

**AN ANALYSIS ON DETERMINISTIC CHAOS OF
EXCHANGE RATES DURING COVID-19
OUTBREAK**

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Dissertation submitted in partial fulfillment of the requirements for the
degree
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DECLARATION

I declare that this is my own work and this Dissertation does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or Institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text. I retain the right to use this content in whole or part in future works (such as articles or books).

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Date: 27/04/2023

The supervisor should certify the Dissertation with the following declaration.

The above candidate has carried out research for the M.Sc. in Financial Mathematics Dissertation under my supervision. I confirm that the declaration made above by the student is true and correct.

Name of Supervisor: Dr. Naleen C. Ganegoda

Signature of the Supervisor:

Date: 27/04/2023

DEDICATION

My thesis is dedicated to my dear parents and husband, whose massive support made this research a success. Further, I want to thank my two sisters, for their assistance provided in many ways.

ACKNOWLEDGEMENT

The research titled ‘Analysis on Deterministic Chaos of Exchange Rates during COVID-19 Pandemic’ is my second individual project completed with a lot of dedication and courage to analyse the behavior of exchange rates through a time series analysis and using R software. There I had to learn new software and methods to model the problem into mathematical and statistical concepts. Among several methods and approaches, I handled the problem in a suitable and best strategy according to my belief.

There were massive support and encouragement behind me to enable me to complete this task as successfully as possible. I must convey my deep appreciation to everyone who supported me in many ways. The idea of analysing exchange rates for chaos using time series concepts was originated by my supervisor Dr. Naleen C. Ganegoda. He was the person who led me through this project by illuminating my theoretical ambiguities, motivating me to give it my all, and offering his opinions when I was uncertain. Without his direction and support, this effort might not be successful. I should thus express my sincere gratitude to my supervisor for the thoughtful advice and insights he offered me. Furthermore, my sincere thanks go to Dr. Priyanga Thalagala, Senior Lecturer, Faculty of Information Technology, University of Moratuwa, for the guidance, and advice provided regarding analysis using R software.

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ABSTRACT

The COVID-19 influence has had a significant impact in a number of areas, including the economies of many nations. Exchange rates also show noticeable fluctuations during the pandemic period, hence analysis of the behaviour of these fluctuations is useful to make better decisions. This study aims to analyze the deterministic chaos of exchange rates during the COVID-19 period in 2020, using Poincare's definition and forecasting with ARIMA and ETS models, using R software. From 1st January 2016 to 31st December 2020, daily rates between the US Dollar, Euro, British Pound, and Japanese Yen and the Sri Lankan Rupee were collected from reports of the Central Bank of Sri Lanka. Data from January 2016 to February 2020 are considered for model fitting and the forecast period is considered from March 2020 to December 2020, considering the COVID-19 first wave and the beginning of the second wave in Sri Lanka. According to Poincare's definition, the properties of deterministic chaos are depicted by all four rates, hence showing deterministic chaos during the considered COVID-19 period. Forecasts using ARIMA and ETS models also determine that the USD, GBP, and Japanese Yen show clear chaotic behaviour, while Euro rates show slight chaotic behaviour at the beginning of the COVID-19 outbreak in Sri Lanka.

Keywords: Deterministic, Chaos, exchange rates, ARIMA model, COVID-19

TABLE OF CONTENTS

Declaration of the Candidate & Supervisor	i
Dedication	ii
Acknowledgement	iii
Abstract	iv
Table of Contents	v
List of Figures	vii
List of Tables	x
List of Abbreviations	xi
1 Introduction	1
1.1 Background to the study	1
1.1.1 Effect of COVID-19 to the economy	1
1.1.2 Chaotic behavior	2
1.1.3 Deterministic Vs. Stochastic	3
1.1.4 Analytic tools of chaotic behaviour	4
1.2 Problem Statement	4
1.3 Objectives of the study	4
1.4 Scope of study	5
1.5 Significance of study	5
1.6 Limitations	5
1.7 Organization of report	5
2 Literature Review	7
2.1 Impact of COVID-19 to the Economy	7
2.2 COVID-19 impact on Exchange Rates	8
2.3 Chaotic behaviour in different aspects	8
2.4 Analysis on Chaotic behaviour related to exchange rates	9
2.5 Exchange Rate forecasting using ARIMA models	10

