Discussion:
Intervening Against the Fed
(Rodnyansky, Timmer, Yago)

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Summary

• Very interesting paper
  • – fresh micro data on FXI and firm-level debt, bringing together literatures

• Global Financial Cycle

• Effectiveness of Foreign Exchange Intervention

• Exchange rate and stock market prices
Summary

• FXI in response to US Fed Funds rate changes 2000-2019
  • Daily data across a range of countries
  • FFR ‘surprises’ identified

• Impact of FXI up to 5 days after on Exchange Rate: compare interveners with non-interveners

• Impact of FXI up to 5 days after on equity returns
  • Firms with USD debt exposure

“FXIs can be successful in stabilizing both the exchange rate and stock returns, especially for those that are highly exposed to the Global Financial Cycle. **FXIs can make countries more insulated from the Global Financial Cycle**”
International Role of the Dollar and FXI

- 1960s-1970s – FXI using reserves, coordinated, swaps as well as reserves (Naef 2020, 2021)
  Directly in foreign exchange market through brokers (is this the same?)
- 1979-82 – major Fed induced shock to Global Financial Cycle
  - Impact through dollar-denominated debt -> EME debt crisis
- 1980s – efforts at FXI not effective (debate)
  - Plaza and Louvre Accords: asymmetric effectiveness
- 1990s – EMEs pegged rates, AEs inflation targeting
- 2000s – Inflation targeting, less FXI (reserves insurance)
- 2010s – QE Spillover effects: ‘currency wars’, CFM, FXI

Sterilized intervention not effective
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Exchange Rate Regimes - de facto classification (Ilzetski, Reinhart, Rogoff (2019))

Number of countries not weighted by GDP: total = 194 countries
Questions

• Short term v Medium or Longer term effects of FXI as an insulation against USD-induced shocks to Global Financial Cycle
• Very small net interventions – big effects? Signalling?
• Mechanism of insulation: through trade, capital channels, B/S effects?
• How much does this intervention cost – is it worth it/efficient? CFM
• Asymmetry of FFR increases (selling USD) v decreases (buying USD)
• Results robust to only flexible regime countries

• Sample Countries
Table 2: Interventions around FOMC event dates

<table>
<thead>
<tr>
<th>Country</th>
<th>Buy USD</th>
<th>Sell USD</th>
<th>Counter</th>
<th>Ave. Net Purchase of USD</th>
<th>% GDP (×10^{-4})</th>
<th>Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>Millions USD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>59</td>
<td>45</td>
<td>15</td>
<td>11</td>
<td>2.9</td>
<td>2003-2019</td>
</tr>
<tr>
<td>Australia</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>-0.7</td>
<td>-0.094</td>
<td>2000-2019</td>
</tr>
<tr>
<td>Brazil</td>
<td>11</td>
<td>1</td>
<td>8</td>
<td>19</td>
<td>1.2</td>
<td>2009-2019</td>
</tr>
<tr>
<td>Chile</td>
<td>6</td>
<td>0</td>
<td>4</td>
<td>0.01</td>
<td>0.0062</td>
<td>2008-2019</td>
</tr>
<tr>
<td>Colombia</td>
<td>34</td>
<td>2</td>
<td>18</td>
<td>5.6</td>
<td>2.3</td>
<td>2000-2019</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>34</td>
<td>32</td>
<td>3</td>
<td>0.61</td>
<td>2.1</td>
<td>2006-2019</td>
</tr>
<tr>
<td>Georgia</td>
<td>9</td>
<td>12</td>
<td>15</td>
<td>0.21</td>
<td>2.3</td>
<td>2009-2019</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td><strong>83</strong></td>
<td><strong>58</strong></td>
<td><strong>13</strong></td>
<td><strong>26</strong></td>
<td><strong>12</strong></td>
<td><strong>2000-2019</strong></td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>0.0094</td>
<td>0.0019</td>
<td>2000-2019</td>
</tr>
<tr>
<td>Mexico</td>
<td>0</td>
<td>24</td>
<td>7</td>
<td>-17</td>
<td>-1.6</td>
<td>2000-2011</td>
</tr>
<tr>
<td>Morocco</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>-6.7</td>
<td>-7.81</td>
<td>2018</td>
</tr>
<tr>
<td>Peru</td>
<td>72</td>
<td>51</td>
<td>26</td>
<td>6.6</td>
<td>4.7</td>
<td>2000-2019</td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-0.45</td>
<td>-0.094</td>
<td>2000-2001</td>
</tr>
<tr>
<td>Turkey</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2.3</td>
<td>0.34</td>
<td>2002-2019</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>313</strong></td>
<td><strong>229</strong></td>
<td><strong>112</strong></td>
<td><strong>6.8</strong></td>
<td><strong>2.9</strong></td>
<td><strong>2000-2019</strong></td>
</tr>
</tbody>
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