

# **RELATIONSHIP BETWEEN SOVEREIGN BOND YIELDS AND FX**









There is a lead lag relationship between Sovereign bond yield (leading) vs. the respective FX rate (lagging). This lead lag relationship is so pronounced across all currencies that we may safely assume a strong causality from yields to FX. The CDS cost is deducted from the sovereign yield to arrive at the "risk free carry" for the currency- the higher this carry, the stronger the currency. Evidence from Indonesia, Thailand, South Korea, Turkey & South Africa is presented in the following charts

#### **Indonesian Rupiah**





### Thai Baht

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## Turkish Lira





### South African Rand



If CDS spreads are exploding, while bond yields are moving up at a slower pace , then FX depreciation would happen. Similarly , if bond yields come off while CDS spreads remain elevated , FX would remain in depreciation mode.

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