

## **DAY TRADING THE EURO-DOLLAR WITH A NEWS-BASED MODEL OF EXCHANGE RATES. DESCRIPTIVE RESULTS (\*)**

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The paper presents some first results on how to use a news-based model of the €-\$ and \$-¥ exchange rates with GARCH error terms to generate day-trading signals on the €-\$. Conditional model forecasts and volatility values were used to draw three trading bands, Base, €-Strong, €-Weak to devise strategies for opening up trading positions according to where – inside or outside of them - the exchange rate falls in the morning in Central European Time. Trades were closed according to two procedures described in the paper. These trading rules generate a high number of profitable signals and the profit rates cluster between 10 and 20 percent, reaching 25%. Some profitable trading rules described in the paper may operate as unsupervised automatic day-trading machines. Positive Sharpe Ratios lay between 1.5 and 5.6. These results were obtained over a sample of 360 trading days in 2001 and 2002.