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# Fundamental determinants of exchange rate expectations\*

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## Abstract

This paper provides a new perspective on the exchange rate disconnect puzzle by referring to the expectations building mechanism in foreign exchange markets. Therefore, we analyze the role of expectations regarding macroeconomic fundamentals for expected exchange rate changes. In doing so, we assess data for 31 economies from 2002 to 2017 and consider expectations regarding GDP growth, inflation, interest rates and current accounts. Our empirical findings identify an impact of expected fundamentals, which is not fully consistent with traditional fundamentals models. We especially highlight the relevance of the PPP theory for the expectations building mechanism due to the robust finding that inflation expectations are able to explain expected exchange rate changes in line with the purchasing power parity. We also find that the expectation building process differs remarkably between the periods prior and after the global financial crisis since the impact of GDP growth expectations clearly disappears for the second subsample period, which can be explained by the scapegoat approach. Finally, we also find that inflation expectations affect both the dispersion across forecasters and realized forecast errors.

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# 1 Introduction

Understanding and forecasting exchange rates remains one of the central areas of research in international economics. An enormous amount of research has focused on the exchange rate disconnect puzzle, i.e. the loose link between exchange rates and fundamentals. The latter is often found to be weak and time-varying, resulting in substantial model uncertainty (Kouwenberg *et al.*, 2017). A deeper understanding of the expectation building mechanism on currency markets provides a potential explanation of this finding.

One strand of the literature has focused on the performance of professional exchange rate forecasts as a proxy for expectations. Early work by Blake *et al.* (1986), Dominguez (1986) and Chinn and Frankel (1994) shows that surveys are unable to provide adequate point forecasts at an aggregated level. At the micro level, there is plenty of evidence that expectations are heterogeneous across market participants (Frankel and Froot, 1986). Recent work by Dick *et al.* (2015) suggests that a proper understanding of fundamentals improves exchange rate forecasts. The scapegoat approach introduced by Bacchetta and Van Wincoop (2004) also derives aggregated effects from heterogeneous expectations at the micro level. It is based on the assumption that investors are not completely informed but tend to blame a certain macro indicator for exchange rate changes. Thus this macroeconomic variable becomes a ‘scapegoat’ for observed exchange rate movements potentially caused by unobservable factors. In such a scenario, rational confusion leads to a stronger impact of the ‘scapegoat’ fundamental on the exchange rate. Further evidence based on survey data has confirmed that forecasters frequently switch between different models (Goldbaum and Zwinkels, 2014).

This paper contributes to the literature by assessing the importance of expectations regarding macroeconomic fundamentals for exchange rate expectations. Despite the

fact that many theoretical models correspond to the link between expected exchange rates and expected fundamentals (Bacchetta and Van Wincoop, 2004), most empirical studies focus on the link between observed exchange rates and observed fundamentals (Sarno, 2005), implicitly assuming that exchange rate expectations provide adequate estimates of future realized exchange rates. However, evaluating the expectation linkage between exchange rates and fundamentals is an essential step for understanding the transmission channels between changes in fundamentals such as changes in the stance of monetary policy and exchange rate fluctuations.

Our empirical analysis relies on a novel data set provided by FX4casts which includes exchange rate expectations over different horizons as well as forecasts related to GDP growth, inflation, interest rates and the current account. Our monthly data set runs from 2002 to 2017 and includes 31 countries/currencies and enables us to provide the first study which compares drivers of exchange rate expectations for industrial and emerging economies. While previous research by Beckmann and Czudaj (2017) has focused on drivers of exchange rate expectations after the global financial crisis at a country level relying on observed fundamentals, we are interested in common patterns in the cross-section by focusing on expectations regarding macro fundamentals instead of actual observations. The first question we tackle is whether expected exchange rate changes are driven by expected fundamentals focusing on a panel perspective. This includes the question whether such effects are different between industrial and emerging economies or between the period prior and after the global financial crisis. In addition, we analyze the path of exchange rate disagreement and evaluate whether expected fundamentals affect the dispersion across exchange rate forecasters. This is an important question since the reaction of disagreement among forecasters to new information differs for the noisy and the sticky information model discussed in the literature Coibion and Gorodnichenko (2012, 2015). Finally, we also address potential

effects of expected fundamentals on forecast errors made by professionals, that is the absolute difference between expected and realized exchange rates.

The latter two questions also shed light on information rigidity against the background of the work by Coibion and Gorodnichenko (2012, 2015). At the micro level, studies dealing with decision making among forecasters suggest that professionals rely on different models at different points in time. The pattern that professionals frequently switch between different forecasting techniques and also the ‘scapegoat’ idea mentioned above suggest that the determinants may vary over time (Jongen *et al.*, 2012).

The main findings of the present study are as follows. First, we find that expectations regarding macro fundamentals are able to explain expected exchange rate changes to some extent. In particular, our results show a robust effect stemming from exchange rate expectations, which is in line with the purchasing power parity. Second, we also find that the expectation building process differs remarkably between the periods prior and after the global financial crisis since the impact of GDP growth expectations clearly disappears for the second sub-sample period. This finding can be explained by the scapegoat approach mentioned above. Finally, we also find that inflation expectations affect both the dispersion across forecasters and realized forecast errors.

The remainder of this paper is organized as follows. The next section provides a brief review of the existing literature and summarizes conventional fundamental exchange rate models. Section 3 introduces our data set and in Section 4 we provide and interpret our empirical findings. Section 5 concludes.

## 2 Theoretical Framework and Literature Review

### 2.1 Literature Review

The literature on exchange rate expectations can be roughly subdivided into studies evaluating the adequacy of professional forecasts and studies explaining the formation of expectations on an aggregated or a disaggregated level.

Going back to the seminal work of Frankel and Froot (1986, 1987), the most common theoretical framework to explain exchange rate expectations at a disaggregated level is build up on the idea that two kinds of market participants should be distinguished: Fundamentalists, which rely on a fundamental model when building expectations, and chartists, which extrapolate past exchange rate behavior for forecasting. A simple benchmark model for exchange rate expectations is, for instance, provided by Goldbaum and Zwinkels (2014) and incorporates both groups of market participants. Various studies have adopted such models for analyzing different characteristics of expectation building among exchange rate forecasters (de Jong *et al.*, 2010; ter Ellen *et al.*, 2013). A group potentially dominates the resulting exchange rate dynamics at the aggregated level with fundamentalist for example driving exchange rate dynamics in times of uncertainty.

Comprehensive surveys on related studies and theoretical explanations for the weak statistical performance of professional forecasts are provided by Lewis (1989), Engel (1996), MacDonald (2000) and Jongen *et al.* (2008) among others. Beckmann and Czudaj (2017) illustrate a potential contradiction between statistical and economic measures by evaluating a large number of currencies and focusing on the period after the global financial crises. Their results suggest that survey forecasts can still contain useful information in case of high mean squared errors. The weak statistical performance is in line with the generally weak predictability of exchange rates with model uncertainty

as one of the main reasons for the inability to beat simple benchmarks (Rossi, 2013; Kouwenberg *et al.*, 2017).

When analyzing expectation building mechanisms, recent research has emphasized the importance of information rigidity as an explanation for forecast errors (Coibion and Gorodnichenko, 2015). Even if participants use all available information, they can be unable to provide adequate forecasts due to imperfect information. The existence of such rigidities has been established by Coibion and Gorodnichenko (2012, 2015) for various macroeconomic expectations other than exchange rates. In the context of exchange rates, expectation errors are well established and do not contradict rationality given the unpredictability of financial markets (Bacchetta and van Wincoop, 2006). Against this background, it seems important to analyze the drivers of both expectations and expectation errors. In addition, the pattern that professionals frequently switch between different forecasting techniques also requires a sub-sample analysis (Jongen *et al.*, 2012).

## **2.2 Theoretical Exchange Rate Models**

To motivate the selection of macroeconomic fundamentals potentially affecting exchange rate behavior, the following section briefly recaptures conventional models for explaining the nominal exchange rate. As a result our empirical framework includes expectations regarding fundamentals such as short-term interest rates, GDP growth, inflation and the current account relative to GDP. The models we present in the following propose at least one of them as a driver of exchange rate changes. Expectations regarding the corresponding fundamentals should also affect exchange rate expectations if market participants believe in such models.



### 2.2.1 Uncovered Interest Rate Parity

According to the uncovered interest rate parity (UIP), the difference in interest rates between two countries should equal the expected change in the exchange rate between the countries' currencies (Engel, 2016):

$$E_t(\Delta s_{t+h}) = ir_t - ir_t^*, \quad (1)$$

where  $\Delta s_{t+h} \equiv s_{t+h} - s_t$ .  $E_t(\Delta s_{t+h})$  gives the expected change (at time  $t$  for  $t+h$ ) of the log exchange rate, denominated as domestic currency per US dollar.  $ir_t$  ( $ir_t^*$ ) is the domestic (US)  $h$ -period nominal interest rate. The following forecasting equation arises under the assumption that  $E_t(\Delta s_{t+h})$  equals  $\Delta s_{t+h}$ , where  $s_t$  denotes the log of the realized exchange rate:

$$\Delta s_{t+h} = ir_t - ir_t^*. \quad (2)$$

There is plenty of evidence that countries with higher interest rates appreciate rather than depreciate, suggesting that forecasters potentially believe either in an appreciation or a depreciation of the domestic currency in case of higher interest rates (Sarno, 2005; Engel, 2016). It is also important to keep in mind that the current interest rate differential should already be a determinant of expected exchange rate changes. However, we also use expected interest rates to account for expectation effects regarding the stance of monetary policy. This is also necessary given that we focus on expectations over different horizons.

### 2.2.2 Purchasing Power Parity

According to the purchasing power parity (PPP), the price differential between two countries explains the fundamental nominal exchange rate:

$$f_t^{PPP} = p_t - p_t^*, \quad (3)$$

where  $p_t$  ( $p_t^*$ ) gives the domestic (US) price level. Deviations of the current exchange rate from this value provide a benchmark for the nominal exchange rate and rely on current deviations from this exchange rate as a predictor for the nominal exchange rate change  $\Delta s_{t+h}$ . Thus, if PPP holds, we expect that  $\Delta s_{t+h} = f_t^{PPP} - s_t$  holds. Against the background of the existing evidence and the higher fluctuations of nominal exchange rates, PPP should be more important for long-run expectations (Sarno, 2005).

### 2.2.3 Monetary Fundamentals

The simplest version of the monetary exchange rate approach postulates that the exchange rate between two countries is driven by the relative development of money supply and industrial production (Dornbusch, 1976; Bilson, 1978). Combining both equilibrium conditions with PPP and UIP leads to the finding that a relative increase in money supply depreciates the domestic currency, while a relative increase in industrial production appreciates the domestic currency. This is reflected in the following equation

$$f_t^{MON} = (m_t - m_t^*) - (ip_t - ip_t^*), \quad (4)$$

where  $m_t - m_t^*$  and  $ip_t - ip_t^*$  refer to differentials regarding (log) money supply and (log) industrial production between the domestic and the US economy, respectively.<sup>1</sup>

The exchange rate is then determined as  $\Delta s_{t+h} = f_t^{MON} - s_t$ .

Several extensions of this framework are discussed in the literature. Hooper and Morton (1982) suggest to include the current account as an useful determinant of the exchange rate and argue that real exchange rate changes (PPP deviations) are related to movements in the current account through changes in expectations about the long-run equilibrium real exchange rate and the risk premium.

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<sup>1</sup>It should be noted that our empirical model does not include a measure of money supply due to the lack of expectations data regarding money supply. As a measure of expectations related to the stance of monetary policy we rely on interest rate expectations.

### 2.2.4 Taylor Rule Fundamentals

The Taylor rule states that a central bank adjusts the short-run nominal interest rate in order to respond to inflation ( $\pi_t$ ) and the output gap ( $ou_t$ ). The idea of this approach can be exploited to two central banks, which both follow a Taylor rule model and respond to inflation and the output gap. In such a case, the interest rate differential which drives the exchange rate can be explained by the inflation and output gap differentials between both countries:

$$\Delta s_{t+h} = w_\pi(\pi_t - \pi_t^*) + w_{ou}(ou_t - ou_t^*). \quad (5)$$

Ad-hoc weights for inflation and output gap are for example 1.5 and 0.1 (Della Corte *et al.*, 2009), respectively. It is worth mentioning that we do not have expectations for the output gap and therefore use GDP growth expectations instead. The Taylor rule also provides another motivation for using interest rate and inflation expectations which are directly linked to expectations about monetary policy.

## 3 Data and Preliminary Analysis

### 3.1 Data

Survey data on exchange rate expectations over three different horizons (3-, 6- and 12-month) is obtained from FX4casts formerly known as The Financial Times Currency Forecaster (see <http://www.fx4casts.com/>) on a monthly basis. The consensus is based on individual responses of 48 professionals, mostly banks, and follows standard procedures in the literature to aggregate exchange rate expectations (Jongen *et al.*, 2008). Spot rates  $s_t$  and their expectations are measured in units of domestic currency per one unit of the US dollar (i.e. a decrease corresponds to an appreciation of the domestic currency) and are provided for 31 currencies according to the FX4casts classification. For our empirical analysis we use three different kinds of endogenous variables

to examine the research questions stated in the Introduction. First, we compute the expected percentage exchange rate change as the relative difference between the expected exchange rate defined as the mean forecast across forecasters and its current spot rate for horizon  $h$  with  $h = 3, 6, 12$

$$\% \Delta \text{FX}_{i,t}^h = 100 \frac{E_t(s_{i,t+h}) - s_{i,t}}{s_{i,t}}, \quad (6)$$

where  $i = 1, \dots, 31$  stands for the corresponding currency as the cross-section unit and  $s_{i,t}$  is the spot rate at the time  $t$  the expectations are made. The entire data sample covers a time period running from 2002M02 to 2017M12 and 31 countries/currencies including Argentina, Australia, Brazil, Canada, Chile, China, Colombia, the Czech Republic, Denmark, the Euro Area, Hong Kong, Hungary, India, Indonesia, Japan, Korea, Mexico, New Zealand, Norway, Philippines, Poland, Russia, Singapore, South Africa, Sweden, Switzerland, Taiwan, Thailand, Turkey, the UK and Venezuela. Therefore, our balanced panel includes 5921 observations ( $n = 31$  and  $T = 191$ ). Second, we use the difference between the 97.5% and the 2.5% quantiles of the forecasts in the consensus as a measure of disagreement among forecasters. For this setting, the sample reduces to a period between 2004M11 to 2017M12 ( $T = 158$ ) and 30 countries (disagreement data for Hong Kong is not available) resulting in  $N = 4740$ . Finally, we also compute absolute forecast percentage errors as

$$\% \text{FE}_{i,t}^h = 100 \left| \frac{s_{i,t+h} - E_t(s_{i,t+h})}{s_{i,t+h}} \right|, \quad (7)$$

where  $s_{i,t+h}$  in this case represents the actual end-of-month exchange rate that has been forecasted by the professionals  $h$ -periods ago. In this case the sample size is adjusted for the forecast horizon  $h$  and therefore  $T$  is reduced by  $h = 3, 6, 12$ .

