours).¹⁷

¹⁷ Own Illustration based on XYZ (2000), page 7 and data taken from [Ins25b], last accessed 24.10.25

Gas: Global Production and Consumption over time

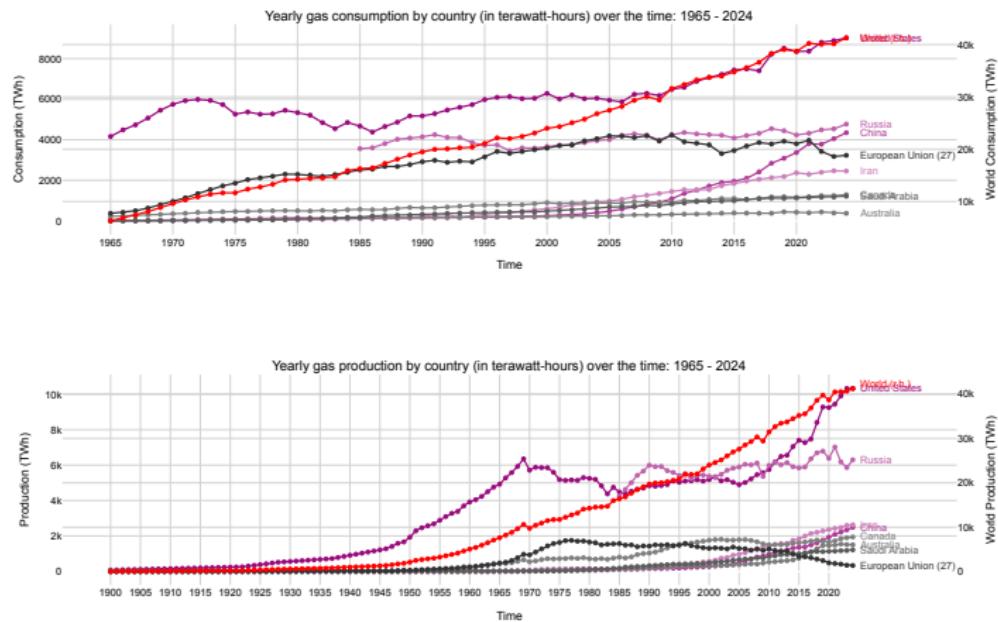


Figure: Yearly gas consumption and production by country over the time: 1965 - 2024 (in terawatt-hours).¹⁸

¹⁸Own Illustration based on XYZ (2000), page 7 and data taken from [Ins25a], last accessed 24.10.25

Financial Markets: Oil and Gas OI over time

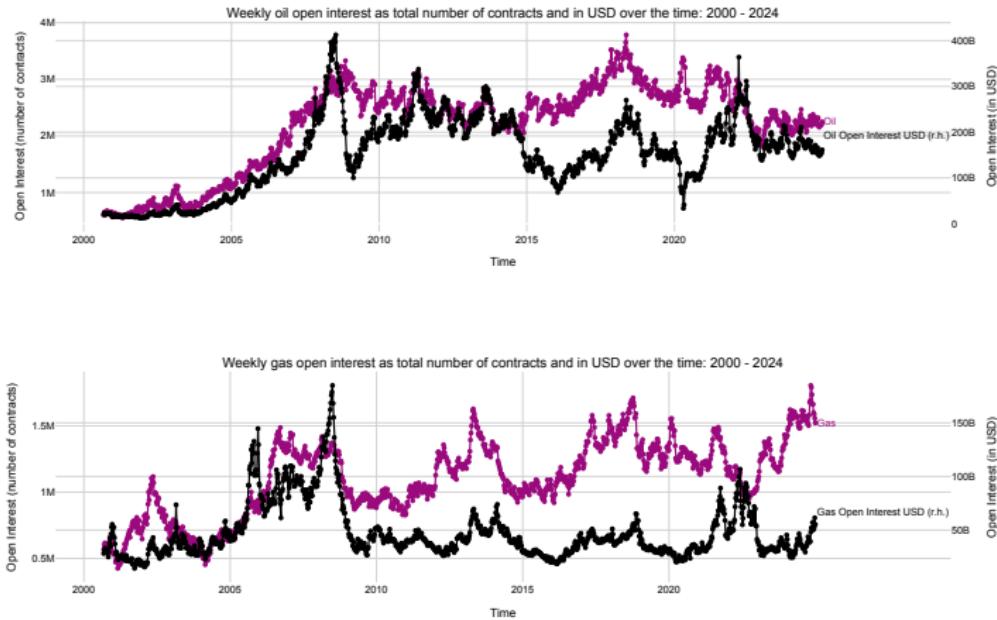


Figure: Weekly open interest of oil and gas products over the time: 2000 - 2024¹⁹

¹⁹ Own Illustration based on XYZ (2000), page 7 and data taken from [Com25], last accessed 24.10.25

Appendix - Figures and Tables

Data Characteristics and Stylized Facts

Interest Rate Benchmarks - Absolute Levels

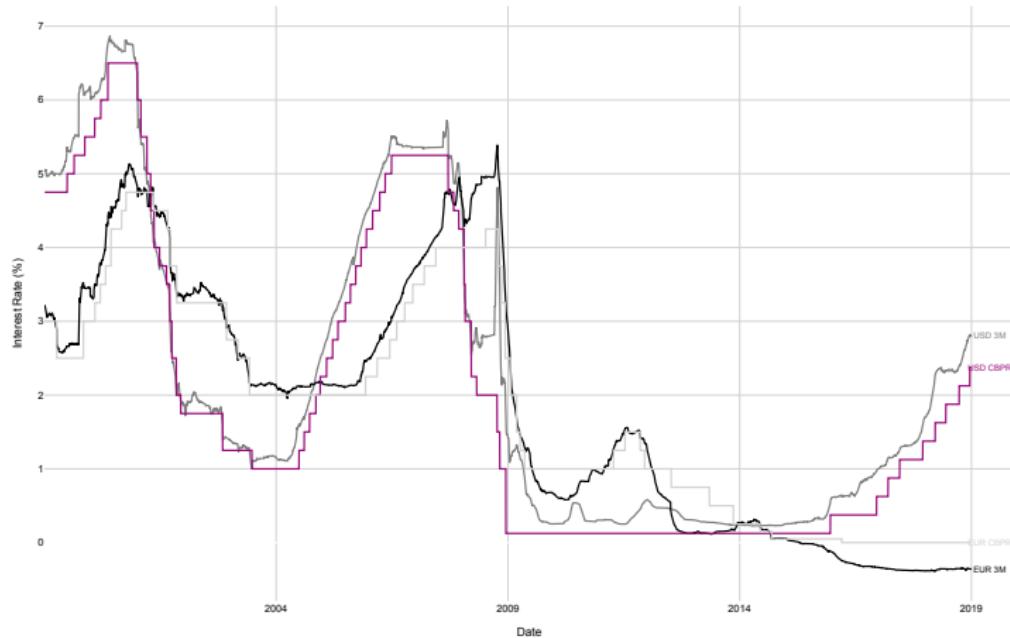


Figure: Daily BIS Central Bank Policy Rate and 3M Interbank Rates over the time: 1999 - 2019.²⁰

²⁰Own Illustration based on XYZ (2000), page 7 and data taken from [Int25] and [Rei25], last accessed 24.10.25.

