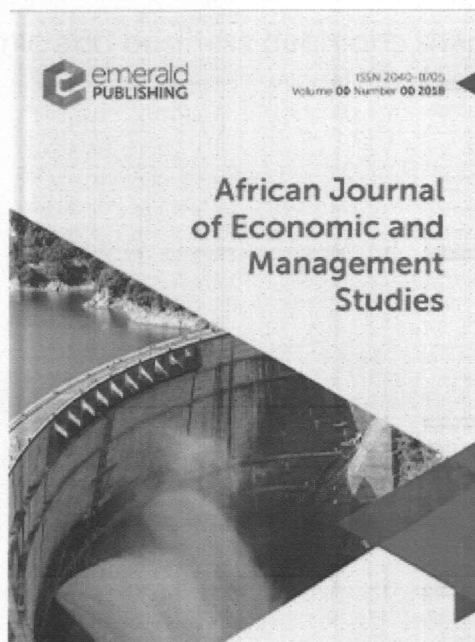


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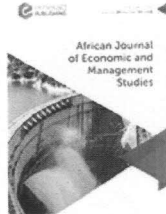
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# Dynamic relationship between Nigeria-US exchange rate and crude oil price

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## Abstract

**Purpose** – The purpose of this paper is to investigate the dynamic relationship between Nigeria-US exchange rate (XR) and crude oil price (OILP) using daily data from 1 January 2001 to 31 December 2015.

**Design/methodology/approach** – The study uses alternative methods, including vector autoregressive-generalised autoregressive conditional heteroskedasticity (VAR-GARCH) within the framework of Baba-Engle-Kraft-Kroner model, constant conditional correlation (CCC)-GARCH and dynamic conditional correlation (DCC)-GARCH models.

**Findings** – The results from the VAR-GARCH model indicate unidirectional cross-market mean spillovers from oil market (OILM) to foreign exchange market (FXM). In addition, the results show a positive effect of OILP on XR, suggesting that an increase in OILP appreciates Nigerian currency relative to US dollar and a fall in OILP depreciates it. The authors find that the effects of cross-volatility spillovers between the OILM and FXM are bidirectional. The CCC results indicate positive correlations of returns of 16 per cent between the FXM and OILM. Finally, the DCCs results indicate positive correlations between the two markets since the fourth quarter of 2008 (the world financial crisis period) until the recent period of world oil glut and slow demand for crude oil.

**Research limitations/implications** – Following the depreciation of the Nigerian currency *vis-à-vis* US dollar since the onset of the recent world oil glut and lower oil prices, Nigerian authorities should embark on subsidy reform, such as reduction in fuel subsidies. This may enable the release of fiscal resources that may be used to either rebuild fiscal space lost or finance investment in non-oil sectors in order to reduce overdependence on oil income. Lower fiscal revenues, coupled with the risk that crude oil maintains its low price for some time, imply that government should reduce its expenditure, and continue to draw on available accumulated funds from the excess crude account for some time until the real depreciation required for adjustment is achieved.

**Originality/value** – Studies on volatility spillovers between OILM and FXM are limited in the literature, particularly in Nigerian case. Moreover, the study employs different approaches for broader analysis. These alternative methods, a clear departure from the previous studies, provide comprehensive dynamic nature of the relationship between the FXM and OILM.

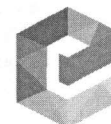
**Keywords** Nigeria, Exchange rate, VAR-GARCH model, CCC-GARCH model, DCC-GARCH model, Oil price

**Paper type** Research paper

## 1. Introduction

Crude oil and its price dynamics have been playing significant role in the economic performance of a country. Theoretically, researchers have provided the interpretations of the links between oil prices and exchange rates in the literature, and the transmission channels have been analysed through the terms of trade effect and wealth effect, among others.

The authors thank the anonymous referees and editor of this journal for valuable comments and suggestions that improved the paper. All remaining errors are those of the authors.



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