As explanatory variables we rely on survey data also provided by FX4casts for expectations regarding short-term (i.e. 3-month) interest rates, which are again available

over 3-, 6- and 12-month horizons, GDP growth, inflation and the current account relative to GDP. The forecasts on GDP growth, inflation and the current account provided by FX4casts are fixed event forecasts, that is expectations are provided for the current and the next year at each point in time.  $g_{i,j}$  denotes the expected growth rate in period  $j$  for period  $i$ . This implies that disagreement about the current year naturally decreases over time, that is the uncertainty about this year’s GDP growth, inflation or current account is e.g. much lower in November than in January. We therefore adopt the approach suggested by Patton and Timmermann (2011), which has also been applied by Dovern *et al.* (2012) to transform fixed event into fixed horizon forecasts via weighted averaging.<sup>2</sup> The intuitive idea is to use the weighted average of fixed event forecasts for the current and the next year with the weight of the former (latter) linearly decreasing (increasing) as time evolves based on the following formula

$$\hat{g}_{t,t-12} = w\hat{g}_{1,0} + (1 - w)\hat{g}_{2,1}, \quad (8)$$

where  $\hat{g}_{t,t-12}$  denotes the approximated fixed horizon forecast while  $\hat{g}_{1,0}$  and  $\hat{g}_{2,1}$  give the fixed event forecasts for the current and the next year and  $w$  denotes the ad hoc weight  $(24 - t)/12$  for  $t = 12, 13, \dots, 23$ . This approach has been applied to compute fixed horizon forecasts for GDP growth, inflation and the current account.

### 3.2 Preliminary Analysis

Table 1 reports conventional descriptive statistics which are computed for each variable pooled across countries for the total panel and two sub-panels including only industrial and emerging economies, respectively.<sup>3</sup> Unsurprisingly, expected exchange rate changes

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<sup>2</sup>See Knüppel and Vladu (2016) for an alternative way of transforming fixed event into fixed horizon forecasts by choosing a different weighting  $w$ .

<sup>3</sup>Australia, Canada, Denmark, the Euro Area, Japan, New Zealand, Norway, Russia, Sweden, Switzerland and the UK are classified as industrial economies in our panel. All remaining countries are classified as emerging economies.

and their variations according to the standard deviation (SD) increase with the forecast horizon  $h$ . In addition, expectations for emerging economies display much higher variation due to the higher inflation rates and outliers like Venezuela. When considering expected exchange rate changes, it is important to keep in mind that professionals often take the random walk behavior of exchange rates into account and only expect minor changes compared to the current spot rate over the short-run. Therefore, 12-month expectations display higher variation for essentially all currencies.

\*\*\* Insert Table 1 about here \*\*\*

In a preliminary step, we have conducted several panel unit root tests to assure that our data set includes stationary time series and our regression estimates are not spurious. As can be seen in Table 2 in nearly all cases the null of a unit root is rejected at least at the 5% level. To ensure that these results are not driven by cross-sectional dependence often existent in macroeconomic data, we have also applied two tests, which account for cross-sectional dependence, suggested by Pesaran (2007) and Demetrescu *et al.* (2006) (see the last two columns in Table 2).

\*\*\* Insert Table 2 about here \*\*\*

Table 3 also shows that our regressors (pooled across countries) do not exhibit a strong correlation and therefore do not cause any multicollinearity problems. Table 3 also provides first insights into the behavior of professionals by displaying correlation

coefficients for the whole samples as well as for industrial and emerging countries separately. The findings show some differences between industrial and emerging countries. For example, interest rate and GDP growth expectations display low but positive correlations (below 0.09) for industrial countries but turn out to be negative for emerging economies of a comparable amount. The latter shows the contrary demand effect of higher interest rates while the former is in line with a Taylor rule reaction function of monetary policy with expectations of lower interest rates in case of a recession.

\*\*\* Insert Table 3 about here \*\*\*

## 4 Empirical Results

Our empirical analysis is based upon estimating the following regression

$$\% \Delta \text{FX}_{i,t}^h = \alpha + \beta_1 \text{IR}_{i,t}^h + \beta_2 \text{GDP}_{i,t} + \beta_3 \text{Inflation}_{i,t} + \beta_4 \text{CA}_{i,t} + u_{i,t}, \quad (9)$$

where  $\% \Delta \text{FX}_{i,t}^h$  represents the expected percentage exchange rate change at  $t$  for horizon  $t+h$  with  $h = 3, 6, 12$  as defined in Eq. (6),<sup>4</sup>  $\text{IR}_{i,t}^h$  gives the expected 3-month interest rate at  $t$  for horizon  $t+h$  with  $h = 3, 6, 12$  relative to the US,  $\text{GDP}_{i,t}$  stands for expected GDP growth relative to the US,  $\text{Inflation}_{i,t}$  gives the expected inflation rate relative to the US and  $\text{CA}_{i,t}$  represents the expected current account to GDP ratio relative to the US. The term ‘relative to the US’ refers to the relative difference of expectations between the domestic economy and the US in line with traditional exchange rate models

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<sup>4</sup>As already mentioned we also study the effect of fundamentals expectations on forecasters disagreement and forecast errors made by professionals. In doing so, the left-hand side variable in Eq. (9) is substituted by our measure of either disagreement or forecast errors already introduced in Section 3.1.

presented in Section 2.2 and is computed as follows in case of GDP growth expectations

$$\text{GDP}_{i,t} = 100 \frac{E_t(y_{i,t+h}) - E_t(y_{US,t+h})}{E_t(y_{US,t+h})}, \quad (10)$$

where  $y_{i,t+h}$  ( $y_{US,t+h}$ ) refers to GDP growth in economy  $i$  (the US). The other fundamental expectations have been constructed in the same way. Relative measures against the US have been used since our left-hand side variable refers to expected exchange rate changes of the domestic currency against the US dollar.<sup>5</sup> This set of expected fundamentals captures the major dynamics of the fundamental exchange rate models introduced in Section 2.2 and therefore gives an indication whether forecasters believe in any of these models. Adopting the expected exchange rate as the left-hand side variable is a standard proceeding in the literature referring to the presented models. However, our estimation strategy also accounts for the potential of reversed causality which stems from the fact that expectations regarding macroeconomic fundamentals and the exchange rate are possibly jointly determined (Engel and West, 2005).

First, we estimate Eq. (9) with pooled OLS, a fixed effects (FE) model including country fixed effects (i.e.  $u_{i,t} = \mu_i + \varepsilon_{i,t}$ ), a FE model including country and time fixed effects (i.e.  $u_{i,t} = \mu_i + \lambda_t + \varepsilon_{i,t}$ ) and a random effects (RE) model. Second, to allow for the potential of simultaneous causality mentioned above, we have also used a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. In all three cases, we apply one-period lags of all regressors as instruments. These instruments are relevant since each regressor is effected by its own first lag and also exogenous for our regression model since they are at most able to effect our left-hand side variable indirectly through the corresponding regressor.

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<sup>5</sup>As a robustness check we have also carried out estimations for the raw expectations as regressors instead of their relative counterparts. These mainly confirm our findings discussed in this section and are available upon request.



## 4.1 Total Panel Results

The estimation results for 3- and 12-month forecast horizons are reported in Tables 4 and 5 together with various specification tests. Estimation results for the 6-month forecast horizon are generally very similar to the 12-month horizon case and are therefore omitted from the main body of the paper but are reported in the Appendix (see Table A.1).

First of all, Table 4 provides regression results for 3-month exchange rate forecasts. The (incremental)  $R^2$  is between 0.35 and 0.43 for all specifications and the magnitude of most estimated coefficients is remarkably robust across the different specifications.<sup>6</sup> For all regression models, we have conducted various specification tests. The  $F$  test as well as the LM test proposed by Honda (1985) confirm the importance of both country and time fixed effects, at least for the models without instruments. Including fixed effects assures that our estimation results are not driven by outliers or specific countries to a large extent. The Hausman test favors both fixed effects models compared to the random effects specification since the null is rejected at the 1% level. Therefore, both models including country and time fixed effects (FE and FE-IV) appear to be the most reasonable specifications and all other models can be seen as robustness checks. The fact that the Breusch-Godfrey-Wooldridge tests indicates serial correlation in the residuals is not surprising. To account for this issue, we use robust standard errors with respect to heteroskedasticity and serial correlation according to Arellano (1987).

\*\*\* Insert Table 4 about here \*\*\*

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<sup>6</sup>The term ‘incremental’ means in this case that the  $R^2$  measures only the explanatory power of the regressors for the variation of the left-hand side variable but not the explanatory power of the country and time fixed effects. For the FE models, we otherwise get a much higher  $R^2$ . However, for the reason of comparability we decided not to report these findings in the main tables.

Most clearly, the effect stemming from inflation expectations displays a significantly positive coefficient at a 1% level which is totally in line with PPP since it implies that professional forecasters expect the domestic currency to depreciate against the US dollar when their inflation expectations for the domestic economy exceed US inflation expectations. More precisely, if professional forecasters expect domestic inflation to be 1% above US inflation, they expect the domestic currency to depreciate by slightly more than 0.003% against the US dollar over the next three months. The effect size seems to be quite low, however it should be kept in mind that professionals often follow a random walk when forming their expectations and only expect minor changes compared to the current spot rate. The main takeaway point therefore is that the directional effect is in line with PPP.

The coefficient estimates for GDP growth and current account expectations both show signs consistent with the theory, however both turn out to be insignificant in all cases. Interest rate expectations show up to be significantly negative at the 10% level for both models including country and time fixed effects. The latter is in line with the UIP and implies that professionals expect the domestic currency to appreciate against the US dollar when their interest rate expectations for the domestic economy exceed those for the US.

Second, the regression results for the 12-month horizon given in Table 5 generally display the same pattern but both the magnitude of the inflation expectation coefficient and the  $R^2$  have clearly increased. This implies that long-run exchange rate expectations are much stronger affected by expectations regarding macroeconomic fundamentals. This pattern is fully plausible since it reflects that fundamentals are considered as a long-run anchor while forecasters are aware of the random walk behavior over the short-run.

\*\*\* Insert Table 5 about here \*\*\*

To shed more light on our findings, we turn to estimates for sub-periods and single-country regressions in the next subsections. In relation to this, Figure 1 provides estimates for the heterogeneity of the parameter estimates across countries (Panel (a)) and across time (Panel (b)). Both graphs show that the estimates are mostly close to zero in terms of magnitude, a finding which is not surprising given the fact that expected exchange rates are often of small magnitude. While there is some heterogeneity across countries, in particular for current account expectations, coefficient estimates are relatively stable throughout most of time periods with some exceptions, such as for the financial crisis period around 2008.

\*\*\* Insert Figure 1 about here \*\*\*

## 4.2 Pre vs. Post Crisis Period

Previous studies have illustrated the time-varying nature of exchange rate expectations and it is common wisdom that the financial crisis has effected foreign exchange rate markets (ter Ellen *et al.*, 2013). There is also evidence that forecasters' behavior often varies across the business cycle (Dovern and Jannsen, 2017). As a next step, we have therefore subdivided our sample period into a pre and a post crisis period taking the collapse of Lehman Brothers in September 2008 as the break date. To further motivate the choice of this break date, we have also applied the Bai and Perron (2003) test to endogenously determine the most reasonable break date for our regression model introduced in Eq. (9) on a single-country level. It turns out that many of the resulting

break dates indeed lie within the period of the global financial crisis around September 2008 (see Table A.2 in the Appendix) which justifies our choice.

The sub-period estimates are provided in Tables 6 to 9 for the 3- and 12-month horizon, respectively. Quite strikingly, the main finding of a significantly positive effect stemming from inflation expectations is remarkably robust for both sub-sample periods and all forecast horizons (the corresponding results for the 6-month horizon can again be found in the Appendix). However, there are also some differences between the two sub-sample periods. Especially, for the period prior to the global financial crisis GDP growth expectations are significantly negative at least at a 5% level, which implies that professional forecasters expect an appreciation of the domestic currency when their GDP growth expectations are larger for the domestic economy compared to the US. Basically, there are two explanations for this finding: First, a stronger expected growth path reflects a belief in the strength of the domestic economy and stabilizes the domestic economy. The second explanation stems from the monetary exchange rate approach which postulates that higher economic growth increases money demand which leads to a domestic appreciation due to the interest rate change necessary to restore money market equilibrium.

In contrast, for the post crisis period GDP growth expectations are insignificant. A possible explanation is that global factors, such as uncertainty became important determinants of exchange rate dynamics after 2008. In line with the scapegoat approach our findings suggest that the expectation building mechanism changes due to unexpected currency movements after 2008.

When referring to the 3-month horizon, for the pre crisis period we also find a significantly positive effect stemming from current account expectations at the 10% level, suggesting that an expected improvement in the current account compared to the US is related to an expected depreciation of the domestic currency. This reflects the

belief that a depreciation improves the international competitiveness and the current account. Interest rate expectations turn out to be mostly insignificant, suggesting that the potential structural break is not responsible for the insignificant estimates over the full sample period. For the post crisis period, which is also dominated by unconventional monetary policy, solely inflation expectations are significant.

\*\*\* Insert Tables 6 to 9 about here \*\*\*

### 4.3 Country-Specific Effects

Our analysis is extended by single-country regressions as a next step for assessing the link between expected exchange rates and expected fundamentals. The countries under investigation display some heterogeneity as already shown in Figure 1 which raises the question whether the frequently observed insignificance of coefficients related to expectations of several macro fundamentals might be due to the aggregation across countries. The findings provided in Tables 10 and 11 suggest that this might be true since the expectations regarding all four macro fundamentals affect expected exchange rate changes for nearly 50 percent of the countries under investigation. For the 3-(12-) month horizon, we find that interest rate expectations are significant in 15 (9) cases, while inflation expectations matter in 16 (14) cases, GDP growth expectations for 9 (8) economies and current account expectations have a significant impact in 17 (22) cases at least at the 10% level. This shows that expected fundamentals drive exchange rate expectations in several cases over both horizons.

\*\*\* Insert Tables 10 and 11 about here \*\*\*

A major finding already observed at the aggregated level is that the models display a much higher  $R^2$  in case of the 12-month horizon. Singapore, Taiwan, Indonesia, Venezuela and Korea all display an R-squared of over 50 percent for 12-month expectations while such a scenario is never observed over 12 months. We also identify 13 cases where the R-squared exceeds 20 percent over the 12-month horizon while this only the case for 4 currencies over the 3 month horizon. This implies that long-run exchange rate expectations are much stronger affected by expected fundamentals.

As already argued this pattern is plausible since it reflects that fundamentals are considered as a long-run anchor while forecasters are aware of the random walk behavior over the short-run. Solely for one (three) country (countries) all four expected fundamentals are insignificant for the 3- (12-) month horizon. The results are also intuitive in the sense that expected fundamentals hardly matter for countries which operate under credible managed floating or fixed exchange rate regime with target zones. 12-month expectations for Poland, Russia, Denmark and the Czech Republic are essentially unaffected by fundamentals. However, fundamentals appear to be highly relevant for countries with non-credible regimes such as Venezuela and Argentina.