Interest Rate Benchmarks - Relative Levels

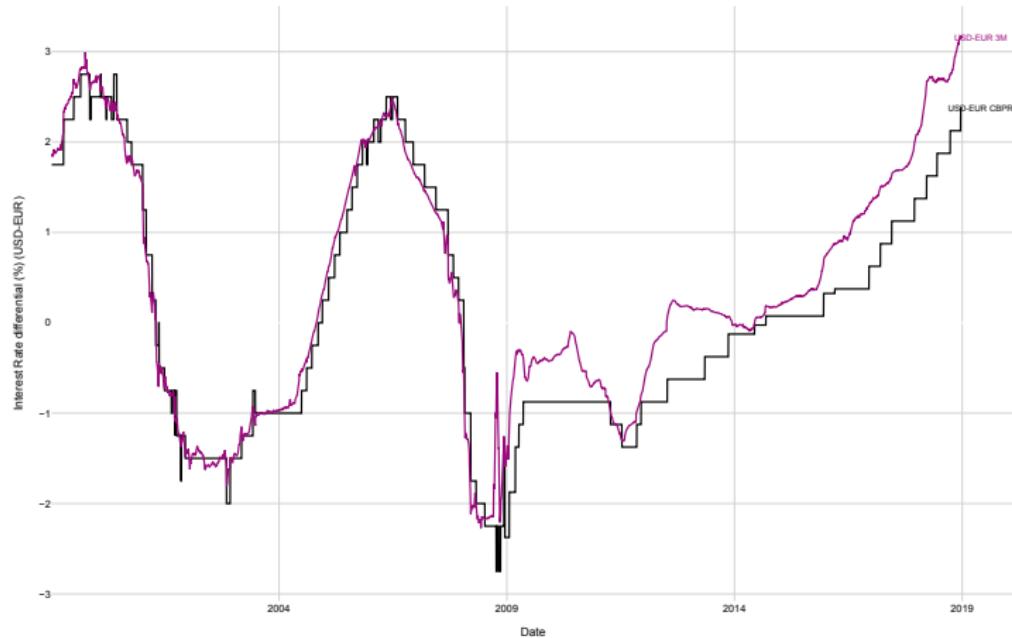


Figure: Daily BIS Central Bank Policy Rate and 3M Interbank Rates differentials (USD-EUR) over the time: 1999 - 2019.²¹

²¹ Own Illustration based on XYZ (2000), page 7 and data taken from [Int25] and [Rei25], last accessed 24.10.25.



Main variables distributions (raw data - normalized)

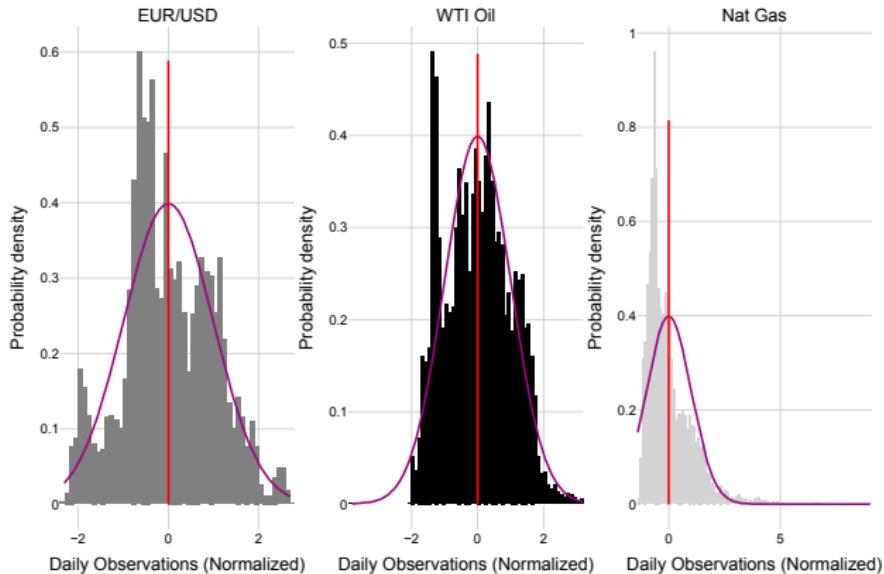


Figure: Normalized daily EUR/USD spot exchange rate, oil and gas over the time range: 1999 - 2025.²²

²²Own Illustration based on [CPT24], page X and data taken from [St 25a], last accessed 24.10.25.

Main variables distributions (log first differences)

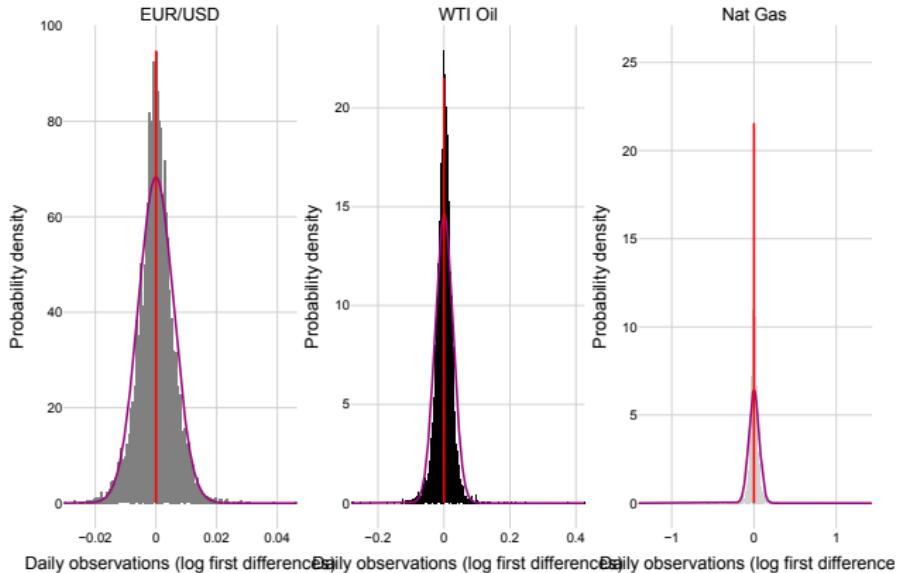


Figure: Log first differences of daily EUR/USD spot exchange rate, oil and gas over the time range: 1999 - 2025.²³

²³Own Illustration based on [CPT24], page X and data taken from [St 25a], last accessed 24.10.25.