3	Methodology	12
3.1	Methodology of the study	12
3.2	Preliminaries	13
3.2.1	Time series and Patterns	13
3.2.2	Auto-correlation	13
3.2.3	White noise	13
3.2.4	Transformations	14
3.2.5	Residuals	14
3.2.6	Forecasting	15
3.2.7	Stationary vs Non-Stationary	15
4	Results and Discussion	16
4.1	Analysis based on Poincare's definition	16
4.2	Analysis based on time series forecasting	22
4.2.1	Data Visualization	22
4.2.2	Model Fitting	30
4.2.3	Forecasting	63
4.2.4	Analysis on Chaos	67
4.2.5	Summary	74
4.3	Study for the applicability of GARCH models	75
5	Conclusion and Future Work	77
	References	78

LIST OF FIGURES

Figure	Description	Page
Figure 1.1	COVID-19 cases in Sri Lanka as of March 15, 2021	2
Figure 3.1	Methodology in Brief	12
Figure 4.1	Time series plot of daily USD, EUR, GBP rates from 01-01-2020 to 31-12-2020	17
Figure 4.2	Time series plot of daily JPY rates from 01-01-2020 to 31-12-2020	18
Figure 4.3	First differenced series of daily USD rates from 01-01-2020 to 31-12-2020	19
Figure 4.4	First differenced series of daily EUR rates from 01-01-2020 to 31-12-2020	19
Figure 4.5	First differenced series of daily GBP rates from 01-01-2020 to 31-12-2020	20
Figure 4.6	First differenced series of daily JPY rates from 01-01-2020 to 31-12-2020	20
Figure 4.7	Time series plot of daily USD rates from 01-01-2016 to 31-12-2019	23
Figure 4.8	Time series plot of daily EUR rates from 01-01-2016 to 31-12-2019	23
Figure 4.9	Time series plot of daily GBP rates from 01-01-2016 to 31-12-2019	24
Figure 4.10	Time series plot of daily JPY rates from 01-01-2016 to 31-12-2019	25
Figure 4.11	ACF plot for Daily USD Rate	26
Figure 4.12	ACF plot for Daily EUR Rate	26
Figure 4.13	ACF plot for Daily GBP Rate	27
Figure 4.14	ACF plot for Daily JPY Rate	27
Figure 4.15	Seasonal plot of daily USD rate for 2016, 2017, 2018 and 2019	28
Figure 4.16	Seasonal plot of daily EUR rate for 2016, 2017, 2018 and 2019	29
Figure 4.17	Seasonal plot of daily GBP rate for 2016, 2017, 2018 and 2019	29
Figure 4.18	Seasonal plot of daily JPY rate for 2016, 2017, 2018 and 2019	30
Figure 4.19	Time series plot, ACF plot and PACF plot for USD	31
Figure 4.20	Time series plot, ACF plot and PACF plot for differenced series of USD	33
Figure 4.21	Residuals plot, ACF plot and Histogram for the residuals of USD fitted model ARIMA(0,1,0)	34
Figure 4.22	Time series plot, ACF plot and PACF plot for the Box-Cox Transformed data of USD	35
Figure 4.23	Time series plot, ACF plot and PACF plot for the differenced series of Box-Cox Transformed data of USD	36
Figure 4.24	Residuals plot, ACF plot and Histogram for the residuals of USD fitted model ARIMA(0,1,0) with drift	37
Figure 4.25	Time series plot, ACF plot and PACF plot for EUR	38