In case of the 12-month horizon the significant coefficient estimates for interest rate expectations are mostly negative, suggesting that an expected increase in interest rates compared to the US leads to an expected appreciation of the domestic currency. This might stem from increasing capital flows or the fact that forecasters largely agree that an interest rate increase relates to a currency appreciation reflecting the empirical forward premium puzzle, which states that countries with higher interest rates appreciate. This findings is in line with the results by Dick *et al.* (2015). Australia displays a positive coefficient despite its comparably high interest rates over the sample period. This potentially stems from the expectation of unwinding carry trades over the medium term. Findings for 3-month interest rate expectations display both positive and negative

coefficients with the former pattern in line with the theoretical prediction of the UIP.

GDP growth expectations have a mostly negative effect as already observed at the aggregated level. As outlined earlier, this mirrors the believe that positive growth prospects will appreciate the domestic currency. Coefficient estimates of inflation expectations are mainly in line with PPP since higher expected inflation leads to an expected depreciation. Current account expectations provide both negative and positive coefficients. The former case is slightly more observed, suggesting that an expected improvement in the current account will appreciate the domestic currency.

#### **4.4 Disagreement Among Forecasters**

Coibion and Gorodnichenko (2012) have highlighted the disagreement among forecasters due to the presence of information rigidity. To analyze the impact of expectations regarding macroeconomic fundamentals, we have also regressed disagreement among exchange rate forecasters proxied by the difference between the 97.5% and the 2.5% quantiles of the forecasts in the consensus on the same set of regressors. Our findings reported in Tables 12 and 13 indicate that in particular inflation expectations significantly increase disagreement among exchange rate forecasters. The magnitude of the effect is substantially larger for the 12-month horizon compared to 3-month forecasts. All other coefficients are insignificant.

\*\*\* Insert Tables 12 and 13 about here \*\*\*

These findings relate to the effect of heterogeneous expectations at the aggregated level in line with the sticky information model discussed by Coibion and Gorodnichenko

(2012). In a nutshell, when a new information becomes available some market participants instantaneously update their expectations due to this new information according to the rational expectations hypothesis. However, other market participants do not directly adjust their expectations since to be fully informed at each point in time is also associated with certain costs. Therefore, the presence of such an information rigidity widens the range of exchange rate forecasts if a new information with respect to inflation becomes available. The sensitivity of forecasters disagreement to inflation expectations can be explained by the fact that most of our sample period is covered by unconventional monetary policy actions carried out by many central banks. These actions often trigger controversy with respect to inflation expectation effects by many economists. Another explanation is that we also include emerging markets with high inflation rates and high exchange rate uncertainty. Finally, in the next sub-section we illustrate that forecast errors are also affected by fundamental expectations.

## 4.5 Forecast Errors

In a final step, we also examine the effect of expected fundamentals on realized forecast errors by professionals. The rationale for this is the fact that if fundamental expectations do not affect the expected exchange rate but forecast errors, there must be an unexpected effect on the realized exchange rate stemming from expectations regarding macro fundamentals. Therefore, we regress forecast errors computed as the absolute difference between the forecast in period  $t$  for period  $t+h$  and the realized end-of-month spot rate in period  $t+h$  on expected fundamentals. The results are reported in Tables 14 and 15.

\*\*\* Insert Tables 14 and 15 about here \*\*\*



Generally speaking, any information available in  $t$  should be unable to explain forecast errors in  $t + h$  under rational information. Current information or expectations related to fundamentals should not affect realized expectation errors. As can be seen in Tables 14 and 15 solely inflation expectations significantly affect forecast errors for both horizons. The single-country results in the Appendix largely confirm this view (see Tables A.7 and A.8). However, there are several significant findings with respect to the other macro fundamentals, especially for emerging countries like Venezuela, Mexico, or Columbia. For these economies expectations regarding both exchange rates and fundamentals usually display higher volatility which increases the probability of a significant relationship.

The findings are in line with incomplete information by market participants and scapegoat effects as outlined by Bacchetta and Van Wincoop (2004). There are two potential explanations. One possibility is that scapegoat fundamentals display higher effects on the exchange rate as expected. The second scenario is that participants overestimate the impact of fundamentals or are wrong about the future path of fundamentals at all. In both cases, it is intuitive that such effects are more important in the short-run. Given that interest rate expectations are usually strongly correlated with both the current interest rate and the observed exchange rate, it seems plausible that the effect of interest rate expectations on forecast errors materializes through a non-predictable correlation of interest rate expectations with the future realized exchange rate. An explicit calculation of expectation errors for fundamentals is complicated by the unavailability of realized current account and GDP growth values at a monthly frequency and is left as an avenue for future research.

## 4.6 Robustness Tests

The rich amount of empirical findings already includes a large set of robustness tests in terms of estimation methods and forecast horizons. As an add-on, we have also conducted estimates for all settings presented above for the 6-month forecasting horizon. The findings, which are provided in the Appendix, do not change the overall conclusions since all results remain essentially unchanged. We have also run a sub-sample analysis distinguishing between the groups of industrial and emerging economies. However, we found the country-specific estimates to be more informative. In addition, to assure that our results are not solely driven by US expectations, we have also re-estimated all models only including expectations regarding the domestic economy instead of expectation differentials. The findings also confirm the presented results and are available upon request.

## 5 Summary and Concluding Remarks

This paper has analyzed the importance of expected fundamentals for expected exchange rates, disagreement and forecast errors at an aggregated level. Our sample including 31 countries/currencies for the period between 2002 and 2017 has enabled us to conduct various sensitivity checks in terms of sample period, country selection and estimation methods.

Our findings provide several important insights into the decisions making of professional forecasters, the determinants of exchange rate expectations and the exchange rate disconnect puzzle. We provide evidence that expected fundamentals affect exchange rate expectations in a way, which is not fully consistent with traditional fundamentals models. Our findings especially highlight the importance of inflation expectations for expected exchange rate changes and exchange rate disagreement. This finding is con-

sistent with the PPP theory and of particular relevance for emerging countries. We also find that the expectation building process differs remarkably between the periods prior and after the global financial crisis. For instance, the impact of GDP growth expectations clearly disappears for the second sub-sample period. The latter finding can be explained by the scapegoat approach: Participants put higher weight on fundamentals they deem responsible for unexpected exchange rate movements which are driven by unobservable factors. In addition, we also assess the expectation making process on a single-country level and show that it varies across economies. Finally, we also provide evidence that inflation expectations affect both the dispersion across forecasters and realized forecast errors.

Potential issues for further research include a more detailed disaggregated view on expectations. Given our country-specific results and the evidence for time-variation in expectation building, a time-varying country-by-country analysis could also be useful to gain a deeper understanding between expected fundamentals and expected exchange rates. Another interesting extension corresponds to the importance of exchange rate policy within the impossible trinity restrictions given the fact that interest rate increases under fixed and flexible exchange rates bear different macroeconomic implications. Finally, a joint modeling of countries in a global framework such as recently proposed by Dovern *et al.* (2016) constitutes a possible extension.

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# Figures and Tables

Figure 1: Panel data estimation heterogeneity

The plots shows the heterogeneity of the parameter estimations across countries (Panel (a)) and across time (Panel (b)) for a regression of expected percentage exchange rate changes on interest rate expectations (IR), GDP growth expectations (GDP), inflation expectations (Inflation) and current account to GDP ratio expectations (CA).

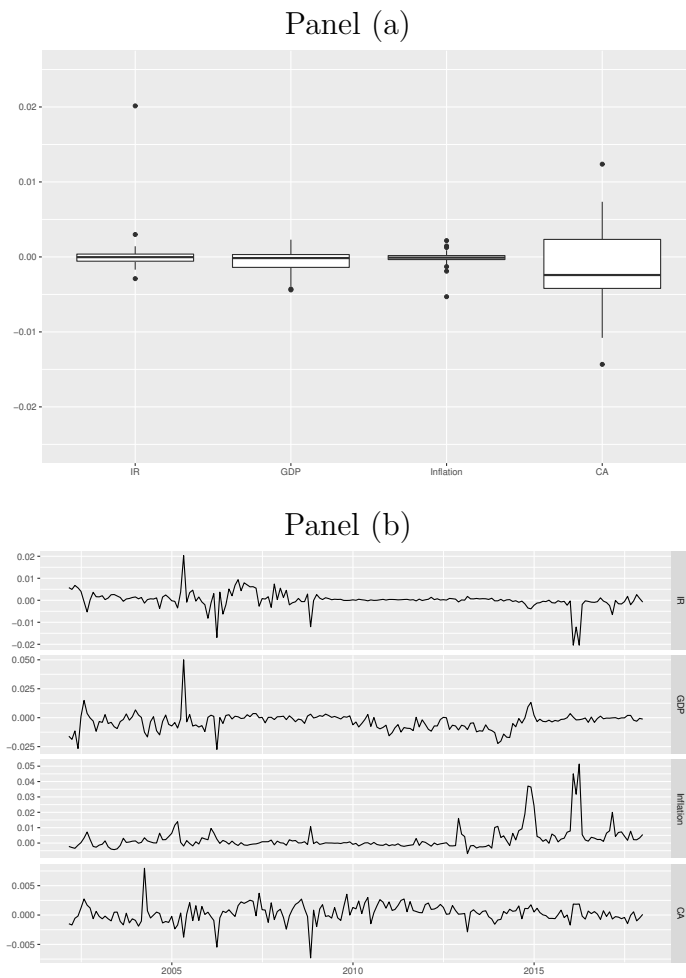


Table 1: Descriptive statistics

	Mean	SD	Median	Min	Max	Skewness	Kurtosis
% $\Delta$ FX-3m	0.9199	11.0785	0.2283	-12.3633	353.2000	21.9990	559.2104
% $\Delta$ FX-6m	2.2568	26.4004	0.3690	-32.5342	745.1000	18.7390	391.5041
% $\Delta$ FX-12m	4.1148	47.6925	1.1423	-14.7183	1305.2000	19.1685	409.9434
IR-3m	5.3073	5.5535	4.1000	-0.8200	58.0000	2.6329	12.3108
IR-6m	5.2673	5.3058	4.1200	-0.8000	49.0000	2.2860	8.9135
IR-12m	5.1954	4.9090	4.2000	-0.7000	45.0000	1.9227	6.0389
GDP	3.2138	2.2115	3.0500	-16.4000	10.5000	-0.5192	4.3388
Inflation	6.4639	41.2223	2.7833	-2.4583	1506.6667	27.5918	884.2065
CA	1.8447	6.1222	0.8250	-10.5000	34.0000	1.2696	2.1451
<b>Industrial countries</b>							
% $\Delta$ FX-3m	0.1466	1.4378	0.3448	-12.3633	8.0737	-0.9403	8.3630
% $\Delta$ FX-6m	0.2060	2.4496	0.5777	-13.5408	11.5497	-0.2504	0.6947
% $\Delta$ FX-12m	0.2906	3.8508	1.3029	-14.7183	13.7190	-0.1425	-0.7477
IR-3m	2.9586	3.4312	2.0100	-0.8200	24.0000	2.0773	6.2231
IR-6m	2.9708	3.3495	2.0800	-0.8000	22.0000	1.9521	5.3422
IR-12m	3.0119	3.2011	2.1500	-0.7000	21.0000	1.7989	4.4761
GDP	2.0893	1.3200	2.1333	-5.3250	6.8667	-0.2023	3.7800
Inflation	2.2750	2.3258	1.8667	-1.6000	16.9167	2.8416	9.5284
CA	2.5982	5.8510	2.4000	-10.5000	22.1000	0.5155	-0.2352
<b>Emerging countries</b>							
% $\Delta$ FX-3m	1.3452	13.7334	0.0000	-11.3604	353.2000	17.8082	363.7960
% $\Delta$ FX-6m	3.3847	32.7649	0.1290	-32.5342	745.1000	15.0920	252.6611
% $\Delta$ FX-12m	6.2181	59.2055	0.9625	-11.4486	1305.2000	15.4245	264.3098
IR-3m	6.5990	6.0523	5.3700	0.0500	58.0000	2.5326	11.0125
IR-6m	6.5304	5.7421	5.3500	0.0500	49.0000	2.1715	7.8738
IR-12m	6.3963	5.2588	5.3500	0.0500	45.0000	1.7972	5.2598
GDP	3.8323	2.3547	3.8500	-16.4000	10.5000	-1.1456	5.9640
Inflation	8.7678	51.1487	3.6750	-2.4583	1506.6667	22.2527	573.1377
CA	1.4303	6.2284	0.0500	-9.8750	34.0000	1.6567	3.5186

*Note:* The table reports descriptive statistics for expected percentage exchange rate changes (% $\Delta$ FX) over 3-, 6- and 12-months, interest rate expectations (IR), GDP growth expectations (GDP), inflation expectations (Inflation) and current account relative to GDP expectations (CA) all pooled across countries. The upper part of the table reports statistics for the entire panel of countries, the middle part for industrial countries and the bottom part for emerging countries. SD denotes standard deviation.



Table 2: Panel unit root tests

	Levin <i>et al.</i> (2002)	Im <i>et al.</i> (2003)	Maddala and Wu (1999)	Pesaran (2007)	Demetrescu <i>et al.</i> (2006)
$\Delta$ FX-3m	-28.3940	-33.1819	1284.9222	-4.5096	-21.8664
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0100]	[0.0000]
$\Delta$ FX-6m	-9.4121	-14.6835	509.0201	-2.9112	-10.7818
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0100]	[0.0000]
$\Delta$ FX-12m	-7.9334	-11.6231	353.7594	-2.2679	-9.2059
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0193]	[0.0000]
IR-3m	-3.7524	-4.3746	134.2734	-2.4630	-2.0432
<i>p</i> -value	[0.0001]	[0.0000]	[0.0000]	[0.0100]	[0.0205]
IR-6m	-1.8811	-2.7246	99.2738	-2.2769	-1.4609
<i>p</i> -value	[0.0300]	[0.0032]	[0.0019]	[0.0165]	[0.0720]
IR-12m	-1.7498	-2.6090	103.6117	-2.2298	-0.9847
<i>p</i> -value	[0.0401]	[0.0045]	[0.0007]	[0.0301]	[0.1624]
GDP	-3.9150	-8.3095	197.9273	-2.6102	-2.6969
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0100]	[0.0035]
Inflation	-6.6443	-7.7682	374.0529	-2.7707	-6.3839
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0100]	[0.0000]
CA	-2.3962	-5.5348	160.1549	-1.9706	-5.0504
<i>p</i> -value	[0.0083]	[0.0000]	[0.0000]	[0.1000]	[0.0000]

*Note:* The table reports test statistics and *p*-values for five different panel unit root tests checking the null of a unit root for expected percentage exchange rate changes (% $\Delta$ FX) over 3-, 6- and 12-months, interest rate expectations (IR), GDP growth expectations (GDP), inflation expectations (Inflation) and current account relative to GDP expectations (CA). The test equations include lags determined by the BIC and an intercept but not a trend since the individual time series do not exhibit trending behavior.