Tests for Normality (raw data)

Variable	Test	Statistic	p-value	Significance-level	p-value < 0.05	Result
EUR/USD	Shapiro-Wilk	0.989	0.000	0.050	True	Not-Normal
EUR/USD	Kolmogorov-Smirnov	0.799	0.000	0.050	True	Not-Normal
EUR/USD	D'Agostino's K^2	55.280	0.000	0.050	True	Not-Normal
WTI Oil	Shapiro-Wilk	0.981	0.000	0.050	True	Not-Normal
WTI Oil	Kolmogorov-Smirnov	1.000	0.000	0.050	True	Not-Normal
WTI Oil	D'Agostino's K^2	340.085	0.000	0.050	True	Not-Normal
Nat Gas	Shapiro-Wilk	0.8640	0.000	0.050	True	Not-Normal
Nat Gas	Kolmogorov-Smirnov	0.938	0.000	0.050	True	Not-Normal
Nat Gas	D'Agostino's K^2	2130.008	0.000	0.050	True	Not-Normal

Table: Shapiro-Wilks, Kolmogorov-Smirnov, D'Agostino's K^2 test for normality for the EUR/USD spot exchange rate, WTI Oil and Natural Gas daily observations over the time 1999 - 2025.²⁴

²⁴ Own Illustration based on XX, page X, tests used from: [Vir+25] and data taken from: [St 25a], last accessed 24.10.25.



Tests for Stationarity - ADF Tests (raw data)

ADF Statistic	p-value	Start Time	End Time	Regression Type	Observations	Variable	Result
-1.847	0.357	04-01-1999	04-01-1999	c	6640	EUR/USD	Non-Stationary
-1.846	0.682	04-01-1999	04-01-1999	ct	6640	EUR/USD	Non-Stationary
-2.655	0.480	04-01-1999	04-01-1999	ctt	6640	EUR/USD	Non-Stationary
-0.254	0.594	04-01-1999	04-01-1999	n	6640	EUR/USD	Non-Stationary
-2.789	0.059	04-01-1999	04-01-1999	c	6624	WTI Oil	Non-Stationary
-2.770	0.208	04-01-1999	04-01-1999	ct	6624	WTI Oil	Non-Stationary
-3.060	0.267	04-01-1999	04-01-1999	ctt	6624	WTI Oil	Non-Stationary
-0.697	0.413	04-01-1999	04-01-1999	n	6624	WTI Oil	Non-Stationary
-4.341	0.000	04-01-1999	04-01-1999	c	6633	Nat Gas	Stationary
-4.743	0.001	04-01-1999	04-01-1999	ct	6633	Nat Gas	Stationary
-4.742	0.003	04-01-1999	04-01-1999	ctt	6633	Nat Gas	Stationary
-1.897	0.055	04-01-1999	04-01-1999	n	6633	Nat Gas	Non-Stationary

Table: Augmented-Dickey-Fuller (ADF) test for stationarity in various variants for the EUR/USD spot exchange rate, WTI Oil and Natural Gas daily observations over the time 1999 - 2025.²⁵

²⁵ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Tests for Stationarity - ADF Tests (log first differences)

ADF Statistic	p-value	Start Time	End Time	Regression Type	Observations	Variable	Result
-80.613	0.000	05-01-1999	05-01-1999	c	6637	EUR/USD	Stationary
-80.607	0.000	05-01-1999	05-01-1999	ct	6637	EUR/USD	Stationary
-80.601	0.000	05-01-1999	05-01-1999	ctt	6637	EUR/USD	Stationary
-80.619	0.000	05-01-1999	05-01-1999	n	6637	EUR/USD	Stationary
-14.504	0.000	05-01-1999	05-01-1999	c	6603	WTI Oil	Stationary
-14.525	0.000	05-01-1999	05-01-1999	ct	6603	WTI Oil	Stationary
-14.547	0.000	05-01-1999	05-01-1999	ctt	6603	WTI Oil	Stationary
-14.463	0.000	05-01-1999	05-01-1999	n	6603	WTI Oil	Stationary
-20.094	0.000	05-01-1999	05-01-1999	c	6616	Nat Gas	Stationary
-20.102	0.000	05-01-1999	05-01-1999	ct	6616	Nat Gas	Stationary
-20.121	0.000	05-01-1999	05-01-1999	ctt	6616	Nat Gas	Stationary
-20.095	0.000	05-01-1999	05-01-1999	n	6616	Nat Gas	Stationary

Table: Augmented-Dickey-Fuller (ADF) test for stationarity in various variants for the EUR/USD spot exchange rate, WTI Oil and Natural Gas daily observations (log first differences) over the time 1999 - 2025.²⁶

²⁶Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.



Tests for Cointegration (raw data)

Cointegration Score	p-value	Start Time	End Time	Observations	Trend	Variable X	Variable Y	Result
-2.967000	0.118000	04-01-1999	01-10-2025	6641	c	EUR/USD	WTI Oil	Not Cointegrated
-3.364000	0.134000	04-01-1999	01-10-2025	6641	ct	EUR/USD	WTI Oil	Not Cointegrated
-3.635000	0.167000	04-01-1999	01-10-2025	6641	ctt	EUR/USD	WTI Oil	Not Cointegrated
-3.268000	0.013000	04-01-1999	01-10-2025	6641	n	EUR/USD	WTI Oil	Cointegrated
-2.416000	0.317000	04-01-1999	01-10-2025	6641	c	EUR/USD	Nat Gas	Not Cointegrated
-2.634000	0.446000	04-01-1999	01-10-2025	6641	ct	EUR/USD	Nat Gas	Not Cointegrated
-3.530000	0.204000	04-01-1999	01-10-2025	6641	ctt	EUR/USD	Nat Gas	Not Cointegrated
-4.182000	0.001000	04-01-1999	01-10-2025	6641	n	EUR/USD	Nat Gas	Cointegrated

Table: Engle and Granger Cointegration test for the EUR/USD spot exchange rate, WTI Oil and Natural Gas daily observations over the time 1999 - 2025.²⁷

²⁷ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.



