

Large vs. small players: A closer look at the dynamics of speculative attacks

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Recent speculative attacks have directed attention to the role of “large players”— e.g. hedge funds and other highly leveraged institutions—and their effects on the currency markets. New theory has asked whether the presence of large players can increase volatility in the foreign exchange market. Findings indicate that large players will be especially important if they control superior information. Other researchers have however argued that large and small players might face e.g. different costs. We address empirically the role of large players before and during three events the Norwegian krone market using weekly data on net flows of foreigners and locals. We find no evidence that foreigners have superior information. However, large players, and especially the positions of large players in the forward market, do seem to be an important determinant for the timing of speculative attacks.