Table 3: Correlation between regressors

Total panel					Industrial countries				Emerging countries			
<b>3-month interest rate expectations</b>												
	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA
IR	1.0000	-0.0156	0.1499	0.2159	1.0000	0.0614	0.2696	0.0839	1.0000	-0.0734	0.1349	0.2360
GDP	-0.0156	1.0000	-0.1033	-0.0045	0.0614	1.0000	-0.0573	0.0404	-0.0734	1.0000	-0.1214	-0.0340
Inflation	0.1499	-0.1033	1.0000	0.0497	0.2696	-0.0573	1.0000	0.0171	0.1349	-0.1214	1.0000	0.0515
CA	0.2159	-0.0045	0.0497	1.0000	0.0839	0.0404	0.0171	1.0000	0.2360	-0.0340	0.0515	1.0000
<b>6-month interest rate expectations</b>												
	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA
IR	1.0000	-0.0028	0.1367	0.2104	1.0000	0.0844	0.2475	0.0874	1.0000	-0.0607	0.1211	0.2280
GDP	-0.0028	1.0000	-0.1033	-0.0045	0.0844	1.0000	-0.0573	0.0404	-0.0607	1.0000	-0.1214	-0.0340
Inflation	0.1367	-0.1033	1.0000	0.0497	0.2475	-0.0573	1.0000	0.0171	0.1211	-0.1214	1.0000	0.0515
CA	0.2104	-0.0045	0.0497	1.0000	0.0874	0.0404	0.0171	1.0000	0.2280	-0.0340	0.0515	1.0000
<b>12-month interest rate expectations</b>												
	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA	IR	GDP	Inflation	CA
IR	1.0000	0.0028	0.1414	0.2125	1.0000	0.0873	0.2462	0.0938	1.0000	-0.0546	0.1264	0.2294
GDP	0.0028	1.0000	-0.1033	-0.0045	0.0873	1.0000	-0.0573	0.0404	-0.0546	1.0000	-0.1214	-0.0340
Inflation	0.1414	-0.1033	1.0000	0.0497	0.2462	-0.0573	1.0000	0.0171	0.1264	-0.1214	1.0000	0.0515
CA	0.2125	-0.0045	0.0497	1.0000	0.0938	0.0404	0.0171	1.0000	0.2294	-0.0340	0.0515	1.0000

*Note:* The table reports the correlation coefficient between interest rate expectations (IR), GDP growth expectations (GDP), inflation expectations (INF) and current account relative to GDP expectations (CA) all pooled across countries for the entire panel (left), industrial countries (middle) and emerging countries (right). The table is separated into three parts since interest rate expectations are available over 3-, 6- and 12-months. All fundamental expectations have been computed as relative differences compared to the US in line with our regression models presented in Section 4.

Table 4: Regression results for 3-month forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0001	-0.0003	-0.0006	0.0001	-0.0004	-0.0007	-0.0002
se	(0.0001)	(0.0003)	(0.0004)	(0.0001)	(0.0003)	(0.0004)	(0.0001)
<i>p</i> -value	[0.6933]	[0.2239]	[0.0939]	[0.6933]	[0.1213]	[0.0645]	[0.0199]
GDP	-0.0026	-0.0021	-0.0014	-0.0026	-0.0102	-0.0083	-0.0083
se	(0.0020)	(0.0019)	(0.0016)	(0.0020)	(0.0072)	(0.0080)	(0.0053)
<i>p</i> -value	[0.1927]	[0.2507]	[0.3943]	[0.1927]	[0.1576]	[0.3001]	[0.1150]
Inflation	0.0033	0.0030	0.0031	0.0033	0.0037	0.0038	0.0039
se	(0.0001)	(0.0001)	(0.0000)	(0.0001)	(0.0001)	(0.0001)	[0.0000]
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0007	0.0059	0.0074	0.0007	0.0038	0.0050	0.0006
se	(0.0008)	(0.0066)	(0.0071)	(0.0008)	(0.0047)	(0.0048)	(0.0007)
<i>p</i> -value	[0.3703]	[0.3724]	[0.2974]	[0.3703]	[0.4122]	[0.2969]	[0.4329]
Intercept	0.2958			0.2958			0.4417
se	(0.2733)			(0.2733)			(0.3416)
<i>p</i> -value	[0.2791]			[0.2791]			[0.1960]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5921	5921	5921	5921	5921	5921	5921
<i>R</i> <sup>2</sup>	0.4344	0.3736	0.3878	0.4344	0.3594	0.3769	0.4270
<i>F</i> -stat		5.2741	2.5314		-4.6362	0.8292	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.9752]	
Honda LM stat		11.0983	14.3053		1.1963	8.2033	
<i>p</i> -value		[0.0000]	[0.0000]		[0.1158]	[0.0000]	
Hausman stat		188.9438	100.6966		246.6168	272.1385	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		14374.1620	24684.6866	15349.3604	14913.6307	20332.6878	15272.5051
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		91.1105	114.2235	96.6940	78.8420	87.3942	85.5443
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		3051.8692	3083.8020	2993.5147	3007.8546	3053.1562	2948.9284
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 5: Regression results for 12-month forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0008	-0.0043	-0.0063	-0.0008	-0.0046	-0.0068	-0.0018
se	(0.0004)	(0.0033)	(0.0045)	(0.0004)	(0.0034)	(0.0048)	(0.0004)
<i>p</i> -value	[0.0303]	[0.1924]	[0.1565]	[0.0303]	[0.1847]	[0.1528]	[0.0000]
GDP	-0.0101	-0.0080	-0.0056	-0.0101	-0.0337	-0.0301	-0.0306
se	(0.0078)	(0.0070)	(0.0062)	(0.0078)	(0.0264)	(0.0292)	(0.0205)
<i>p</i> -value	[0.1964]	[0.2580]	[0.3638]	[0.1964]	[0.2016]	[0.3024]	[0.1361]
Inflation	0.0163	0.0152	0.0156	0.0163	0.0179	0.0180	0.0188
se	(0.0005)	(0.0004)	(0.0001)	(0.0005)	(0.0002)	(0.0003)	(0.0001)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0039	0.0283	0.0327	0.0039	0.0208	0.0242	0.0031
se	(0.0040)	(0.0316)	(0.0334)	(0.0040)	(0.0248)	(0.0257)	(0.0036)
<i>p</i> -value	[0.3302]	[0.3698]	[0.3284]	[0.3302]	[0.4008]	[0.3476]	[0.3864]
Intercept	1.4271			1.4271			1.7569
se	(1.6612)			(1.6612)			(1.8310)
<i>p</i> -value	[0.3903]			[0.3903]			[0.3373]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5921	5921	5921	5921	5921	5921	5921
<i>R</i> <sup>2</sup>	0.5835	0.5288	0.5473	0.5835	0.5190	0.5386	0.5779
<i>F</i> -stat		9.7995	3.5495		-1.8813	1.6905	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.0000]	
Honda LM stat		22.9559	25.3528		6.9698	15.6855	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		686.3338	172.4035		241.3440	274.1268	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		21703.9682	28477.3477	26105.1468	20062.4494	23965.9756	23213.6653
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		115.2299	113.3417	132.3040	105.8624	88.5247	118.3337
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		3145.9110	3155.6865	3031.1487	3132.4892	3132.0800	3020.7470
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 6: Pre crisis period (2002M02 - 2008M08) results for 3-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0006	0.0007	0.0009	0.0006	0.0004	0.0006	0.0004
se	(0.0003)	(0.0004)	(0.0005)	(0.0004)	(0.0005)	(0.0006)	(0.0004)
<i>p</i> -value	[0.0571]	[0.1259]	[0.0875]	[0.1024]	[0.3767]	[0.3267]	[0.3320]
GDP	-0.0012	-0.0021	-0.0047	-0.0017	-0.0021	-0.0041	-0.0016
se	(0.0006)	(0.0009)	(0.0019)	(0.0008)	(0.0007)	(0.0014)	(0.0006)
<i>p</i> -value	[0.0326]	[0.0241]	[0.0133]	[0.0284]	[0.0048]	[0.0034]	[0.0045]
Inflation	0.0015	0.0011	0.0004	0.0012	0.0011	0.0005	0.0013
se	(0.0003)	(0.0007)	(0.0006)	(0.0004)	(0.0008)	(0.0009)	(0.0005)
<i>p</i> -value	[0.0000]	[0.1226]	[0.4967]	[0.0052]	[0.1550]	[0.5872]	[0.0083]
CA	0.0005	0.0035	0.0025	0.0012	0.0039	0.0031	0.0013
se	(0.0004)	(0.0020)	(0.0017)	(0.0007)	(0.0020)	(0.0018)	(0.0007)
<i>p</i> -value	[0.2383]	[0.0873]	[0.1366]	[0.0906]	[0.0530]	[0.0916]	[0.0565]
Intercept	-0.2053			-0.0654			-0.0480
se	(0.1081)			(0.1396)			(0.1295)
<i>p</i> -value	[0.0577]			[0.6396]			[0.7107]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	2449	2449	2449	2449	2449	2449	2449
<i>R</i> <sup>2</sup>	0.1455	0.0750	0.0721	0.0904	0.0592	0.0535	0.0757
<i>F</i> -stat		4.3558	5.1997		5.9593	5.6640	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		9.7579	21.3984		10.0848	20.4696	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		15.4879	54.2686		88.2390	44.3349	
<i>p</i> -value		[0.0038]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		4141.4658	4125.1151	4153.0162	4082.3242	4174.3106	4105.4618
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		24.5414	-3.7882	24.4720	22.6012	-4.5342	22.4369
<i>p</i> -value		[0.0000]	[0.0002]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		549.1965	449.7258	554.9452	492.6982	397.5297	499.6219
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 7: Post crisis period (2008M09 - 2017M12) results for 3-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0001	-0.0017	-0.0020	-0.0001	-0.0015	-0.0018	-0.0003
se	(0.0001)	(0.0013)	(0.0016)	(0.0001)	(0.0010)	(0.0014)	(0.0001)
<i>p</i> -value	[0.4808]	[0.2025]	[0.2279]	[0.4808]	[0.1406]	[0.1934]	[0.0001]
GDP	-0.0026	-0.0019	-0.0010	-0.0026	-0.0117	-0.0080	-0.0100
se	(0.0021)	(0.0016)	(0.0013)	(0.0021)	(0.0083)	(0.0086)	(0.0067)
<i>p</i> -value	[0.2106]	[0.2443]	[0.4501]	[0.2106]	[0.1610]	[0.3496]	[0.1359]
Inflation	0.0033	0.0028	0.0029	0.0033	0.0035	0.0036	0.0039
se	(0.0001)	(0.0000)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0011	0.0111	0.0121	0.0011	0.0073	0.0079	0.0009
se	(0.0010)	(0.0105)	(0.0112)	(0.0010)	(0.0073)	(0.0077)	(0.0009)
<i>p</i> -value	[0.2690]	[0.2932]	[0.2806]	[0.2690]	[0.3191]	[0.3060]	[0.3038]
Intercept	0.8539			0.8539			1.0365
se	(0.4676)			(0.4676)			(0.5282)
<i>p</i> -value	[0.0679]			[0.0679]			[0.0498]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	3472	3472	3472	3472	3472	3472	3472
<i>R</i> <sup>2</sup>	0.4366	0.3480	0.3603	0.4366	0.3248	0.3468	0.4250
<i>F</i> -stat		8.0957	3.1962		-1.5702	1.3244	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.0037]	
Honda LM stat		13.5861	13.8385		2.0786	6.3055	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0188]	[0.0000]	
Hausman stat		620.1172	188.5347		133.6176	127.2018	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		10110.5692	17864.1419	12791.0111	10638.7579	14289.7591	12045.5222
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		71.9170	99.8240	86.8945	51.0113	77.0403	62.4592
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		1724.3205	1755.8424	1745.2704	1744.5672	1764.6041	1745.0928
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 8: Pre crisis period (2002M02 - 2008M08) results for 12-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0009	0.0007	0.0002	0.0007	-0.0012	-0.0019	-0.0012
se	(0.0025)	(0.0013)	(0.0018)	(0.0013)	(0.0019)	(0.0027)	(0.0019)
<i>p</i> -value	[0.7245]	[0.5829]	[0.9324]	[0.6042]	[0.5461]	[0.4770]	[0.5239]
GDP	0.0001	0.0020	-0.0234	0.0021	0.0033	-0.0232	0.0033
se	(0.0031)	(0.0047)	(0.0084)	(0.0045)	(0.0047)	(0.0088)	(0.0045)
<i>p</i> -value	[0.9633]	[0.6772]	[0.0052]	[0.6408]	[0.4801]	[0.0088]	[0.4590]
Inflation	0.0110	0.0077	0.0053	0.0080	0.0095	0.0068	0.0098
se	(0.0027)	(0.0012)	(0.0020)	(0.0010)	(0.0017)	(0.0028)	(0.0015)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0077]	[0.0000]	[0.0000]	[0.0136]	[0.0000]
CA	0.0026	0.0075	0.0034	0.0063	0.0106	0.0041	0.0082
se	(0.0020)	(0.0058)	(0.0046)	(0.0043)	(0.0078)	(0.0064)	(0.0054)
<i>p</i> -value	[0.1934]	[0.1945]	[0.4546]	[0.1413]	[0.1740]	[0.5227]	[0.1284]
Intercept	-1.1807			-0.3590			-0.1252
se	(0.4621)			(0.7616)			(0.8581)
<i>p</i> -value	[0.0107]			[0.6374]			[0.8840]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	2449	2449	2449	2449	2449	2449	2449
<i>R</i> <sup>2</sup>	0.3962	0.1391	0.2001	0.1546	0.1312	0.1952	0.1480
<i>F</i> -stat		30.7772	16.2823		17.8059	14.3551	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		73.1125	62.7376		72.2035	62.2732	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		22.6472	470.6504		57.7359	346.7661	
<i>p</i> -value		[0.0001]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		7282.9726	6680.3448	7333.6431	7017.3340	6593.1749	7111.3207
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		21.1291	-3.1842	20.8267	21.1736	-3.6941	21.0001
<i>p</i> -value		[0.0000]	[0.0015]	[0.0000]	[0.0000]	[0.0002]	[0.0000]
$\chi^2$ -stat		1370.6309	1242.4715	1380.6521	1362.2489	1247.0557	1373.2382
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 9: Post crisis period (2008M09 - 2017M12) results for 12-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0018	-0.0134	-0.0162	-0.0018	-0.0135	-0.0166	-0.0026
se	(0.0005)	(0.0100)	(0.0132)	(0.0005)	(0.0099)	(0.0138)	(0.0006)
<i>p</i> -value	[0.0002]	[0.1777]	[0.2213]	[0.0002]	[0.1763]	[0.2318]	[0.0000]
GDP	-0.0106	-0.0068	-0.0037	-0.0106	-0.0363	-0.0253	-0.0378
se	(0.0084)	(0.0056)	(0.0045)	(0.0084)	(0.0265)	(0.0274)	(0.0264)
<i>p</i> -value	[0.2074]	[0.2188]	[0.4055]	[0.2074]	[0.1706]	[0.3552]	[0.1527]
Inflation	0.0163	0.0140	0.0145	0.0163	0.0167	0.0170	0.0187
se	(0.0004)	(0.0002)	(0.0003)	(0.0004)	(0.0005)	(0.0007)	(0.0002)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0058	0.0543	0.0542	0.0058	0.0427	0.0407	0.0047
se	(0.0055)	(0.0480)	(0.0493)	(0.0055)	(0.0382)	(0.0381)	(0.0048)
<i>p</i> -value	[0.2905]	[0.2579]	[0.2713]	[0.2905]	[0.2631]	[0.2858]	[0.3355]
Intercept	3.9944			3.9944			4.3182
se	(2.7657)			(2.7657)			(2.8709)
<i>p</i> -value	[0.1488]			[0.1488]			[0.1326]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	3472	3472	3472	3472	3472	3472	3472
<i>R</i> <sup>2</sup>	0.5846	0.5107	0.5255	0.5846	0.4962	0.5174	0.5750
<i>F</i> -stat		13.4855	4.6007		1.8938	2.6227	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		23.1974	22.3639		7.0057	12.0072	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		616.5586	344.0856		161.1622	147.7433	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		11631.1698	16011.1618	18327.1944	10510.1615	14051.9005	14591.1152
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		68.7590	81.0083	102.9973	58.2268	67.0529	76.7628
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		1771.1501	1772.6836	1730.1501	1768.2634	1764.9069	1721.5750
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.