Tests for Cointegration (log differences)

Cointegration Score	p-value	Start Time	End Time	Observations	Trend	Variable X	Variable Y	Result
-4.293000	0.003000	17-02-1999	01-10-2025	6609	c	EUR/USD	WTI Oil	Cointegrated
-4.805000	0.002000	17-02-1999	01-10-2025	6609	ct	EUR/USD	WTI Oil	Cointegrated
-4.830000	0.006000	17-02-1999	01-10-2025	6609	ctt	EUR/USD	WTI Oil	Cointegrated
-5.724000	0.000000	17-02-1999	01-10-2025	6609	n	EUR/USD	WTI Oil	Cointegrated
-4.001000	0.007000	17-02-1999	01-10-2025	6609	c	EUR/USD	Nat Gas	Cointegrated
-4.348000	0.009000	17-02-1999	01-10-2025	6609	ct	EUR/USD	Nat Gas	Cointegrated
-4.341000	0.030000	17-02-1999	01-10-2025	6609	ctt	EUR/USD	Nat Gas	Cointegrated
-4.246000	0.000000	17-02-1999	01-10-2025	6609	n	EUR/USD	Nat Gas	Cointegrated

Table: Engle and Granger Cointegration test for the EUR/USD spot exchange rate, WTI Oil and Natural Gas daily observations (log first differences) over the time 1999 - 2025.²⁸

²⁸ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Tests for Autocorrelation (raw data)

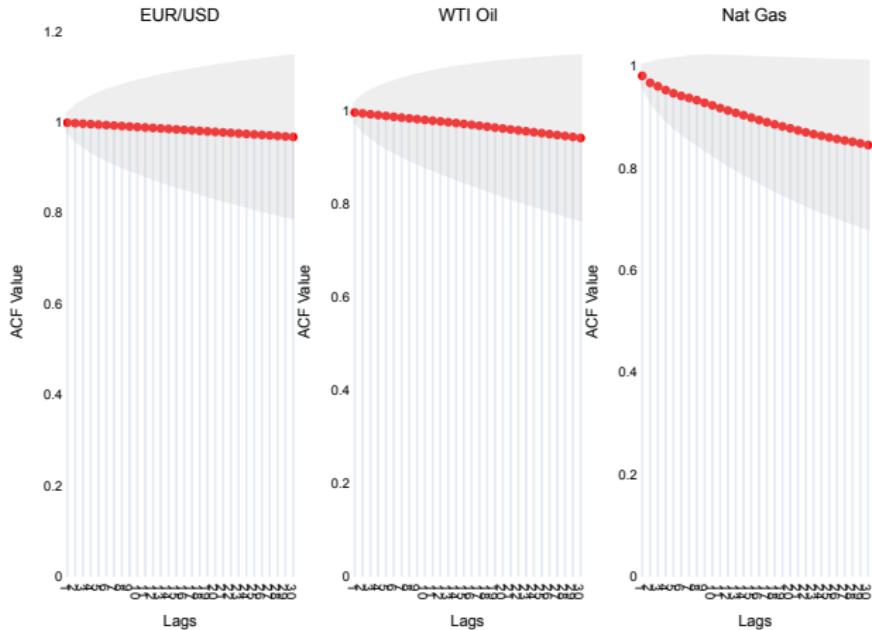


Figure: ACF values for daily observations of the EUR/USD spot exchange rate, oil and gas over the time: 1999 - 2025.²⁹

²⁹ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.



Tests for Autocorrelation (log first differences)

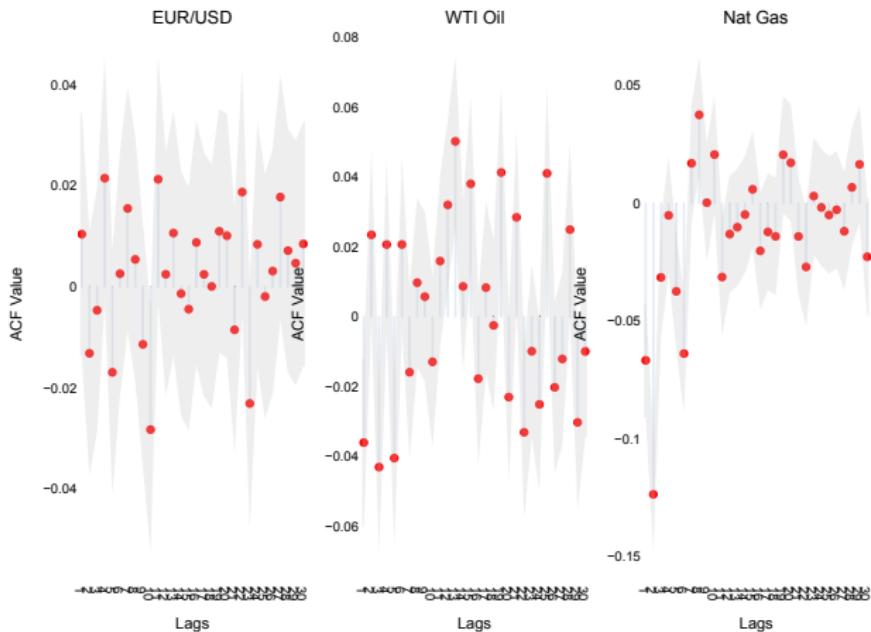


Figure: ACF values for daily observations (log first differences) of the EUR/USD spot exchange rate, WTI Oil and Natural Gas over the time: 1999 - 2025.³⁰

³⁰ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.



Tests for Partial Autocorrelation (raw data)

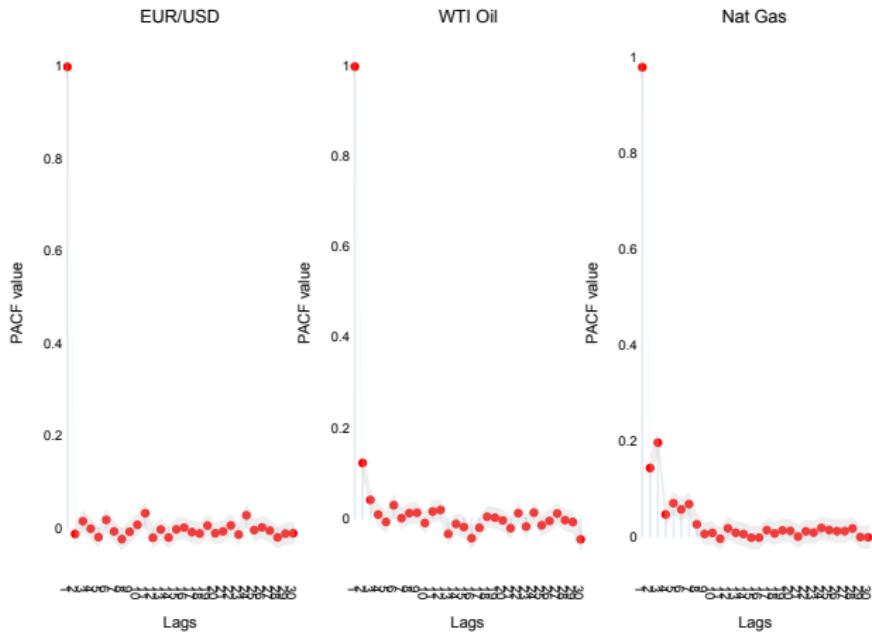


Figure: PACF values for daily observations of the EUR/USD spot exchange rate, WTI Oil and Natural Gas over the time: 1999 - 2025.³¹

³¹ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Tests for Partial Autocorrelation (log first differences)

