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Daily abnormal price changes and trading strategies in the FOREX

Abstract

This paper explores abnormal price changes in the FOREX by using both daily and intraday data on the EURUSD, USDJPY, USDCAD, AUDUSD and EURJPY exchange rates over the period 01.01.2008–31.12.2018.

It applies a dynamic trigger approach to detect abnormal price changes and then various statistical methods, including cumulative abnormal returns analysis, to test the following hypotheses: the intraday behaviour of hourly returns on overreaction days is different from that on normal days (H1), there are detectable patterns in intraday price dynamics on days with abnormal price changes (H2) and on the following days (H3).

The results suggest that there are statistically significant differences between intraday dynamics on days with abnormal price changes and normal days respectively; also, prices tend to change in the direction of the abnormal change during that day, but move in the opposite direction on the following day. Finally, there exist trading strategies that generate abnormal profits by exploiting the detected anomalies, which can be seen as evidence of market inefficiency.

New evidence on abnormal price changes and related trading strategies in the FOREX.

Keywords: FOREX, Anomalies, Overreactions, Abnormal returns, Patterns, Abnormal price changes