Table 10: Single-country regression results for 3-month forecasts

	IR	se	p-value	GDP	se	p-value	INF	se	p-value	CA	se	p-value	Intercept	se	p-value	$R^2$
UK	-0.0007	(0.0015)	[0.6416]	-0.0002	(0.0009)	[0.8037]	0.0009	(0.0005)	[0.0911]	0.0064	(0.0021)	[0.0024]	0.4317	(0.1747)	[0.0144]	0.0773
CZ	-0.0009	(0.0018)	[0.6149]	-0.0028	(0.0014)	[0.0452]	-0.0011	(0.0002)	[0.0000]	-0.0037	(0.0030)	[0.2121]	0.3627	(0.2032)	[0.0759]	0.0735
DK	0.0012	(0.0009)	[0.1909]	0.0018	(0.0005)	[0.0001]	-0.0004	(0.0004)	[0.4017]	-0.0071	(0.0015)	[0.0000]	-1.0892	(0.3381)	[0.0015]	0.1796
EU	0.0030	(0.0013)	[0.0186]	-0.0008	(0.0026)	[0.7669]	-0.0010	(0.0003)	[0.0015]	-0.0143	(0.0035)	[0.0001]	-1.6342	(0.5377)	[0.0027]	0.1485
HU	0.0004	(0.0002)	[0.0119]	0.0001	(0.0002)	[0.6557]	-0.0003	(0.0001)	[0.0006]	-0.0052	(0.0009)	[0.0000]	-0.2051	(0.1586)	[0.1975]	0.1900
NO	-0.0010	(0.0004)	[0.0269]	-0.0037	(0.0011)	[0.0010]	0.0003	(0.0002)	[0.1654]	-0.0029	(0.0010)	[0.0040]	-1.4358	(0.4237)	[0.0009]	0.0656
PL	0.0010	(0.0004)	[0.0038]	-0.0010	(0.0007)	[0.1507]	-0.0003	(0.0002)	[0.0756]	-0.0034	(0.0038)	[0.3655]	-0.1424	(0.2967)	[0.6317]	0.0942
RU	0.0003	(0.0001)	[0.0029]	-0.0002	(0.0005)	[0.7708]	-0.0001	(0.0001)	[0.0113]	-0.0046	(0.0032)	[0.1499]	-0.7889	(0.6738)	[0.2432]	0.1076
SE	-0.0005	(0.0003)	[0.1564]	0.0023	(0.0008)	[0.0068]	-0.0019	(0.0019)	[0.3230]	-0.0027	(0.0022)	[0.2159]	-0.9789	(0.6091)	[0.1097]	0.0411
CH	-0.0029	(0.0022)	[0.1955]	-0.0039	(0.0039)	[0.3268]	-0.0053	(0.0028)	[0.0614]	-0.0034	(0.0012)	[0.0052]	-1.9029	(0.5700)	[0.0010]	0.1426
TR	0.0003	(0.0002)	[0.0319]	-0.0006	(0.0014)	[0.6889]	0.0001	(0.0004)	[0.8523]	-0.0049	(0.0024)	[0.0413]	0.8147	(0.3105)	[0.0094]	0.0723
AU	0.0012	(0.0003)	[0.0003]	0.0007	(0.0011)	[0.5520]	-0.0004	(0.0005)	[0.3792]	0.0067	(0.0037)	[0.0712]	-0.3402	(0.2481)	[0.1718]	0.1615
CN	-0.0000	(0.0001)	[0.7415]	0.0000	(0.0000)	[0.1119]	-0.0011	(0.0004)	[0.0154]	0.0031	(0.0013)	[0.0163]	0.3851	(0.2919)	[0.1887]	0.1045
HK	-0.0000	(0.0002)	[0.8537]	0.0000	(0.0000)	[0.4015]	-0.0001	(0.0000)	[0.0063]	0.0000	(0.0001)	[0.6779]	0.0155	(0.0187)	[0.4086]	0.0348
IN	-0.0002	(0.0001)	[0.0293]	-0.0001	(0.0001)	[0.3822]	0.0002	(0.0001)	[0.0672]	0.0042	(0.0030)	[0.1606]	0.2070	(0.2786)	[0.4584]	0.0370
ID	-0.0002	(0.0001)	[0.0863]	-0.0001	(0.0002)	[0.5398]	-0.0001	(0.0001)	[0.1635]	0.0074	(0.0019)	[0.0002]	0.6511	(0.3030)	[0.0329]	0.1496
JP	0.0201	(0.0049)	[0.0001]	0.0001	(0.0007)	[0.9309]	0.0015	(0.0011)	[0.1946]	-0.0108	(0.0043)	[0.0121]	0.0279	(0.6748)	[0.9671]	0.1798
NZ	0.0014	(0.0004)	[0.0003]	0.0004	(0.0029)	[0.8884]	-0.0003	(0.0010)	[0.7775]	0.0006	(0.0028)	[0.8440]	-0.4899	(0.2564)	[0.0576]	0.1213
PH	-0.0003	(0.0002)	[0.1646]	-0.0001	(0.0002)	[0.5643]	-0.0003	(0.0001)	[0.0287]	-0.0025	(0.0027)	[0.3515]	-0.2124	(0.4517)	[0.6388]	0.0580
SG	0.0000	(0.0020)	[0.9812]	0.0004	(0.0010)	[0.7080]	-0.0013	(0.0004)	[0.0029]	-0.0023	(0.0006)	[0.0001]	-1.7457	(0.3748)	[0.0000]	0.2618
KR	-0.0009	(0.0002)	[0.0000]	0.0007	(0.0009)	[0.4308]	0.0001	(0.0002)	[0.8023]	-0.0050	(0.0007)	[0.0000]	-0.9411	(0.2279)	[0.0001]	0.1795
TW	-0.0016	(0.0005)	[0.0019]	0.0011	(0.0009)	[0.2048]	0.0006	(0.0007)	[0.4299]	-0.0032	(0.0006)	[0.0000]	-1.3123	(0.2299)	[0.0000]	0.2716
TH	-0.0001	(0.0004)	[0.6955]	-0.0003	(0.0005)	[0.5602]	0.0013	(0.0008)	[0.0988]	-0.0013	(0.0012)	[0.2773]	-0.1420	(0.3449)	[0.6811]	0.0147
AR	0.0004	(0.0001)	[0.0034]	-0.0044	(0.0033)	[0.1813]	0.0000	(0.0002)	[0.8765]	0.0124	(0.0032)	[0.0001]	2.6679	(0.5901)	[0.0000]	0.2488
BR	0.0002	(0.0002)	[0.4317]	-0.0031	(0.0009)	[0.0008]	0.0004	(0.0002)	[0.0422]	-0.0044	(0.0050)	[0.3880]	0.0159	(0.6140)	[0.9793]	0.1043
CA	0.0006	(0.0010)	[0.5197]	0.0020	(0.0051)	[0.6992]	0.0001	(0.0004)	[0.8428]	0.0016	(0.0016)	[0.3388]	-0.0269	(0.2001)	[0.8933]	0.0209
CL	0.0000	(0.0001)	[0.7199]	-0.0012	(0.0004)	[0.0030]	0.0000	(0.0002)	[0.8767]	0.0024	(0.0009)	[0.0084]	0.3941	(0.1456)	[0.0074]	0.0569
CO	-0.0000	(0.0002)	[0.8678]	-0.0043	(0.0010)	[0.0000]	0.0001	(0.0002)	[0.4667]	0.0037	(0.0024)	[0.1185]	0.4198	(0.2389)	[0.0806]	0.1485
MX	-0.0009	(0.0002)	[0.0000]	-0.0015	(0.0014)	[0.2959]	-0.0001	(0.0001)	[0.1728]	0.0020	(0.0030)	[0.4999]	0.7841	(0.1909)	[0.0001]	0.1632
VE	-0.0017	(0.0021)	[0.4154]	-0.0544	(0.0312)	[0.0833]	0.0022	(0.0007)	[0.0030]	0.1053	(0.0331)	[0.0017]	33.1371	(10.8517)	[0.0026]	0.4700
ZA	0.0003	(0.0003)	[0.2233]	-0.0040	(0.0010)	[0.0001]	0.0001	(0.0001)	[0.0467]	-0.0011	(0.0022)	[0.6177]	0.6100	(0.2807)	[0.0310]	0.0490

Note: The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Newey and West (1994),  $p$ -values and the  $R^2$  for single-country regressions of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). The table includes estimations for the following economies: Argentina (AR), Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Colombia (CO), the Czech Republic (CZ), Denmark (DK), the Euro Area (EU), Hong Kong (HK), Hungary (HU), India (IN), Indonesia (ID), Japan (JP), Korea (KR), Mexico (MX), New Zealand (NZ), Norway (NO), Philippines (PH), Poland (PL), Russia (RU), Singapore (SG), South Africa (ZA), Sweden (SE), Switzerland (CH), Taiwan (TW), Thailand (TH), Turkey (TR), the UK and Venezuela (VE).

Table 11: Single-country regression results for 12-month forecasts

	IR	se	p-value	GDP	se	p-value	INF	se	p-value	CA	se	p-value	Intercept	se	p-value	$R^2$
UK	-0.0043	(0.0059)	[0.4610]	-0.0021	(0.0012)	[0.0847]	0.0035	(0.0018)	[0.0507]	0.0180	(0.0064)	[0.0051]	0.8643	(0.5172)	[0.0964]	0.1398
CZ	-0.0059	(0.0092)	[0.5190]	-0.0023	(0.0031)	[0.4675]	-0.0006	(0.0012)	[0.6064]	-0.0152	(0.0100)	[0.1287]	0.6327	(0.8376)	[0.4509]	0.0654
DK	0.0086	(0.0067)	[0.2002]	-0.0002	(0.0022)	[0.9433]	-0.0011	(0.0012)	[0.3650]	-0.0198	(0.0114)	[0.0844]	-3.5736	(2.9783)	[0.2317]	0.1908
EU	0.0094	(0.0082)	[0.2563]	0.0003	(0.0080)	[0.9701]	-0.0021	(0.0011)	[0.0589]	-0.0387	(0.0189)	[0.0420]	-4.2991	(3.1044)	[0.1678]	0.1531
HU	0.0011	(0.0012)	[0.3337]	-0.0016	(0.0009)	[0.0654]	-0.0002	(0.0008)	[0.7675]	-0.0197	(0.0052)	[0.0002]	-0.6107	(1.0033)	[0.5435]	0.3203
NO	-0.0055	(0.0018)	[0.0032]	0.0037	(0.0083)	[0.6536]	0.0009	(0.0007)	[0.2279]	-0.0131	(0.0031)	[0.0000]	-6.6750	(1.4874)	[0.0000]	0.1875
PL	0.0017	(0.0018)	[0.3390]	0.0028	(0.0029)	[0.3249]	-0.0007	(0.0011)	[0.5631]	0.0155	(0.0169)	[0.3599]	1.1840	(1.0434)	[0.2579]	0.0742
RU	0.0012	(0.0009)	[0.2144]	-0.0014	(0.0019)	[0.4475]	-0.0002	(0.0001)	[0.2147]	-0.0072	(0.0136)	[0.5958]	-0.1823	(3.0006)	[0.9516]	0.0606
SE	-0.0050	(0.0017)	[0.0035]	0.0084	(0.0061)	[0.1738]	0.0144	(0.0059)	[0.0163]	-0.0276	(0.0041)	[0.0000]	-8.2334	(1.2391)	[0.0000]	0.3250
CH	0.0066	(0.0099)	[0.5021]	0.0425	(0.0138)	[0.0024]	-0.0260	(0.0103)	[0.0129]	-0.0184	(0.0035)	[0.0000]	-6.6945	(1.4994)	[0.0000]	0.4255
TR	0.0010	(0.0011)	[0.3323]	0.0003	(0.0033)	[0.9236]	0.0016	(0.0019)	[0.3775]	-0.0281	(0.0109)	[0.0105]	5.3078	(0.9304)	[0.0000]	0.2866
AU	0.0033	(0.0016)	[0.0391]	0.0023	(0.0051)	[0.6509]	-0.0018	(0.0011)	[0.0902]	0.0314	(0.0133)	[0.0196]	-0.6036	(1.0639)	[0.5712]	0.1240
CN	-0.0003	(0.0006)	[0.6198]	0.0001	(0.0001)	[0.2710]	-0.0040	(0.0020)	[0.0460]	0.0124	(0.0056)	[0.0270]	1.3309	(1.5195)	[0.3822]	0.1032
HK	-0.0003	(0.0003)	[0.3661]	0.0001	(0.0001)	[0.4664]	-0.0001	(0.0001)	[0.0385]	-0.0001	(0.0001)	[0.4322]	-0.0102	(0.0337)	[0.7623]	0.0517
IN	-0.0007	(0.0005)	[0.1702]	-0.0004	(0.0002)	[0.0804]	0.0003	(0.0004)	[0.4784]	0.0108	(0.0125)	[0.3889]	-0.4107	(0.8636)	[0.6349]	0.0209
ID	-0.0016	(0.0004)	[0.0002]	0.0003	(0.0004)	[0.3915]	-0.0001	(0.0002)	[0.5353]	0.0331	(0.0049)	[0.0000]	2.3830	(0.7194)	[0.0011]	0.5112
JP	0.0962	(0.0292)	[0.0012]	-0.0012	(0.0030)	[0.6855]	0.0065	(0.0042)	[0.1206]	-0.0401	(0.0191)	[0.0371]	2.3701	(2.7894)	[0.3966]	0.2230
NZ	0.0025	(0.0018)	[0.1769]	0.0071	(0.0108)	[0.5112]	-0.0020	(0.0038)	[0.5953]	0.0205	(0.0113)	[0.0714]	-1.0218	(0.9919)	[0.3042]	0.1540
PH	-0.0012	(0.0008)	[0.1344]	-0.0004	(0.0009)	[0.6826]	-0.0007	(0.0004)	[0.0832]	-0.0013	(0.0126)	[0.9181]	-0.3205	(2.2376)	[0.8863]	0.0471
SG	-0.0022	(0.0063)	[0.7248]	-0.0002	(0.0019)	[0.9123]	-0.0023	(0.0008)	[0.0048]	-0.0087	(0.0011)	[0.0000]	-7.0974	(0.6571)	[0.0000]	0.5247
KR	-0.0021	(0.0008)	[0.0073]	0.0009	(0.0029)	[0.7640]	-0.0003	(0.0007)	[0.6432]	-0.0221	(0.0024)	[0.0000]	-5.7548	(0.7603)	[0.0000]	0.5374
TW	-0.0077	(0.0021)	[0.0003]	0.0043	(0.0027)	[0.1096]	0.0038	(0.0023)	[0.0965]	-0.0134	(0.0016)	[0.0000]	-6.3255	(0.5160)	[0.0000]	0.6349
TH	-0.0011	(0.0018)	[0.5539]	0.0002	(0.0022)	[0.9240]	0.0084	(0.0041)	[0.0450]	-0.0077	(0.0041)	[0.0616]	-2.0891	(1.2257)	[0.0900]	0.0602
AR	0.0031	(0.0003)	[0.0000]	-0.0137	(0.0086)	[0.1134]	0.0007	(0.0008)	[0.3712]	0.0292	(0.0115)	[0.0117]	7.4942	(1.8278)	[0.0001]	0.5404
BR	-0.0010	(0.0007)	[0.1631]	-0.0091	(0.0031)	[0.0042]	0.0015	(0.0008)	[0.0672]	-0.0051	(0.0111)	[0.6452]	2.7772	(1.0783)	[0.0108]	0.1848
CA	-0.0046	(0.0037)	[0.2155]	0.0133	(0.0124)	[0.2865]	-0.0028	(0.0011)	[0.0099]	0.0078	(0.0046)	[0.0915]	0.4987	(0.5206)	[0.3394]	0.0602
CL	-0.0001	(0.0007)	[0.8535]	-0.0032	(0.0019)	[0.1000]	-0.0002	(0.0003)	[0.5540]	0.0124	(0.0032)	[0.0002]	1.1812	(0.5773)	[0.0422]	0.1120
CO	-0.0002	(0.0010)	[0.8591]	-0.0119	(0.0060)	[0.0494]	0.0010	(0.0008)	[0.2534]	0.0121	(0.0107)	[0.2587]	1.3114	(1.0830)	[0.2275]	0.1449
MX	-0.0051	(0.0007)	[0.0000]	-0.0034	(0.0034)	[0.3250]	-0.0006	(0.0004)	[0.1314]	-0.0015	(0.0111)	[0.8950]	2.6609	(0.8645)	[0.0024]	0.3172
VE	-0.0102	(0.0081)	[0.2104]	-0.1678	(0.0685)	[0.0152]	0.0118	(0.0016)	[0.0000]	0.5488	(0.2185)	[0.0129]	166.5951	(63.5850)	[0.0095]	0.6309
ZA	0.0008	(0.0010)	[0.4338]	-0.0070	(0.0021)	[0.0013]	0.0003	(0.0002)	[0.1072]	-0.0093	(0.0055)	[0.0905]	4.3174	(0.5991)	[0.0000]	0.0563

