

The Informational Role of Order Flow in Foreign Currency

Futures and Spot Markets

Abstract

Using transaction level exchange rate returns and trading data in both electronic futures and spot markets, we examine the important role played by order flow in intermediating the exchange rate reactions to news related to macroeconomic fundamentals. We find that surprises in gross domestic product (GDP) and unemployment rate affect both order flows and exchange rate changes in both futures and spot markets. Furthermore, the informational effect of futures order flow is stronger than that of spot order flow, implying futures order flow contains unique information relevant to spot exchange rates.

Keywords: Foreign exchange; Order flow; Price discovery; Macroeconomic announcements.

JEL Classification: F31, G14.