Package ‘mfGARCH’

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Title Mixed-Frequency GARCH Models
Version 0.2.0
Description Estimating GARCH-MIDAS (MIxed-DAta-Sampling) models (Engle, Ghysels, Sohn, 2013, <doi:10.1162/REST_a_00300>) and related statistical inference, accompanying the paper “Two are better than one: Volatility forecasting using multiplicative component GARCH models” by Conrad and Kleen (2020, <doi:10.1002/jae.2742>). The GARCH-MIDAS model decomposes the conditional variance of (daily) stock returns into a short- and long-term component, where the latter may depend on an exogenous covariate sampled at a lower frequency.

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R topics documented:

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df_financial

Stock returns and financial conditions.

Description

A dataset containing the S&P 500 stock returns and the NFCI

Usage

df_financial

Format

A data frame with 11,306 rows and 5 variables:

- **date** date
- **return** daily S&P 500 log returns times 100
- **rv** 5-minute realized variances
- **week** a dummy for each year/week combination
- **nfci** National Financial Conditions Index

Source

https://github.com/onnokleen/mfGARCH/
https://definance.yahoo.com/
https://fred.stlouisfed.org/series/NFCI
https://realized.oxford-man.ox.ac.uk
df_mfgarch  

Mixed-frequency data set.

Description

A dataset containing the S&P 500 stock returns, realized variances and macroeconomic variables

Usage

df_mfgarch

Format

A data frame with 11,938 rows and 11 variables:

date  date
return daily S&P 500 log returns times 100
open_close open-close returns
rv  5-minute realized variances
vix  Cboe VIX
year_week  a dummy for each year/week combination
dhousing changes in housing starts
dindpro changes in industrial production
nai  NAI
nfci  National Financial Conditions Index
year_month  a dummy for each year/month combination

Source

https://github.com/onnokleen/mfGARCH/
https://de.finance.yahoo.com/
https://fred.stlouisfed.org
https://realized.oxford-man.ox.ac.uk
This function estimates a multiplicative mixed-frequency GARCH model. For the sake of numerical stability, it is best to multiply log returns by 100.

Description

This function estimates a multiplicative mixed-frequency GARCH model. For the sake of numerical stability, it is best to multiply log returns by 100.

Usage

```r
fit_mfgarch(
  data,
  y,
  x = NULL,
  K = NULL,
  low.freq = "date",
  var.ratio.freq = NULL,
  gamma = TRUE,
  weighting = "beta.restricted",
  x.two = NULL,
  K.two = NULL,
  low.freq.two = NULL,
  weighting.two = NULL,
  multi.start = FALSE,
  control = list(par.start = NULL)
)
```

Arguments

data: data frame containing a column named date of type 'Date'.
y: name of high frequency dependent variable in df.
x: covariate employed in mfGARCH.
K: an integer specifying lag length K in the long-term component.
low.freq: a string of the low frequency variable in the df.
var.ratio.freq: specify a frequency column on which the variance ratio should be calculated.
gamma: if TRUE, an asymmetric GJR-GARCH is used as the short-term component. If FALSE, a simple GARCH(1,1) is employed.
weighting: specifies the weighting scheme employed in the long-term component. Options are "beta.restricted" (default) or "beta.unrestricted"
x.two: optional second covariate
K.two: lag length of optional second covariate
low.freq.two: low frequency of optional second covariate
weighting.two  specifies the weighting scheme employed in the optional second long-term component. Currently, the only option is "beta.restricted"

multi.start  if TRUE, optimization is carried out with multiple starting values

control  a list

Value

A list of class mfGARCH with letters and numbers.

- par - vector of estimated parameters
- rob.std.err - sandwich/HAC-type standard errors
- broom.mgarch - a broom-like data.frame with entries 1) estimate: column of estimated parameters 2) rob.std.err - sandwich/HAC-type standard errors 3) p.value - p-values derived from sandwich/HAC-type standard errors 4) opg.std.err - Bollerslev-Wooldridge/OPG standard errors for GARCH processes 5) opg.p.value - corresponding alternative p-values
- tau - fitted long-term component
- g - fitted short-term component
- df.fitted - data frame with fitted values and residuals
- K - chosen lag-length in the long-term component
- weighting.scheme - chosen weighting scheme
- llh - log-likelihood value at estimated parameter vector
- bic - corresponding BIC value
- y - dependent variable y
- optim - output of the optimization routine
- K.two - lag-length of x.two if two covariates are employed
- weighting.scheme.two - chosen weighting scheme of x.two (if K.two != NULL)
- tau.forecast - one-step ahead forecast of the long-term component
- variance.ratio - calculated variance ratio
- est.weighting - estimated weighting scheme
- est.weighting.two - estimated weighting scheme of x.two (if K.two != NULL)