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Newey and West (1994),  $p$ -values and the  $R^2$  for single-country regressions of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). The table includes estimations for the following economies: Argentina (AR), Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Colombia (CO), the Czech Republic (CZ), Denmark (DK), the Euro Area (EU), Hong Kong (HK), Hungary (HU), India (IN), Indonesia (ID), Japan (JP), Korea (KR), Mexico (MX), New Zealand (NZ), Norway (NO), Philippines (PH), Poland (PL), Russia (RU), Singapore (SG), South Africa (ZA), Sweden (SE), Switzerland (CH), Taiwan (TW), Thailand (TH), Turkey (TR), the UK and Venezuela (VE).

Table 12: Regression results for 3-month disagreements

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0014	-0.0025	-0.0004	-0.0025	-0.0028	-0.0004	-0.0028
se	(0.0038)	(0.0019)	(0.0012)	(0.0019)	(0.0021)	(0.0013)	(0.0020)
<i>p</i> -value	[0.7177]	[0.1799]	[0.7433]	[0.1779]	[0.1702]	[0.7596]	[0.1688]
GDP	0.0391	0.0104	0.0067	0.0105	0.0232	0.0191	0.0238
se	(0.0392)	(0.0108)	(0.0084)	(0.0109)	(0.0288)	(0.0292)	(0.0293)
<i>p</i> -value	[0.3189]	[0.3347]	[0.4235]	[0.3344]	[0.4214]	[0.5131]	[0.4176]
Inflation	0.0005	0.0008	0.0009	0.0008	0.0009	0.0011	0.0009
se	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0005)	(0.0003)
<i>p</i> -value	[0.1392]	[0.0139]	[0.0050]	[0.0139]	[0.0005]	[0.0195]	[0.0006]
CA	0.0495	-0.0032	-0.0144	-0.0024	0.0000	-0.0130	0.0009
se	(0.0343)	(0.0083)	(0.0151)	(0.0077)	(0.0068)	(0.0142)	(0.0063)
<i>p</i> -value	[0.1489]	[0.6981]	[0.3412]	[0.7569]	[0.9958]	[0.3604]	[0.8851]
Intercept	28.7164			24.9556			25.1341
se	(17.3877)			(15.4628)			(15.2107)
<i>p</i> -value	[0.0987]			[0.1066]			[0.0985]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	4740	4740	4740	4740	4740	4740	4740
<i>R</i> <sup>2</sup>	0.0166	0.0040	0.0018	0.0040	0.0036	0.0015	0.0035
<i>F</i> -stat		322.6891	51.8931		157.2037	44.5198	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		400.4010	279.4483		367.8786	257.4383	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		1.4115	22.4071		6.4479	5.1199	
<i>p</i> -value		[0.8422]	[0.0002]		[0.1681]	[0.2752]	
BP LM stat		11672.6200	49088.1498	11865.0055	14451.8815	43873.8276	14559.1837
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		37.9468	160.9480	39.4992	35.8041	149.9896	36.1241
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		2253.9994	2252.8072	2257.6690	2220.6995	2215.8681	2227.9047
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate forecast disagreement (i.e. difference between the 97.5% and the 2.5% quantiles of the forecasts) on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 13: Regression results for 12-month disagreements

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0120	0.0030	0.0005	0.0030	0.0006	-0.0010	0.0006
se	(0.0176)	(0.0041)	(0.0033)	(0.0041)	(0.0027)	(0.0026)	(0.0028)
<i>p</i> -value	[0.4958]	[0.4636]	[0.8837]	[0.4635]	[0.8238]	[0.7107]	[0.8167]
GDP	0.0553	-0.0037	-0.0017	-0.0037	-0.0378	-0.0159	-0.0373
se	(0.0577)	(0.0030)	(0.0015)	(0.0029)	(0.0257)	(0.0110)	(0.0253)
<i>p</i> -value	[0.3374]	[0.2102]	[0.2387]	[0.2114]	[0.1412]	[0.1470]	[0.1399]
Inflation	0.0010	0.0016	0.0013	0.0016	0.0014	0.0014	0.0014
se	(0.0007)	(0.0001)	(0.0003)	(0.0001)	(0.0005)	(0.0005)	(0.0005)
<i>p</i> -value	[0.1243]	[0.0000]	[0.0000]	[0.0000]	[0.0052]	[0.0026]	[0.0049]
CA	0.1023	0.0554	0.0653	0.0556	0.0592	0.0684	0.0595
se	(0.0762)	(0.0428)	(0.0431)	(0.0430)	(0.0461)	(0.0464)	(0.0463)
<i>p</i> -value	[0.1796]	[0.1960]	[0.1295]	[0.1954]	[0.1994]	[0.1409]	[0.1988]
Intercept	55.4280			54.4943			57.4541
se	(35.6579)			(36.6339)			(38.9062)
<i>p</i> -value	[0.1201]			[0.1369]			[0.1398]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	4740	4740	4740	4740	4740	4740	4740
<i>R</i> <sup>2</sup>	0.0186	0.0079	0.0079	0.0079	0.0040	0.0067	0.0040
<i>F</i> -stat		920.0006	147.0145		444.3833	126.3831	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		514.1586	358.8174		479.0165	335.6085	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		0.5123	10.9244		4.6739	4.9063	
<i>p</i> -value		[0.9723]	[0.0274]		[0.3224]	[0.2970]	
BP LM stat		11825.7479	42524.8860	11846.7913	10411.9041	38932.0447	10377.2849
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		20.2026	143.7310	20.2129	15.7983	136.4726	15.7004
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		2418.7649	2402.9624	2422.9625	2380.1957	2357.8411	2386.4595
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate forecast disagreement (i.e. difference between the 97.5% and the 2.5% quantiles of the forecasts) on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 14: Regression results for 3-month forecast errors

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0004	0.0002	0.0004	0.0003	0.0001	0.0003	0.0002
se	(0.0005)	(0.0002)	(0.0002)	(0.0003)	(0.0002)	(0.0003)	(0.0003)
<i>p</i> -value	[0.3914]	[0.3226]	[0.0691]	[0.3479]	[0.7436]	[0.2495]	[0.6091]
GDP	-0.0027	-0.0013	-0.0023	-0.0018	-0.0072	-0.0105	-0.0085
se	(0.0019)	(0.0017)	(0.0016)	(0.0018)	(0.0080)	(0.0090)	(0.0068)
<i>p</i> -value	[0.1517]	[0.4506]	[0.1664]	[0.2997]	[0.3641]	[0.2456]	[0.2142]
Inflation	0.0020	0.0018	0.0019	0.0019	0.0022	0.0023	0.0023
se	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0001)	(0.0001)	(0.0000)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0028	0.0054	0.0048	0.0035	0.0045	0.0031	0.0033
se	(0.0008)	(0.0040)	(0.0044)	(0.0012)	(0.0026)	(0.0026)	(0.0008)
<i>p</i> -value	[0.0008]	[0.1799]	[0.2794]	[0.0029]	[0.0864]	[0.2343]	[0.0001]
Intercept	4.5468			4.7147			4.9071
se	(0.2390)			(0.3308)			(0.3741)
<i>p</i> -value	[0.0000]			[0.0000]			[0.0000]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5670	5670	5670	5670	5670	5670	5670
<i>R</i> <sup>2</sup>	0.2528	0.1904	0.2082	0.2145	0.1796	0.1909	0.2012
<i>F</i> -stat		8.8145	4.1925		1.1680	2.3479	
<i>p</i> -value		[0.0000]	[0.0000]		[0.1787]	[0.0000]	
Honda LM stat		24.2239	31.6980		11.0245	24.8625	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		108.3349	41.9537		109.3580	148.8223	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		9767.0388	4673.7468	10175.1531	10876.1606	5077.3868	11270.4467
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		82.8703	25.8956	85.3101	87.9900	19.6996	89.2085
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		2241.4572	2201.7829	2251.6726	2206.3377	2152.4173	2214.2780
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate absolute forecast percentage errors on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table 15: **Regression results for 12-month forecast errors**

	<b>Pooled</b>	<b>FE</b>	<b>FE</b>	<b>RE</b>	<b>FE-IV</b>	<b>FE-IV</b>	<b>RE-IV</b>
IR	-0.0004	-0.0024	-0.0017	-0.0013	-0.0025	-0.0017	-0.0015
se	(0.0003)	(0.0013)	(0.0019)	(0.0006)	(0.0014)	(0.0020)	(0.0007)
<i>p</i> -value	[0.2108]	[0.0795]	[0.3627]	[0.0390]	[0.0677]	[0.3915]	[0.0253]
GDP	-0.0059	-0.0043	-0.0036	-0.0049	-0.0192	-0.0199	-0.0186
se	(0.0036)	(0.0037)	(0.0033)	(0.0037)	(0.0153)	(0.0174)	(0.0122)
<i>p</i> -value	[0.1030]	[0.2498]	[0.2837]	[0.1827]	[0.2084]	[0.2539]	[0.1276]
Inflation	0.0053	0.0049	0.0051	0.0051	0.0062	0.0063	0.0063
se	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0002)	(0.0002)	(0.0001)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0091	0.0136	0.0119	0.0105	0.0086	0.0051	0.0090
se	(0.0023)	(0.0138)	(0.0149)	(0.0049)	(0.0092)	(0.0094)	(0.0033)
<i>p</i> -value	[0.0001]	[0.3249]	[0.4252]	[0.0335]	[0.3489]	[0.5864]	[0.0065]
Intercept	10.2476			10.8358			10.8262
se	(0.9028)			(1.5209)			(1.4159)
<i>p</i> -value	[0.0000]			[0.0000]			[0.0000]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5400	5400	5400	5400	5400	5400	5400
<i>R</i> <sup>2</sup>	0.3208	0.2668	0.2851	0.2879	0.2555	0.2712	0.2806
<i>F</i> -stat		6.3588	3.2267		-1.9334	1.4748	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.0000]	
Honda LM stat		15.1032	21.3401		6.0985	15.8718	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		64.2100	12.4565		233.1945	251.6739	
<i>p</i> -value		[0.0000]	[0.0143]		[0.0000]	[0.0000]	
BP LM stat		8022.2207	7137.3749	8344.3504	8801.3137	7035.4052	8890.7033
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		69.3542	36.8959	71.4178	69.2838	29.8609	70.1491
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		2244.4442	2249.0940	2245.7127	2202.6946	2224.6537	2202.2607
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate absolute forecast percentage errors on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

## Appendix – Not for publication

In the following, we provide additional estimations carried out for the 6-month horizon. In addition, we have also included the results of the Bai and Perron (2003) test and single-country regressions for forecast errors. All tables are structured in the same way as in the main body of the paper and confirm the robustness of our findings. The Appendix is provided for the reviewing process only but does not need to be published. Additional estimations carried out using the raw expectations as regressors instead of their relative counterparts with respect to the US are not reported to save space but are available upon request.

Table A.1: Regression results for 6-month forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0004	-0.0018	-0.0028	-0.0004	-0.0019	-0.0029	-0.0009
se	(0.0001)	(0.0014)	(0.0020)	(0.0001)	(0.0014)	(0.0020)	(0.0003)
<i>p</i> -value	[0.0010]	[0.2167]	[0.1572]	[0.0010]	[0.1863]	[0.1417]	[0.0004]
GDP	-0.0059	-0.0049	-0.0034	-0.0059	-0.0212	-0.0182	-0.0180
se	(0.0046)	(0.0044)	(0.0039)	(0.0046)	(0.0157)	(0.0174)	(0.0116)
<i>p</i> -value	[0.1990]	[0.2582]	[0.3745]	[0.1990]	[0.1771]	[0.2957]	[0.1225]
Inflation	0.0090	0.0084	0.0086	0.0090	0.0101	0.0101	0.0105
se	(0.0003)	(0.0002)	(0.0001)	(0.0003)	(0.0001)	(0.0002)	(0.0001)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0023	0.0154	0.0185	0.0023	0.0106	0.0129	0.0018
se	(0.0024)	(0.0174)	(0.0185)	(0.0024)	(0.0129)	(0.0134)	(0.0021)
<i>p</i> -value	[0.3391]	[0.3747]	[0.3180]	[0.3391]	[0.4127]	[0.3353]	[0.3895]
Intercept	0.8733			0.8733			1.0917
se	(0.9751)			(0.9751)			(1.0639)
<i>p</i> -value	[0.3705]			[0.3705]			[0.3049]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5921	5921	5921	5921	5921	5921	5921
<i>R</i> <sup>2</sup>	0.5772	0.5230	0.5421	0.5772	0.5111	0.5322	0.5711
<i>F</i> -stat		8.4351	3.4180		-3.9935	1.3020	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.0012]	
Honda LM stat		19.1379	22.8415		4.2528	13.9326	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		407.8101	158.3609		304.3880	352.7775	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		20696.5746	26316.8831	23473.4346	19365.5543	22484.1678	21421.6881
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		114.6048	108.5938	125.5223	102.0102	83.3985	112.1948
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		3140.4988	3148.3342	3031.0542	3138.5432	3135.6164	3035.0382
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.



