

Order Flows, Fundamentals and Exchange Rates

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Abstract: We examine the links between end-user order flows as seen by a major European commercial bank and macroeconomic fundamentals. We show that both exchange rate changes and flows are only weakly related to macroeconomic news announcements and hypothesise that “the cat is already out of the bag” by the time the news is announced. Instead, order flows of financial and corporate customers reflect in real time the evolution of macroeconomies. The actions of the banks receiving the order flows in turn reveal the information to the market as a whole which prices the exchange rate accordingly. By the time the news is announced, the exchange rate already contains the majority of the information.

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