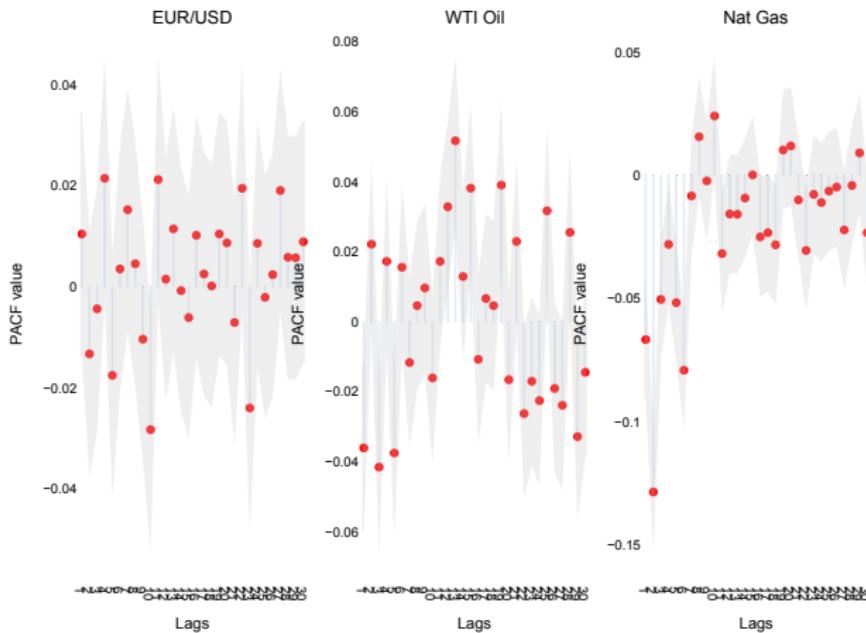


Figure: PACF values for daily observations (log first differences) of the EUR/USD spot exchange rate, WTI Oil and Natural Gas over the time: 1999 - 2025.³²

³²Own Illustration based on XYZ (2000), page 7 and data accessed 10.09.25.

Granger Causality Tests - EUR/USD and oil (raw data)

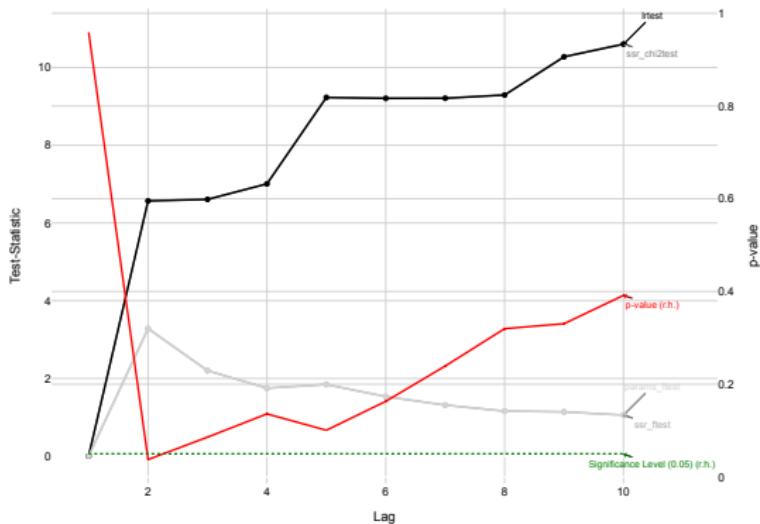


Figure: Granger causality test results testing granger causality of daily observations of oil for EUR/USD spot exchange rate over the time: 1999 - 2025.³³

³³ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.



Granger Causality Tests - EUR/USD and gas (raw data)

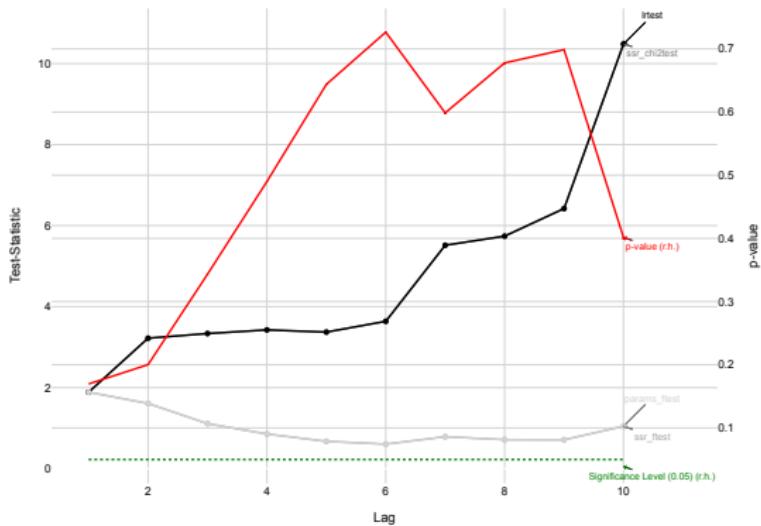


Figure: Granger causality test results testing granger causality of daily observations of gas for EUR/USD over the time: 1999 - 2025.³⁴

³⁴ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Granger Causality Tests - EUR/USD and oil (log first differences)

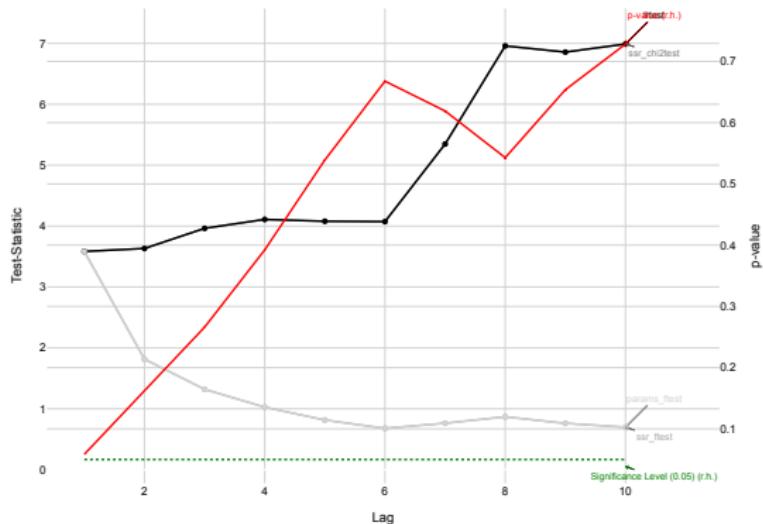


Figure: Granger causality test results testing granger causality of daily observations (log first differences) of WTI Oil for EUR/USD over the time: 1999 - 2025.³⁵

³⁵ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Granger Causality Tests - EUR/USD and gas (log first differences)

