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Do birds of a feather flock together? Evidence from time-varying herding behaviour of bitcoin and foreign exchange majors during Covid-19

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Abstract

This paper analyses herding behaviour within bitcoin and foreign exchange majors before and during the Covid-19 pandemic. We utilise both static and time-varying parameter regression herding measures to assess herding intensity based on hourly and daily frequencies, covering the period from 1 March 2018 to 28 February 2022. Our hourly static and time-varying model results indicate the absence of herding (hence, the presence of anti-herding behaviour) within bitcoin and the foreign exchange majors before and during Covid-19. In daily herding analyses, however, while we do not find evidence of herding within bitcoin or the foreign exchange majors, we do observe strong time-varying herding within the foreign exchange majors after excluding bitcoin both before and during Covid-19, and during both up- and down-market days. We conclude that herding behaviour between foreign exchange majors tends to be time-varying and horizon-dependent. Our results could be useful for bitcoin and foreign exchange investors, traders, researchers and regulators, helping them to strengthen their understanding of herding behaviour before and during periods of market stress such as the period of Covid-19. © 2022 Elsevier B.V.

Author Keywords

Bitcoin; Covid-19; Foreign exchange; Herding; Time-varying parameter regression; Wavelet coherence

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