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In this paper we estimated a volatility model for COP/US under two different samples, one containing the information before the “discretionary interventions” started, and the other using the whole sample. We use a nonparametric approach to estimate the mean and “volatility smile” return functions using daily data. For the pre-interventions sample, we found a nonlinear expected return function and, surprisingly, a non-symmetric “volatility smile”. These lack of linearity and symmetry are related to absolute returns above 1,5% and 1,0%, respectively. We also found that the “discretionary interventions” did not shift the

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mean response function, but moved the expected returns along the line towards the required levels. In contrast, the “volatility smile” tends to increase in a non-symmetric way after accounting for “discretionary interventions”. The Sep/29/2004 announcement does not seem to have had any effect on the expected conditional mean or variance functions, but the Dec/17/2004 announcement seems to be related to non-symmetric effects on the volatility smile. We concluded that the announcement of discretionary intervention by the monetary authority was more efficient when time and amount were unannounced.

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