Table A.2: Single-country Bai-Perron breakpoint test

<u>Country</u>	<u>Date</u>
UK	11.2009
CZ	11.2009
DK	10.2008
EU	10.2008
HU	04.2005
NO	04.2005
PL	10.2008
RU	07.2009
SE	04.2005
CH	11.2009
TR	06.2006
AU	12.2005
CN	04.2015
HK	02.2009
IN	07.2013
ID	05.2015
JP	05.2008
NZ	12.2005
PH	04.2008
SG	11.2013
KR	09.2005
TW	03.2008
TH	11.2006
AR	05.2004
BR	10.2008
CA	02.2014
CL	09.2010
CO	07.2004
MX	06.2008
VE	08.2015
ZA	06.2004

*Note:* The table reports break dates achieved from the Bai and Perron (2003) test for single-country regressions of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (INF) and current account to GDP ratio expectations relative to the US (CA). The table includes computations for the following economies: Argentina (AR), Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Colombia (CO), the Czech Republic (CZ), Denmark (DK), the Euro Area (EU), Hong Kong (HK), Hungary (HU), India (IN), Indonesia (ID), Japan (JP), Korea (KR), Mexico (MX), New Zealand (NZ), Norway (NO), Philippines (PH), Poland (PL), Russia (RU), Singapore (SG), South Africa (ZA), Sweden (SE), Switzerland (CH), Taiwan (TW), Thailand (TH), Turkey (TR), the UK and Venezuela (VE). The break dates are solely reported for 3-month forecasts since the resulting break dates for 6-month and 12-month forecasts are exactly identical for each country.

Table A.3: Pre crisis period (2002M02 - 2008M08) results for 6-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0007	0.0005	0.0004	0.0005	-0.0003	-0.0005	-0.0003
se	(0.0008)	(0.0005)	(0.0007)	(0.0005)	(0.0007)	(0.0009)	(0.0007)
<i>p</i> -value	[0.4013]	[0.3349]	[0.5614]	[0.3507]	[0.6531]	[0.5674]	[0.6339]
GDP	-0.0011	-0.0016	-0.0157	-0.0014	-0.0008	-0.0149	-0.0008
se	(0.0016)	(0.0026)	(0.0052)	(0.0025)	(0.0023)	(0.0046)	(0.0021)
<i>p</i> -value	[0.4887]	[0.5357]	[0.0028]	[0.5630]	[0.7204]	[0.0011]	[0.7226]
Inflation	0.0055	0.0044	0.0030	0.0046	0.0053	0.0038	0.0054
se	(0.0008)	(0.0010)	(0.0009)	(0.0007)	(0.0011)	(0.0014)	(0.0008)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0011]	[0.0000]	[0.0000]	[0.0052]	[0.0000]
CA	0.0014	0.0052	0.0027	0.0036	0.0070	0.0034	0.0044
se	(0.0011)	(0.0042)	(0.0036)	(0.0025)	(0.0056)	(0.0052)	(0.0031)
<i>p</i> -value	[0.2189]	[0.2196]	[0.4559]	[0.1577]	[0.2108]	[0.5182]	[0.1547]
Intercept	-0.7383			-0.2894			-0.1754
se	(0.2637)			(0.4234)			(0.4716)
<i>p</i> -value	[0.0052]			[0.4943]			[0.7099]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	2449	2449	2449	2449	2449	2449	2449
<i>R</i> <sup>2</sup>	0.3052	0.1229	0.1678	0.1404	0.1102	0.1495	0.1292
<i>F</i> -stat		13.3417	8.2745		11.4434	8.7673	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		37.2308	35.0081		39.5631	36.4664	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		11.6311	298.1420		432.3043	194.9267	
<i>p</i> -value		[0.0203]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		4864.6474	3663.4418	4932.1396	4736.2174	3645.7470	4840.1854
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		24.2244	-1.3737	23.7611	23.8265	-2.5491	23.5890
<i>p</i> -value		[0.0000]	[0.1695]	[0.0000]	[0.0000]	[0.0108]	[0.0000]
$\chi^2$ -stat		874.3465	760.1339	885.2893	790.8151	675.3974	804.0155
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table A.4: Post crisis period (2008M09 - 2017M12) results for 6-m forecasts

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0009	-0.0060	-0.0070	-0.0009	-0.0056	-0.0066	-0.0013
se	(0.0003)	(0.0047)	(0.0061)	(0.0003)	(0.0042)	(0.0057)	(0.0004)
<i>p</i> -value	[0.0007]	[0.2056]	[0.2460]	[0.0007]	[0.1889]	[0.2466]	[0.0007]
GDP	-0.0062	-0.0042	-0.0023	-0.0062	-0.0233	-0.0159	-0.0219
se	(0.0049)	(0.0035)	(0.0030)	(0.0049)	(0.0165)	(0.0174)	(0.0148)
<i>p</i> -value	[0.2119]	[0.2320]	[0.4289]	[0.2119]	[0.1575]	[0.3588]	[0.1393]
Inflation	0.0090	0.0077	0.0080	0.0090	0.0094	0.0096	0.0105
se	(0.0002)	(0.0001)	(0.0002)	(0.0002)	(0.0003)	(0.0004)	(0.0001)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0035	0.0295	0.0300	0.0035	0.0213	0.0207	0.0029
se	(0.0032)	(0.0264)	(0.0273)	(0.0032)	(0.0197)	(0.0198)	(0.0028)
<i>p</i> -value	[0.2694]	[0.2638]	[0.2729]	[0.2694]	[0.2796]	[0.2966]	[0.3028]
Intercept	2.5152			2.5152			2.7345
se	(1.6489)			(1.6489)			(1.6863)
<i>p</i> -value	[0.1273]			[0.1273]			[0.1050]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	3472	3472	3472	3472	3472	3472	3472
<i>R</i> <sup>2</sup>	0.5793	0.5072	0.5219	0.5793	0.4881	0.5114	0.5692
<i>F</i> -stat		13.1072	4.5296		0.3670	2.2445	
<i>p</i> -value		[0.0000]	[0.0000]		[1.0000]	[0.0000]	
Honda LM stat		21.8479	21.4148		5.4292	10.9050	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		568.0377	332.8457		197.0010	184.4141	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		11717.7789	15244.5907	16866.3929	10855.4609	13599.5606	13951.0105
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		73.1525	79.1080	99.4128	57.9399	65.4206	73.6880
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		1767.5767	1771.4166	1738.8098	1780.8039	1775.9004	1740.2599
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of expected percentage exchange rate changes on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table A.5: Regression results for 6-month disagreements

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	0.0042	-0.0009	0.0001	-0.0009	-0.0017	-0.0001	-0.0017
se	(0.0077)	(0.0011)	(0.0006)	(0.0011)	(0.0013)	(0.0007)	(0.0012)
<i>p</i> -value	[0.5848]	[0.3830]	[0.8074]	[0.3938]	[0.1773]	[0.9264]	[0.1820]
GDP	0.0432	0.0037	0.0010	0.0038	0.0095	0.0119	0.0101
se	(0.0431)	(0.0038)	(0.0025)	(0.0039)	(0.0164)	(0.0218)	(0.0168)
<i>p</i> -value	[0.3166]	[0.3371]	[0.6958]	[0.3356]	[0.5608]	[0.5853]	[0.5487]
Inflation	0.0006	0.0011	0.0009	0.0011	0.0009	0.0010	0.0009
se	(0.0005)	(0.0006)	(0.0003)	(0.0006)	(0.0001)	(0.0003)	(0.0001)
<i>p</i> -value	[0.2186]	[0.0482]	[0.0011]	[0.0485]	[0.0000]	[0.0000]	[0.0000]
CA	0.0705	0.0170	0.0142	0.0176	0.0212	0.0170	0.0218
se	(0.0502)	(0.0116)	(0.0090)	(0.0120)	(0.0151)	(0.0110)	(0.0154)
<i>p</i> -value	[0.1602]	[0.1438]	[0.1146]	[0.1415]	[0.1594]	[0.1241]	[0.1570]
Intercept	39.1784			35.8788			36.7762
se	(23.9781)			(22.8760)			(23.2634)
<i>p</i> -value	[0.1023]			[0.1169]			[0.1140]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	4740	4740	4740	4740	4740	4740	4740
<i>R</i> <sup>2</sup>	0.0171	0.0021	0.0013	0.0021	0.0017	0.0007	0.0017
<i>F</i> -stat		469.4624	75.1849		229.3597	64.5906	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Honda LM stat		448.4262	312.9902		412.6256	289.0047	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		0.9666	13.5305		3.6565	0.6369	
<i>p</i> -value		[0.9148]	[0.0090]		[0.4545]	[0.9589]	
BP LM stat		6289.0262	51261.0625	6267.6603	7722.5500	48013.2771	7769.7256
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		25.0155	166.2353	23.9021	28.1524	160.2341	27.0095
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		1691.5384	1686.8352	1647.7123	1668.7747	1657.6107	1627.4610
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate forecast disagreement (i.e. difference between the 97.5% and the 2.5% quantiles of the forecasts) on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table A.6: Regression results for 6-month forecast errors

	Pooled	FE	FE	RE	FE-IV	FE-IV	RE-IV
IR	-0.0006	-0.0010	-0.0006	-0.0008	-0.0009	-0.0005	-0.0009
se	(0.0002)	(0.0004)	(0.0006)	(0.0002)	(0.0003)	(0.0004)	(0.0001)
<i>p</i> -value	[0.0027]	[0.0279]	[0.3172]	[0.0001]	[0.0030]	[0.1810]	[0.0000]
GDP	-0.0034	-0.0017	-0.0022	-0.0023	-0.0049	-0.0135	-0.0071
se	(0.0019)	(0.0018)	(0.0015)	(0.0018)	(0.0073)	(0.0056)	(0.0061)
<i>p</i> -value	[0.0687]	[0.3499]	[0.1551]	[0.2105]	[0.4968]	[0.0155]	[0.2445]
Inflation	0.0063	0.0061	0.0063	0.0062	0.0070	0.0070	0.0070
se	(0.0002)	(0.0002)	(0.0001)	(0.0002)	(0.0001)	(0.0001)	(0.0000)
<i>p</i> -value	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
CA	0.0057	0.0103	0.0083	0.0071	0.0079	0.0050	0.0062
se	(0.0016)	(0.0082)	(0.0085)	(0.0034)	(0.0058)	(0.0056)	(0.0025)
<i>p</i> -value	[0.0004]	[0.2073]	[0.3262]	[0.0374]	[0.1783]	[0.3692]	[0.0117]
Intercept	7.1183			7.4157			7.2527
se	(0.4859)			(0.8880)			(0.7269)
<i>p</i> -value	[0.0000]			[0.0000]			[0.0000]
Country effects	no	yes	yes	no	yes	yes	no
Time effects	no	no	yes	no	no	yes	no
<i>N</i>	5580	5580	5580	5580	5580	5580	5580
<i>R</i> <sup>2</sup>	0.5786	0.5357	0.5658	0.5508	0.5354	0.5542	0.5500
<i>F</i> -stat		5.9513	4.2317		0.5064	2.3465	
<i>p</i> -value		[0.0000]	[0.0000]		[0.9994]	[0.0000]	
Honda LM stat		15.5567	28.3990		7.0452	24.3300	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
Hausman stat		43.3606	171.0136		235.4202	310.7680	
<i>p</i> -value		[0.0000]	[0.0000]		[0.0000]	[0.0000]	
BP LM stat		11058.5724	6469.0431	11506.9621	11970.9139	6724.9843	12242.5624
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
<i>CD</i> -stat		87.6306	28.4838	89.9553	92.0691	23.7720	93.2459
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]
$\chi^2$ -stat		2266.1277	2220.3527	2251.4884	2269.7322	2220.0174	2255.9576
<i>p</i> -value		[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]	[0.0000]

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Arellano (1987), *p*-values, the (incremental) *R*<sup>2</sup> and the number of observations (*N*) for a regression of exchange rate absolute forecast percentage errors on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). Estimations are carried out for a pooled model, a fixed effects (FE) model including country fixed effects, a FE model including country and time fixed effects, a random effects (RE) model, a fixed effects instrumental variable (FE-IV) model including country fixed effects, a FE-IV model including country and time fixed effects and a RE-IV model. We use one-period lags of all regressors as instruments. The table also provides several specification tests: *F*-stat gives the *F* test statistic for testing for country and time fixed effects, Honda LM stat reports the LM test statistic provided by Honda (1985) for testing for country and time fixed effects, Hausman stat gives the Hausman  $\chi^2$  test statistic, BP LM stat reports the Breusch-Pagan LM test statistic for testing for cross-sectional dependence, *CD*-stat reports the test statistic of the Pesaran (2004) cross-sectional dependence test and  $\chi^2$ -stat gives the Breusch-Godfrey-Wooldridge test statistic for serial correlation.