Figure 4.26	Time series plot, ACF plot and PACF plot for first differenced series of EUR	39
Figure 4.27	Residuals plot, ACF plot and Histogram for the residuals of ARIMA(0,1,0) model fitted for EUR	41
Figure 4.28	Time series, ACF and PACF plots for Box-Cox transformed series of EUR	42
Figure 4.29	Time series plot, ACF and PACF plots for differenced series of Box-Cox transformation of EUR	43
Figure 4.30	Residuals plot, ACF plot and Histogram for the residuals of transformed EUR fitted model	44
Figure 4.31	Time series plot, ACF plot and PACF plot for the GBP Rates	45
Figure 4.32	Time series plot, ACF and PACF plots for first differenced series of GBP	46
Figure 4.33	Residuals plot, ACF plot and histogram for the residuals of transformed GBP fitted model ARIMA(0,1,0)	47
Figure 4.34	Time series, ACF and PACF plots for Box-Cox transformed series of GBP	48
Figure 4.35	Plot of differenced series, ACF and PACF plots for the box-cox transformed data of GBP	49
Figure 4.36	Residuals plot, ACF plot and histogram for the residuals of transformed GBP fitted model ARIMA(0,1,2)	50
Figure 4.37	Time series plot, ACF plot and PACF plot for the JPY Rates	51
Figure 4.38	Time series, ACF and PACF plots for the differenced series of JPY Rate	52
Figure 4.39	Residuals plot, ACF plot and PACF plot for the residuals of JPY fitted model	54
Figure 4.40	Component form of the ETS(M, N, N) model for USD rates	55
Figure 4.41	Component form of the ETS(A, N, N) model for Box-Cox transformed USD rates	56
Figure 4.42	Component form of the ETS(M, N, N) model for EUR rates	57
Figure 4.43	Component form of the ETS(A, N, N) model for Box-Cox transformed EUR rates	58
Figure 4.44	Component form of the ETS(M, N, N) model for GBP rates	59
Figure 4.45	Component form of the ETS(A, N, N) model for Box-Cox transformed GBP rates	60
Figure 4.46	Component form of the ETS(A, N, N) model for JPY rates	61
Figure 4.47	Component form of the ETS(A, Ad, N) model for Box-Cox Transformed JPY Rates	62
Figure 4.48	Forecast for USD from ARIMA(0, 1, 0) with drift	63
Figure 4.49	Forecast for EUR from ARIMA(0, 1, 0)(1, 0, 0) ₇	64
Figure 4.50	Forecast for GBP from ARIMA(5, 1, 0)	65
Figure 4.51	Forecast for JPY with ARIMA(0, 1, 0) with drift	65
Figure 4.52	Forecast for USD from ETS(A, N, N)	66
Figure 4.53	Forecast for EUR from ETS(A, N, N)	66
Figure 4.54	Forecast for GBP from ETS(A, N, N)	67
Figure 4.55	Forecast for JPY from ETS(A, N, N)	68
Figure 4.56	Comparison of USD rates with forecast from ARIMA model	69
Figure 4.57	Comparison of USD rates with a forecast from ETS Model	69
Figure 4.58	Comparison of EUR rates with a forecast from ARIMA Model	70

Figure 4.59	Comparison of EUR rates with a forecast from ETS Model	71
Figure 4.60	Comparison of GBP rates with a forecast from ARIMA Model	71
Figure 4.61	Comparison of GBP rates with a forecast from ETS Model	72
Figure 4.62	Comparison of JPY rates with forecast from ARIMA Model	73
Figure 4.63	Comparison of JPY rates with forecast from ETS Model	73

LIST OF TABLES

Table	Description	Page
Table 4.1	Statistics of the first derivative values of exchange rates	21
Table 4.2	Fitting ARIMA models	74
Table 4.3	Fitting ETS models	74
Table 5.1	Models used to forecast exchange rates	77

LIST OF ABBREVIATIONS

Abbreviation	Description
ACF	Auto-correlation Function
ARIMA	Autoregressive Integrated Moving Average
ETS	Exponential Smoothing Model
FTSE	Financial Times Stock Exchange
GARCH	Generalized Auto-regressive Conditional Heteroskedasticity
GDP	Gross Domestic Product
IMF	International Monetary Fund
KPSS	Kwiatkowski-Phillips-Schmidt-Shin
LKR	Sri Lankan Rupee
LLE	Largest Lyapunov Exponents
PACF	Partial Auto-correlation Function
SARIMA	Seasonal ARIMA
SSE	super spreading events
USD	US Dollar