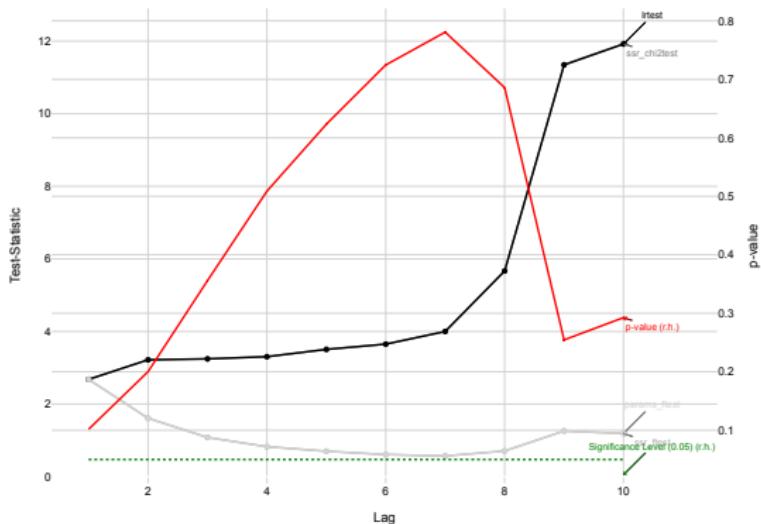


Figure: Granger causality test results testing granger causality of daily observations (log first differences) of Natural Gas for EUR/USD over the time: 1999 - 2025.³⁶

³⁶ Own Illustration based on XX, page X, tests used from: [SP10] and data taken from [St 25a], last accessed 24.10.25.

Appendix - Figures and Tables

No.	Exchange Rate	Basket	Data Frequency	Data Availability	Exchange Rate Type	Bilateral/Multilateral	Source	Data ID	Link
1	Real effective exchange rate	broad	monthly	1994-01	REER	Multilateral	[Int25]	M.R.B.US	Link
2	Real effective exchange rate	narrow	monthly	1964-01	REER	Multilateral	[Int25]	M.R.N.US	Link
3	Nominal effective exchange rate	broad	monthly	1994-01	NEER	Multilateral	[Int25]	M.N.B.US	Link
4	Nominal effective exchange rate	narrow	monthly	1964-01	NEER	Multilateral	[Int25]	M.N.N.US	Link
5	Nominal effective exchange rate	narrow	daily	1983-10-03	NEER	Multilateral	[Int25]	D.N.N.US	Link
6	Nominal effective exchange rate	broad	daily	1995-04-11	NEER	Multilateral	[Int25]	D.N.B.US	Link
7	USD-EUR Spot Rate	-	daily	1999-01-04	NER	Bilateral	[St 25a]	DEXUSEU	Link
8	Nominal Broad U.S. Dollar Index	broad	daily	2006-01-02	NEER	Multilateral	[St 25a]	DTWEXBGS	Link
9	Real Broad Dollar Index	broad	monthly	2006-01-01	REER	Multilateral	[St 25a]	RTWEXBGS	Link

Table: Various exemplary exchange rate data sources for the USD.³⁷

³⁷ Own illustration based on

Appendix - Data and Definitions

Appendix - Definitions

Appendix - Definitions

PPP Deviation Calculation

$$\text{PPP Deviation} = \log(REER_{country} - REER_{USD}) \quad (1)$$

Source: [ED25], data taken from [St 25a], last accessed 24.10.25.

CPI Component Distribution Calculation

$$\text{CPI Component Distribution} = \frac{\text{CPI}_{component}}{\text{CPI}_{total}} \times 100 \quad (2)$$

Source: Data taken from [St 25a] and [Ban25], last accessed 24.10.25.

Appendix - Definitions

Rolling Volatility Calculation

$$\text{Rolling Volatility} = \sqrt{\frac{1}{N} \sum_{t=1}^N (x_t - \bar{x})^2} \quad (3)$$

Source: Data taken from [St 25a], last accessed 24.10.25.

Appendix - Definitions

	Event	Start-date	End-date	Event-Type	Source
1	US Recession 1970-1970	1970-01-01	1970-12-01	US-Recession	[St 25b]
2	Bretton Woods Breakdown	1971-08-15	1973-03-19	Major Global Crisis	[Cor+25]
3	Nixon Shock	1971-08-15	1973-03-19	Major Global Crisis	[EF04]
4	Oil Crisis I	1973-10-17	1974-03-01	Major Global Crisis	[T T23]
5	US Recession 1973-1975	1973-12-01	1975-04-01	US-Recession	[St 25b]
6	Oil Crisis II	1979-01-01	1981-03-01	Major Global Crisis	[T T23]
7	US Recession 1980-1980	1980-02-01	1980-08-01	US-Recession	[St 25b]
8	US Recession 1981-1982	1981-08-01	1982-12-01	US-Recession	[St 25b]
9	Black Monday Crash	1987-10-19	1987-10-19	Major Global Crisis	[EF04]
10	US Recession 1990-1991	1990-08-01	1991-04-01	US-Recession	[St 25b]
11	Asian Financial Crisis	1997-07-02	1998-12-31	Major Global Crisis	[ML23]
12	Russian Crisis	1998-08-17	1998-09-01	Major Global Crisis	[ML23]
13	Dot-com Bubble	2000-03-01	2002-10-01	Major Global Crisis	[MNR25]
14	US Recession 2001-2001	2001-04-01	2001-12-01	US-Recession	[St 25b]
15	Global Financial Crisis	2007-08-09	2009-03-09	Major Global Crisis	[MNR25]
16	US Recession 2008-2009	2008-01-01	2009-07-01	US-Recession	[St 25b]
17	US QE	2008-11-25	2014-12-31	Major Global Crisis	[MNR25]
18	European Debt Crisis	2009-10-01	2012-12-31	Major Global Crisis	[MNR25]
19	US Debt Ceiling Crisis	2011-08-20	2011-08-05	Major Global Crisis	[MNR25]
20	US-China Trade War	2018-03-22	2020-01-15	Major Global Crisis	Various
21	COVID-19 Pandemic	2020-02-20	2021-11-16	Major Global Crisis	[ML23]
22	US Recession 2020-2020	2020-03-01	2020-05-01	US-Recession	[St 25b]
23	Russia-Ukraine War	2022-02-24	2022-06-01	Major Global Crisis	[Cha25]

Table: Major global crisis periods (theoretical regimes).³⁸

³⁸ Own illustration based on and data taken from [fred '2024 us recession indicator], last accessed 24.10.25.

Appendix - Definitions

Nominal effective exchange rate (NEER) (Slide 13):

$$\text{NEER} = \frac{1}{N} \sum_{i=1}^N \text{NER}_i$$

Source: Definition taken from [Int25].

Real effective exchange rate (REER) (Slide 13):

$$\text{REER} = \text{NEER} \times \frac{\text{CPI}_{\text{domestic}}}{\text{CPI}_{\text{foreign}}}$$

Source: Definition taken from [Int25].

Appendix - Definitions

Nominal exchange rate (NER) (Slide 13):

$$NER = \frac{\text{Units of Domestic Currency}}{\text{Units of Foreign Currency}} \quad (4)$$

Source: Definition taken from [CR18], page 5.

Real exchange rate (RER) (Slide 13):

$$RER = NER \times \frac{CPI_{domestic}}{CPI_{foreign}} \quad (5)$$

Source: Definition taken from [CR18], page 5.