Table A.7: Single-country regression results for 3-month forecast errors

	IR	se	p-value	GDP	se	p-value	INF	se	p-value	CA	se	p-value	Intercept	se	p-value	$R^2$
UK	0.0026	(0.0027)	[0.3443]	-0.0094	(0.0015)	[0.0000]	-0.0019	(0.0006)	[0.0023]	0.0075	(0.0030)	[0.0137]	3.3076	(0.2385)	[0.0000]	0.0897
CZ	0.0083	(0.0032)	[0.0110]	0.0060	(0.0037)	[0.1049]	0.0024	(0.0020)	[0.2168]	0.0182	(0.0092)	[0.0497]	6.1417	(0.6675)	[0.0000]	0.1364
DK	0.0044	(0.0021)	[0.0342]	-0.0030	(0.0011)	[0.0060]	0.0015	(0.0009)	[0.1073]	0.0012	(0.0038)	[0.7589]	4.2107	(0.9665)	[0.0000]	0.0745
EU	0.0045	(0.0039)	[0.2474]	-0.0020	(0.0034)	[0.5636]	0.0008	(0.0008)	[0.3004]	0.0028	(0.0089)	[0.7483]	4.5447	(1.3870)	[0.0013]	0.0460
HU	0.0009	(0.0005)	[0.0467]	-0.0021	(0.0009)	[0.0285]	0.0012	(0.0009)	[0.1648]	0.0074	(0.0054)	[0.1755]	5.3619	(1.0931)	[0.0000]	0.0777
NO	0.0002	(0.0018)	[0.9001]	0.0113	(0.0134)	[0.4026]	-0.0001	(0.0011)	[0.9476]	-0.0005	(0.0061)	[0.9414]	4.5773	(2.5467)	[0.0739]	0.0250
PL	-0.0024	(0.0016)	[0.1287]	0.0072	(0.0030)	[0.0193]	0.0018	(0.0007)	[0.0088]	0.0484	(0.0187)	[0.0104]	7.4649	(1.6120)	[0.0000]	0.1615
RU	0.0016	(0.0011)	[0.1511]	-0.0020	(0.0033)	[0.5524]	0.0004	(0.0002)	[0.1072]	0.0002	(0.0281)	[0.9955]	2.8631	(6.3846)	[0.6544]	0.0985
SE	-0.0004	(0.0015)	[0.7785]	-0.0094	(0.0029)	[0.0014]	0.0095	(0.0081)	[0.2441]	0.0027	(0.0063)	[0.6732]	5.5644	(1.4910)	[0.0003]	0.0461
CH	0.0177	(0.0046)	[0.0002]	0.0067	(0.0083)	[0.4235]	-0.0052	(0.0071)	[0.4629]	-0.0005	(0.0028)	[0.8505]	5.2344	(1.3145)	[0.0001]	0.1088
TR	0.0004	(0.0004)	[0.4303]	0.0044	(0.0076)	[0.5619]	0.0008	(0.0005)	[0.0666]	-0.0122	(0.0064)	[0.0584]	5.2871	(0.8464)	[0.0000]	0.0697
AU	0.0009	(0.0008)	[0.2821]	0.0113	(0.0041)	[0.0064]	0.0012	(0.0021)	[0.5747]	-0.0128	(0.0136)	[0.3450]	4.3577	(0.8164)	[0.0000]	0.0949
CN	-0.0002	(0.0001)	[0.1156]	-0.0001	(0.0001)	[0.3747]	0.0009	(0.0006)	[0.0995]	-0.0037	(0.0031)	[0.2248]	0.2371	(0.6264)	[0.7055]	0.0697
IN	-0.0001	(0.0005)	[0.8061]	0.0003	(0.0006)	[0.6332]	-0.0002	(0.0006)	[0.7958]	0.0179	(0.0102)	[0.0821]	3.9595	(1.0187)	[0.0001]	0.0600
ID	-0.0001	(0.0007)	[0.8747]	0.0010	(0.0024)	[0.6778]	0.0006	(0.0009)	[0.4672]	0.0030	(0.0071)	[0.6666]	3.6649	(1.3623)	[0.0078]	0.0190
JP	0.0152	(0.0120)	[0.2092]	-0.0009	(0.0014)	[0.5227]	0.0015	(0.0029)	[0.6036]	-0.0008	(0.0134)	[0.9543]	5.2429	(2.7236)	[0.0558]	0.0197
NZ	-0.0018	(0.0019)	[0.3356]	0.0081	(0.0077)	[0.2920]	0.0092	(0.0023)	[0.0001]	0.0086	(0.0167)	[0.6044]	5.6217	(0.7924)	[0.0000]	0.0851
PH	-0.0005	(0.0004)	[0.1975]	0.0007	(0.0007)	[0.3632]	-0.0001	(0.0002)	[0.6267]	-0.0011	(0.0052)	[0.8373]	2.5780	(0.9021)	[0.0048]	0.0401
SG	0.0011	(0.0032)	[0.7185]	0.0051	(0.0021)	[0.0148]	-0.0005	(0.0008)	[0.5544]	-0.0015	(0.0011)	[0.1830]	0.9662	(0.7480)	[0.1981]	0.0710
KR	-0.0011	(0.0008)	[0.1861]	0.0120	(0.0076)	[0.1143]	-0.0021	(0.0004)	[0.0000]	-0.0009	(0.0027)	[0.7569]	3.2600	(1.0543)	[0.0023]	0.1331
TW	-0.0024	(0.0017)	[0.1707]	0.0044	(0.0032)	[0.1716]	-0.0003	(0.0039)	[0.9390]	-0.0014	(0.0015)	[0.3502]	1.6333	(0.6251)	[0.0097]	0.0356
TH	-0.0007	(0.0004)	[0.1220]	0.0020	(0.0008)	[0.0187]	-0.0011	(0.0028)	[0.6885]	0.0017	(0.0016)	[0.2885]	3.2350	(0.5041)	[0.0000]	0.0287
AR	0.0001	(0.0004)	[0.8679]	-0.0058	(0.0083)	[0.4882]	0.0011	(0.0012)	[0.3541]	-0.0014	(0.0171)	[0.9366]	3.1382	(2.5552)	[0.2210]	0.0797
BR	-0.0019	(0.0011)	[0.0913]	0.0068	(0.0048)	[0.1549]	0.0016	(0.0009)	[0.0758]	0.0538	(0.0294)	[0.0682]	12.1511	(3.6665)	[0.0011]	0.1131
CA	-0.0047	(0.0027)	[0.0829]	0.0221	(0.0234)	[0.3459]	-0.0021	(0.0020)	[0.2958]	0.0012	(0.0057)	[0.8284]	4.1926	(0.6892)	[0.0000]	0.0441
CL	-0.0011	(0.0005)	[0.0252]	0.0080	(0.0032)	[0.0127]	-0.0001	(0.0003)	[0.7105]	0.0033	(0.0050)	[0.5167]	4.6321	(0.6983)	[0.0000]	0.1069
CO	-0.0016	(0.0010)	[0.1058]	0.0058	(0.0047)	[0.2197]	0.0012	(0.0009)	[0.1795]	0.0228	(0.0082)	[0.0063]	5.9320	(1.0780)	[0.0000]	0.1017
MX	-0.0014	(0.0009)	[0.1093]	0.0102	(0.0090)	[0.2601]	0.0014	(0.0006)	[0.0142]	0.0434	(0.0117)	[0.0003]	6.4442	(0.6993)	[0.0000]	0.1354
VE	0.0001	(0.0013)	[0.9603]	-0.0633	(0.0258)	[0.0151]	0.0011	(0.0003)	[0.0007]	0.0471	(0.0650)	[0.4697]	20.5974	(15.6992)	[0.1912]	0.3251
ZA	-0.0002	(0.0012)	[0.8519]	0.0037	(0.0101)	[0.7184]	0.0001	(0.0004)	[0.8240]	-0.0111	(0.0160)	[0.4907]	6.8535	(1.1952)	[0.0000]	0.0283

*Note:* The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Newey and West (1994),  $p$ -values and the  $R^2$  for single-country regressions of exchange rate absolute forecast percentage errors on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). The table includes estimations for the following economies: Argentina (AR), Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Colombia (CO), the Czech Republic (CZ), Denmark (DK), the Euro Area (EU), Hong Kong (HK), Hungary (HU), India (IN), Indonesia (ID), Japan (JP), Korea (KR), Mexico (MX), New Zealand (NZ), Norway (NO), Philippines (PH), Poland (PL), Russia (RU), Singapore (SG), South Africa (ZA), Sweden (SE), Switzerland (CH), Taiwan (TW), Thailand (TH), Turkey (TR), the UK and Venezuela (VE).

Table A.8: Single-country regression results for 12-month forecast errors

	IR	se	p-value	GDP	se	p-value	INF	se	p-value	CA	se	p-value	Intercept	se	p-value	$R^2$
UK	-0.0012	(0.0104)	[0.9085]	-0.0084	(0.0045)	[0.0665]	-0.0106	(0.0037)	[0.0048]	0.0132	(0.0145)	[0.3645]	7.0694	(1.0983)	[0.0000]	0.0878
CZ	0.0360	(0.0142)	[0.0122]	0.0121	(0.0183)	[0.5070]	-0.0049	(0.0014)	[0.0005]	-0.0017	(0.0222)	[0.9381]	9.8632	(1.6454)	[0.0000]	0.1251
DK	0.0110	(0.0099)	[0.2699]	0.0056	(0.0043)	[0.1912]	-0.0036	(0.0016)	[0.0206]	0.0011	(0.0131)	[0.9318]	8.1189	(2.6749)	[0.0028]	0.0494
EU	0.0250	(0.0117)	[0.0346]	0.0138	(0.0095)	[0.1478]	-0.0051	(0.0012)	[0.0000]	-0.0225	(0.0194)	[0.2468]	5.5727	(2.2998)	[0.0164]	0.1201
HU	0.0004	(0.0020)	[0.8450]	-0.0011	(0.0012)	[0.3776]	-0.0032	(0.0021)	[0.1350]	0.0166	(0.0102)	[0.1047]	11.2112	(1.4570)	[0.0000]	0.0799
NO	-0.0039	(0.0071)	[0.5840]	0.0067	(0.0134)	[0.6190]	-0.0014	(0.0048)	[0.7790]	-0.0114	(0.0123)	[0.3546]	3.6677	(4.4688)	[0.4129]	0.0268
PL	-0.0102	(0.0069)	[0.1370]	0.0052	(0.0077)	[0.4958]	-0.0009	(0.0021)	[0.6828]	0.1067	(0.0562)	[0.0596]	15.0736	(4.5381)	[0.0011]	0.1620
RU	-0.0010	(0.0025)	[0.6778]	-0.0138	(0.0070)	[0.0507]	-0.0005	(0.0009)	[0.5726]	0.0017	(0.0556)	[0.9753]	12.5259	(10.2654)	[0.2240]	0.0918
SE	-0.0017	(0.0071)	[0.8101]	-0.0021	(0.0062)	[0.7410]	-0.0038	(0.0220)	[0.8648]	0.0028	(0.0225)	[0.8994]	9.1808	(5.6916)	[0.1085]	0.0040
CH	0.0677	(0.0222)	[0.0026]	0.0093	(0.0327)	[0.7772]	0.0082	(0.0125)	[0.5116]	0.0013	(0.0079)	[0.8706]	13.2212	(4.2613)	[0.0022]	0.2111
TR	0.0025	(0.0038)	[0.5008]	0.0045	(0.0054)	[0.4117]	0.0010	(0.0014)	[0.4756]	-0.0500	(0.0391)	[0.2025]	12.1884	(2.6194)	[0.0000]	0.1170
AU	0.0004	(0.0038)	[0.9113]	0.0032	(0.0065)	[0.6272]	-0.0040	(0.0021)	[0.0559]	-0.0065	(0.0209)	[0.7581]	10.0265	(1.7283)	[0.0000]	0.0071
CN	-0.0005	(0.0007)	[0.4367]	-0.0001	(0.0002)	[0.7331]	0.0019	(0.0014)	[0.1878]	-0.0179	(0.0077)	[0.0224]	-1.0508	(2.1591)	[0.6271]	0.1996
IN	0.0021	(0.0021)	[0.3255]	0.0016	(0.0010)	[0.1117]	-0.0032	(0.0013)	[0.0128]	0.0110	(0.0256)	[0.6690]	7.0894	(3.3059)	[0.0334]	0.1461
ID	0.0028	(0.0017)	[0.0989]	-0.0003	(0.0017)	[0.8512]	-0.0012	(0.0006)	[0.0468]	0.0105	(0.0180)	[0.5609]	7.7401	(2.2781)	[0.0008]	0.0930
JP	0.0372	(0.0465)	[0.4245]	-0.0043	(0.0025)	[0.0886]	-0.0060	(0.0047)	[0.2067]	-0.0139	(0.0453)	[0.7588]	9.8581	(8.8185)	[0.2651]	0.0556
NZ	-0.0087	(0.0040)	[0.0296]	-0.0098	(0.0221)	[0.6574]	-0.0049	(0.0045)	[0.2773]	0.0162	(0.0214)	[0.4489]	12.4204	(1.9279)	[0.0000]	0.0810
PH	-0.0010	(0.0014)	[0.4588]	0.0002	(0.0021)	[0.9160]	-0.0019	(0.0008)	[0.0180]	0.0193	(0.0130)	[0.1393]	9.8551	(3.3488)	[0.0037]	0.1261
SG	0.0035	(0.0117)	[0.7643]	0.0105	(0.0033)	[0.0016]	-0.0027	(0.0019)	[0.1560]	-0.0035	(0.0025)	[0.1728]	0.9878	(1.6697)	[0.5549]	0.0922
KR	-0.0057	(0.0047)	[0.2230]	0.0140	(0.0078)	[0.0745]	-0.0053	(0.0019)	[0.0048]	0.0070	(0.0142)	[0.6203]	8.5584	(5.0469)	[0.0917]	0.1074
TW	-0.0063	(0.0047)	[0.1855]	0.0031	(0.0033)	[0.3571]	-0.0069	(0.0027)	[0.0123]	-0.0050	(0.0030)	[0.1038]	2.2614	(1.1598)	[0.0528]	0.0976
TH	-0.0021	(0.0018)	[0.2447]	-0.0022	(0.0026)	[0.3932]	0.0118	(0.0060)	[0.0509]	-0.0055	(0.0057)	[0.3383]	4.9118	(1.2157)	[0.0001]	0.0938
AR	0.0004	(0.0010)	[0.6858]	-0.0209	(0.0131)	[0.1115]	0.0026	(0.0020)	[0.2069]	-0.0413	(0.0433)	[0.3412]	4.1563	(4.5926)	[0.3667]	0.1605
BR	-0.0040	(0.0026)	[0.1158]	-0.0033	(0.0056)	[0.5626]	0.0001	(0.0016)	[0.9544]	-0.0015	(0.0528)	[0.9775]	21.2957	(5.7624)	[0.0003]	0.1070
CA	-0.0110	(0.0072)	[0.1264]	-0.0102	(0.0462)	[0.8259]	-0.0050	(0.0020)	[0.0133]	-0.0044	(0.0123)	[0.7193]	6.9285	(1.5470)	[0.0000]	0.0468
CL	-0.0051	(0.0017)	[0.0030]	0.0037	(0.0065)	[0.5740]	-0.0033	(0.0010)	[0.0013]	0.0155	(0.0113)	[0.1707]	11.4363	(1.4728)	[0.0000]	0.1076
CO	-0.0098	(0.0030)	[0.0014]	-0.0128	(0.0078)	[0.1032]	-0.0002	(0.0014)	[0.9116]	0.0473	(0.0278)	[0.0903]	16.3003	(2.8476)	[0.0000]	0.2442
MX	-0.0019	(0.0023)	[0.4009]	-0.0147	(0.0078)	[0.0597]	-0.0002	(0.0014)	[0.8772]	0.1116	(0.0236)	[0.0000]	13.8460	(1.9146)	[0.0000]	0.2955
VE	-0.0058	(0.0047)	[0.2165]	-0.1001	(0.0584)	[0.0885]	0.0032	(0.0006)	[0.0000]	0.2056	(0.0824)	[0.0135]	73.2733	(26.3962)	[0.0061]	0.3984
ZA	0.0098	(0.0055)	[0.0785]	-0.0201	(0.0261)	[0.4431]	0.0002	(0.0008)	[0.7802]	-0.1230	(0.0471)	[0.0099]	14.0147	(3.2316)	[0.0000]	0.2532

Note: The table reports coefficient estimates, robust standard errors (se) with respect to heteroskedasticity and serial correlation according to Newey and West (1994), p-values and the  $R^2$  for single-country regressions of exchange rate absolute forecast percentage errors on interest rate expectations relative to the US (IR), GDP growth expectations relative to the US (GDP), inflation expectations relative to the US (Inflation) and current account to GDP ratio expectations relative to the US (CA). The table includes estimations for the following economies: Argentina (AR), Australia (AU), Brazil (BR), Canada (CA), Chile (CL), China (CN), Colombia (CO), the Czech Republic (CZ), Denmark (DK), the Euro Area (EU), Hong Kong (HK), Hungary (HU), India (IN), Indonesia (ID), Japan (JP), Korea (KR), Mexico (MX), New Zealand (NZ), Norway (NO), Philippines (PH), Poland (PL), Russia (RU), Singapore (SG), South Africa (ZA), Sweden (SE), Switzerland (CH), Taiwan (TW), Thailand (TH), Turkey (TR), the UK and Venezuela (VE).