“Exchange Rate Risk in Public Firms”

Discussion

by

Peter Hoffmann

(ECB - Financial Research)

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Disclaimer: The views expressed do not necessarily reflect those of the ECB and/or the Eurosystem
A very rich & interesting paper!

Evidence on the pass-through of exchange rates to “firm performance”
What does the paper do?

- FX Transaction Income (FXTI): an accounting-based measure of firm exposure to FX risk
  - covers "monetary items": cash, accounts receivable/payable, loans & debt payments, deferred taxes, etc.)
  - does not cover: inventories, PP&E, goodwill & intangibles, ...
  - net of hedging (very nice feature!)
- country-level aggregates of FXTI co-move with FX rate
  - especially outside US/EA (invoicing!)
  - not always in the same direction
What does the paper do?

- At the firm-level, FXTI
  - is economically large: Q75 $\sim$ 0.3-0.7% (5-14%) of assets (profits)
  - variation is well-explained by
    - industry-level net exports
    - FX debt
  - passes through to profits (little “operational” hedging)
  - is reflected in stock returns
The results on pass-through of FXTI on profits are very interesting

\[
\frac{Income_{i,t}}{Assets_{i,t}} = \alpha_i + \theta I(i),t + \beta \frac{FXTI_{i,t}}{Assets_{i,t}} + \epsilon_{i,t}
\]

A good opportunity to explore heterogeneity?

\[
\frac{Income_{i,t}}{Assets_{i,t}} = \alpha_i + \theta I(i),t + \beta \frac{FXTI_{i,t}}{Assets_{i,t}} + \gamma \left[ \frac{FXTI_{i,t}}{Assets_{i,t}} \times X_{i,t} \right] + \epsilon_{i,t}
\]

In particular, \( \beta < 0 \) for \( Income = Op. Income \) (although not always significant)

What firms engage more (are better at) “operational hedging”?
FXTI has only a transitory effect on profits

FX shocks tend to be persistent, but maybe prices & competition adjust quickly

Q1: What do firms do with the extra profits: invest? pay out?
Q2: How to square with permanent valuation effects?
How are “multi-nationals” treated?

Nestle produces goods in 79 countries and sells them in 186 countries

BMW is the largest car exporter of the US

Can this explain the absence of large effects for EA/US?

Informativeness of WIOD data?
Additional minor comments

- Low number of obs. for US (~ 500/year). Why?
- Commodities vs. other inputs?
- Why India, South Korea and Taiwan?
- Only listed (=large) firms. Selection effects?
I very much enjoyed reading the paper!

rich data, informative analysis, well-executed

it will be interesting to move beyond profits

I look forward to seeing the next version