Clustering Metrics: Silhouette Score (Slide 17):

$$\text{Silhouette Score} = \frac{b - a}{\max(a, b)} \quad (6)$$

Source: Definition taken from [dev24].

Appendix - Definitions

Standard UIP relationship - log terms (Slide XX):

$$\Delta s_{t+1} = i_t^* + u_{t+1} \quad (7)$$

Source: Definition taken from [Rei25], section "Testing UIP conditions", page 7.

Calculation of the RCM (Slide 17):

$$RCM = 100 S^2 \left(1 - \frac{1}{N} \sum_{t=1}^N [g_t p_t + (1 - g_t)(1 - p_t)] \right) \quad (8)$$

with $g_t = \mathbf{1}\{p_t \geq \tau\}$, p_t the smoothed probability at time t , N the sample size, and τ the classification threshold (e.g. 0.5).

Source: Definition taken from [AB98].

References

References - Literature

References - Literature I

- [AB98] Andrew Ang and Geert Bekaert. "Regime Switches in Interest Rates". In: 6508 (1998). URL: https://www.nber.org/system/files/working_papers/w6508/w6508.pdf.
- [AN98] Robert A. Amano and Simon van Norden. "Oil prices and the rise and fall of the US real exchange rate". In: *Journal of International Money and Finance* 17.2 (1998). Examines the relationship between oil price shocks and movements in the U.S. real effective exchange rate during the post-Bretton Woods era., pp. 299–316. DOI: 10.1016/S0261-5606(98)00004-7. URL: <https://www.sciencedirect.com/science/article/abs/pii/S0261560698000047>.
- [Ban22] European Central Bank. "Inflation developments in the euro area and the United States". In: *Economic Bulletin*, Issue 8 / 2022 (2022). Published as Box 1 in the ECB Economic Bulletin, Issue 8 / 2022. Discusses comparative drivers of inflation dynamics between the euro area and the United States, including energy and fiscal factors. URL: https://www.ecb.europa.eu/press/economic-bulletin/focus/2023/html/ecb.ebbox202208_01-c11d09d5fd.en.html.
- [BHS16] Syed Abul Basher, Alfred A. Haug, and Perry Sadorsky. "The impact of oil shocks on exchange rates: A Markov-switching approach". In: *Energy Economics* 54 (2016). Analyzes how oil price shocks affect real exchange rates of oil-exporting and oil-importing countries using a Markov-switching econometric model., pp. 11–23. DOI: 10.1016/j.eneco.2015.12.004. URL: <https://www.sciencedirect.com/science/article/abs/pii/S0140988315003540>.
- [CCS04] Paul Cashin, Luis Felipe Céspedes, and Ratna Sahay. "Commodity currencies and the real exchange rate". In: *Journal of Development Economics* 75.1 (2004). Examines the relationship between commodity prices and real exchange rate movements in commodity-exporting countries., pp. 239–268. DOI: 10.1016/j.jdeveco.2003.08.005. URL: <https://www.sciencedirect.com/science/article/abs/pii/S0304387804000501>.
- [Cha25] Meera Chandan. "Currency volatility: Will the US dollar regain its strength?" In: (July 2025). Updated July 28, 2025. URL: <https://www.jpmorgan.com/insights/global-research/currencies/currency-volatility-dollar-strength>.
- [Cor+25] Teresa Corzo et al. "Exchange rate regime changes and market efficiency: An event study". In: *Journal of International Financial Markets, Institutions and Money* ????. (2025), ?? DOI: 10.1016/j.intfin.2025.100629. URL: <https://www.sciencedirect.com/science/article/abs/pii/S1042443125000228>.

References - Literature II

- [CPT24] Giulia Campisi, Anastasiia Panchuk, and Fabio Tramontana. "A discontinuous model of exchange rate dynamics with sentiment traders". In: *Annals of Operations Research* 337.3 (2024). Analyzes behavioral exchange rate dynamics with heterogeneous agents using a discontinuous nonlinear model of sentiment-driven traders., pp. 913–935. DOI: 10.1007/s10479-023-05387-2. URL: <https://link.springer.com/article/10.1007/s10479-023-05387-2>.
- [CR18] Michele Ca' Zorzi and Michal Rubaszek. "Exchange Rate Forecasting on a Napkin". In: (2018). Explores mean reversion in real exchange rates and demonstrates a simple calibrated PPP-based model that outperforms the random walk in exchange rate forecasting. URL: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2151.en.pdf>.
- [EF04] Michael Ehrmann and Marcel Fratzscher. "Exchange rates and fundamentals - new evidence from real-time data". In: (2004). URL: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp365.pdf>.
- [ML23] Igor Martins and Hedibert Freitas Lopes. "What events matter for exchange rate volatility?" In: (Oct. 2023). Working Paper. URL: <https://www.oru.se/contentassets/c58950f48c1e4e97b7f1e7c098f7862b/martins-jmp.pdf>.
- [MNR25] María Martínez, Alejandro Neut, and David Ramírez. "Equilibrium of the Euro-Dollar Exchange Rate: A Long-Term Perspective". In: (Mar. 2025). BBVA Research Economic Watch Report, 2025. URL: <https://www.bbvarerearch.com/wp-content/uploads/2025/03/Equilibrium-of-the-EUR-USD-exchange-rate-A-long-term-perspective.pdf>.
- [OUS20] Ulrich Oberndorfer, Gazi Salah Uddin, and Ugur Soytas. "The relationship between oil prices and exchange rates: Revisiting theory and evidence". In: *Energy Economics* 88 (2020). Explores both theoretical and empirical connections between oil prices and exchange rate dynamics, highlighting time-varying relationships., p. 104768. DOI: 10.1016/j.eneco.2020.104768. URL: <https://www.sciencedirect.com/science/article/abs/pii/S0140988320301122>.
- [T T23] von T Trancoso. "Beyond the dollar: A global perspective on exchange rate ...". In: *Finance Letters* 58 (2023). DOI: 10.1016/j.finlet.2023.101456. URL: <https://www.sciencedirect.com/science/article/pii/S1544612323006335>.
- [Zub+21] Umar Zubair et al. "Dynamic volatility spillovers across oil and gas markets". In: *The North American Journal of Economics and Finance* 57 (2021). Available via ScienceDirect., p. 101443. DOI: 10.1016/j.najef.2021.101443. URL: <https://www.sciencedirect.com/science/article/abs/pii/S1057521921001277>.

References - Literature III

- [Ros03] Michael Roy Rosenberg. *Exchange-Rate Determination: Models and Strategies for Exchange-Rate Forecasting*. McGraw-Hill Library of Investment and Finance. Includes bibliographical references and index. A comprehensive guide to major models and strategies used in exchange-rate forecasting, combining theory with practical approaches. New York: McGraw-Hill Professional, 2003, p. 304. ISBN: 9780071415019. URL: <https://www.econbiz.de/Record/exchange-rate-determination-models-and-strategies-for-exchange-rate-forecasting-rosenberg-michael-roy/10001707680>.
- [Rei25] Stefan Reitz. "Lecture Notes: Applied Econometrics of Foreign Exchange Markets". article. Lecture notes prepared for the course "Applied Econometrics of Foreign Exchange Markets" (VWLfeAEFEM-02a), Kiel University, QBER - Quantitative Business and Economics Research. 2025.