Examples

```r
## Not run:
fit_mfgarch(data = df_financial, y = "return", x = "nfc", low.freq = "week", K = 52)
fit_mfgarch(data = df_mfgarch, y = "return", x = "nfc", low.freq = "year_week", K = 52,
x.two = "dindpro", K.two = 12, low.freq.two = "year_month", weighting.two = "beta.restricted")

## End(Not run)
```
plot_weighting_scheme  This function plots the weighting scheme of an estimated GARCH-MIDAS model

Description

This function plots the weighting scheme of an estimated GARCH-MIDAS model

Usage

plot_weighting_scheme(x)

Arguments

x  mfGARCH object obtained by fit_mfgarch

simulate_mfgarch  This function simulates a GARCH-MIDAS model. Innovations can follow a standard normal or student-t distribution.

Description

This function simulates a GARCH-MIDAS model. Innovations can follow a standard normal or student-t distribution.

Usage

simulate_mfgarch(
    n.days,
    mu,
    alpha,
    beta,
    gamma,
    m,
    theta,
    w1 = 1,
    w2,
    K,
    psi,
    sigma.psi,
    low.freq = 1,
    n.intraday = 288,
    student.t = NULL,
    corr = 0
)
simulate_mfgarch_diffusion

Arguments

- `n.days`: number of days
- `mu`: mu
- `alpha`: alpha
- `beta`: beta
- `gamma`: gamma
- `m`: m
- `theta`: theta
- `w1`: w1
- `w2`: w2
- `K`: K
- `psi`: psi
- `sigma.psi`: sigma.psi
- `low.freq`: number of days per low-frequency period
- `n.intraday`: number of maximum intraday returns
- `student.t`: either NULL or degrees of freedom
- `corr`: correlation between innovations (should only be used for daily tau)

Examples

```r
simulate_mfgarch(n.days = 200, mu = 0, alpha = 0.06, beta = 0.92, gamma = 0, m = 0,
theta = 0.1, w1 = 1, w2 = 3, K = 12, psi = 0.98, sigma.psi = 0.1, low.freq = 10)
```

This function simulates a GARCH-MIDAS model where the short-term GARCH component is replaced by its diffusion limit, see Andersen (1998)

Description

This function simulates a GARCH-MIDAS model where the short-term GARCH component is replaced by its diffusion limit, see Andersen (1998)

Usage

```r
simulate_mfgarch_diffusion(
  n.days,
  mu,
  alpha,
  beta,
  m,
)```
simulate_mfgarch_rv_dependent

theta,  
w1 = 1,  
w2,  
K,  
psi,  
sigma.psi,  
low.freq = 1,  
n.intraday = 288  
)

Arguments

  n.days number of days
  mu     mu
  alpha alpha
  beta beta
  m      m
  theta theta
  w1     w1
  w2     w2
  K      K
  psi    psi
  sigma.psi sigma.psi
  low.freq low.freq
  n.intraday n.intraday

Examples

  ## Not run: simulate_mfgarch_diffusion(n.days = 200, mu = 0, alpha = 0.06, beta = 0.92, m = 0,  
     theta = 0.1, w1 = 1, w2 = 3, K = 12, psi = 0.98, sigma.psi = 0.1, low.freq = 10)  
  ## End(Not run)

simulate_mfgarch_rv_dependent

Simulate a GARCH-MIDAS similar to Wang/Ghysels with lagged RVol as covariate

Description

Simulate a GARCH-MIDAS similar to Wang/Ghysels with lagged RVol as covariate
simulate_mfgarch_rv_dependent

Usage

simulate_mfgarch_rv_dependent(
    n.days,    
mu,        
alpha,     
beta,      
gamma,     
m,         
theta,     
w1 = 1,    
w2,        
K,         
n.intraday = 288, 
low.freq = 1,  
rvol = FALSE
)

Arguments

n.days    number of days
mu        mu
alpha     alpha
beta      beta
gamma     gamma
m         m
theta     theta
w1        w1
w2        w2
K         K
n.intraday number of maximum intraday returns, default 288
low.freq  number of days per low frequency
rvol      if TRUE, the square root of the realized variance is used as a covariate

Examples

simulate_mfgarch_rv_dependent(n.days = 2200, mu = 0, alpha = 0.06, beta = 0.92, gamma = 0, m = 0, 
theta = 0.1, w1 = 1, w2 = 3, K = 3, low.freq = 22)
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