Asymmetric volatility of local gold prices in Malaysia

Abstract

This study investigates the volatility of local gold prices in Malaysia using daily data over the period of July 2001–May 2014. Specifically, this paper analyzes the asymmetric reaction of gold in different weights to negative and positive news on average at all times as well as during extreme decreases in stock market. The former provides potential evidence for hedge, while the latter tests for the existence of a safe haven characteristic.We find that the local gold returns demonstrate an inverted asymmetric reaction to positive and negative innovations respectively. Positive shock increases the gold returns volatility more than the negative shock in full sample as well as the stock market downside, thus supporting the hedge and safe haven properties of gold investment in Malaysia.