References - Data

References - Data I

- [Ban25] European Central Bank. *European Central Bank (ECB) Data Portal*. dataset. Includes macroeconomic indicators such as the Harmonised Index of Consumer Prices (HICP), monetary aggregates, exchange rates, GDP, unemployment, and government debt for the euro area. Retrieved October 24, 2025, from the ECB Data Portal. 2025. URL: <https://data.ecb.europa.eu>.
- [Com25] Commodity Futures Trading Commission. *Commitments of Traders (COT) Reports – Historical Compressed Data Files*. dataset. Includes Disaggregated, Traders in Financial Futures, and Commodity Index Trader Supplemental reports; compiled and published weekly. Retrieved October 24, 2025, from the Historical Compressed archive. 2025. URL: <https://www.cftc.gov/MarketReports/CommitmentsofTraders/HistoricalCompressed/index.htm>.
- [ED25] Organisation for Economic Co-operation and Development. *Purchasing Power Parities (PPP) Database*. dataset. Part of the Eurostat–OECD PPP Programme. PPPs measure currency conversion rates that equalise the purchasing power of different currencies, eliminating price level differences between countries. Retrieved October 25, 2025, from the OECD Data Portal. 2025. URL: <https://www.oecd.org/en/data/indicators/purchasing-power-parities-ppp.html>.
- [Ins25a] Energy Institute. *Statistical Review of World Energy (2025) – with major processing by Our World in Data. "Gas consumption"*. dataset. Original data from "Statistical Review of World Energy". Retrieved October 24, 2025, from Our World in Data (archived September 9, 2025). 2025. URL: <https://archive.ourworldindata.org/20250909-093708/grapher/gas-consumption-by-country.html>.
- [Ins25b] Energy Institute. *Statistical Review of World Energy (2025) – with major processing by Our World in Data. "Oil consumption"*. dataset. Original data from "Statistical Review of World Energy". Retrieved October 24, 2025, from Our World in Data (archived September 9, 2025). 2025. URL: <https://archive.ourworldindata.org/20250909-093708/grapher/oil-consumption-by-country.html>.
- [Int25] Bank for International Settlements. *Effective Exchange Rates (EER) Data Set*. dataset. Includes long time series of nominal and real effective exchange rates (NEER and REER) for 64 economies. Indices are calculated as trade-weighted averages of bilateral exchange rates with time-varying weights based on manufacturing trade flows. Retrieved October 25, 2025, from the BIS Data Portal. 2025. URL: <https://data.bis.org/topics/EER>.

References - Data II

- [St 25a] Federal Reserve Bank of St. Louis. *Federal Reserve Economic Data (FRED) Online Database*. dataset. Comprehensive collection of over 800,000 time series from national and international sources. Retrieved October 24, 2025, from the Federal Reserve Economic Data (FRED) platform. 2025. URL: <https://fred.stlouisfed.org>.
- [St 25b] Federal Reserve Bank of St. Louis. *NBER based Recession Indicators for the United States from the Peak through the Trough*. dataset. Data retrieved October 1, 2025. 2025. URL: <https://fred.stlouisfed.org/series/USREC>.

List of Figures

List of figures

- Figure 1: Monthly deviations of USD spot rates from PPP values (Slide 4)
- Figure 2: Monthly US CPI: Headline and component contributions over the time: 2001 - 2024 (Slide 6)
- Figure 3: Monthly EU Area CPI: Headline and component contributions over the time: 2000 - 2024 (Slide 7)
- Figure 4: Normalized oil price volatility and EUR/USD exchange rate with crisis periods highlighted (Slide 8)
- Figure 5: Systematic Literature Overview (Slide 11)
- Figure 6: Theoretical Framework: Price Measures (Slide 13)
- Figure 7: Theoretical Framework: Simple Model (Slide 14)
- Figure 8: Theoretical Framework: Model I (Slide 15)
- Figure 9: Theoretical Framework: Model II (Slide 16)
- Figure 10: Theoretical Framework: Model III (Slide 17)
- Figure 11: Model Comparison Bar Plot (Slide 21)
- Figure 12: Predicted Model Regimes with Crisis Periods Highlighted (Slide 22)
- Figure 13: Yearly oil consumption and production by country (Slide 30)
- Figure 14: Yearly natural gas consumption and production by country (Slide 31)
- Figure 15: Weekly open interest in oil and natural gas futures contracts (Slide 32)
- Figure 16: Daily BIS Central Bank Policy Rate and 3M Interbank Rates over the time: 1999 - 2019 (Slide 34)
- Figure 17: Daily BIS Central Bank Policy Rate and 3M Interbank Rates differentials (USD-EUR) over the time: 1999 - 2019 (Slide 35)
- Figure 18: Normalized Histograms of Raw Data (Slide 36)
- Figure 19: Histograms of Log First Differences (Slide 37)
- Figure 20: ACF Plots of Raw Series (Slide 43)
- Figure 21: ACF Plots of Log First Differences (Slide 44)
- Figure 22: PACF Plots of Raw Series (Slide 45)
- Figure 23: PACF Plots of Log First Differences (Slide 46)
- Figure 24: Granger Causality Test Results - Oil Raw Series (Slide 47)
- Figure 25: Granger Causality Test Results - Gas Raw Series (Slide 48)
- Figure 26: Granger Causality Test Results - Oil Log First Differences (Slide 49)
- Figure 27: Granger Causality Test Results - Gas Log First Differences (Slide 50)

List of Tables

List of tables

- Table 1: Normality Tests for Raw Data (Slide 38)
- Table 2: ADF Tests for Raw Data (Slide 39)
- Table 3: ADF Tests for Log First Differences (Slide 40)
- Table 4: Cointegration Tests for Raw Data (Slide 41)
- Table 5: Cointegration Tests for Log First Differences (Slide 42)
- Table 6: Exemplary Exchange Rate Types (Slide 51)
- Table 7: Major Global Crisis Periods (Slide 56)

Thank you for your attention!

We await your Questions and/or Comments.

Josef Fella

josef.fella@stu.uni-kiel.de

Robert Hennings

robert.hennings@stu.uni-kiel.de

Public GitHub Project Repository: <https://github.com/RobertHennings>

Discussion

- ① Have you expected this outcome?
- ② What do you think about the dynamics?
- ③ What other variables could be potentially included?

Josef Fella
josef.fella@stu.uni-kiel.de

Robert Hennings
robert.hennings@stu.uni-kiel.de

Public GitHub Project Repository: <https://github.com/RobertHennings>

Further Material for Illustrations - Questions