

# Common and idiosyncratic movements in Latin-American exchange rates

**DOI:**

<https://doi.org/10.1016/j.inteco.2022.06.002>

**Publicado:**

Miércoles, 31 Agosto 2022

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**Clasificación JEL:**

F31, F37, G17

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We propose a simple theoretical and empirical approach to differentiate between common and idiosyncratic exchange rate movements in 5 Latin-American economies: Brazil, Chile, Colombia, Mexico, and Peru. Our approach allows us to distinguish the effects of a regional exchange rate common factor and macroeconomic fundamentals differentials on exchange rates. The methodology and estimation strategy are suitable for both low- and high-frequency settings. We provide evidence that the regional common factor is important to assess the dynamics of the Latin-American exchange rates. In our estimations, the relation between exchange rates and the common factor is contemporaneous and stable during the studied period.