



UNIVERSITY OF
OXFORD

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

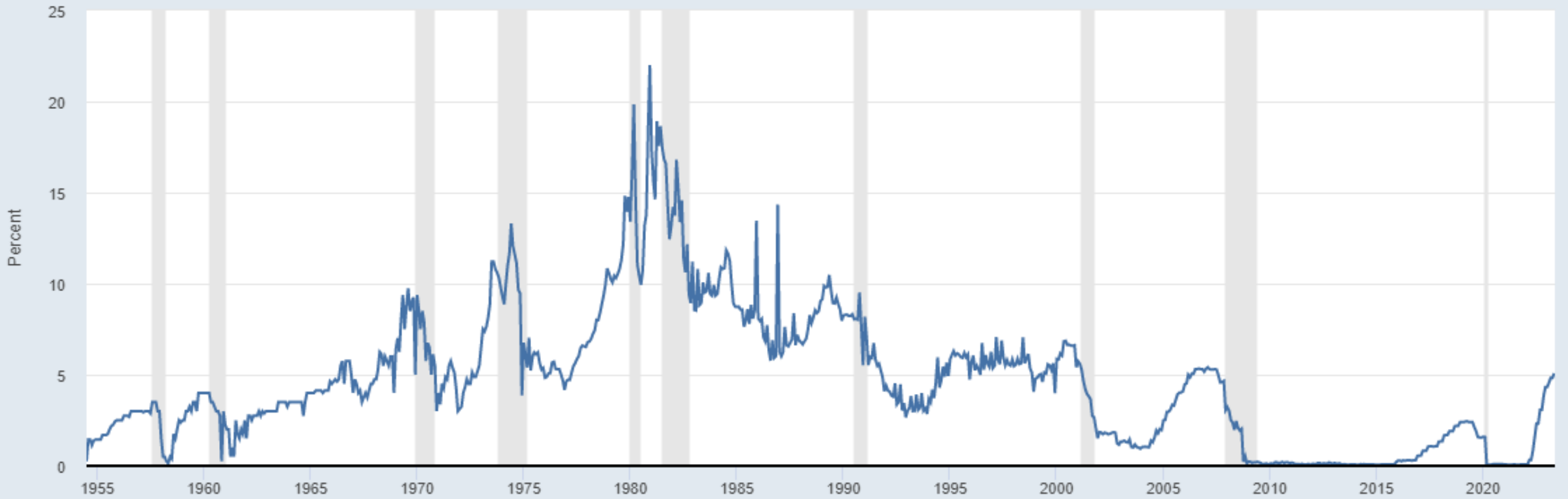
Catherine R. Schenk
University of Oxford

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



Federal Funds Effective Rate



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

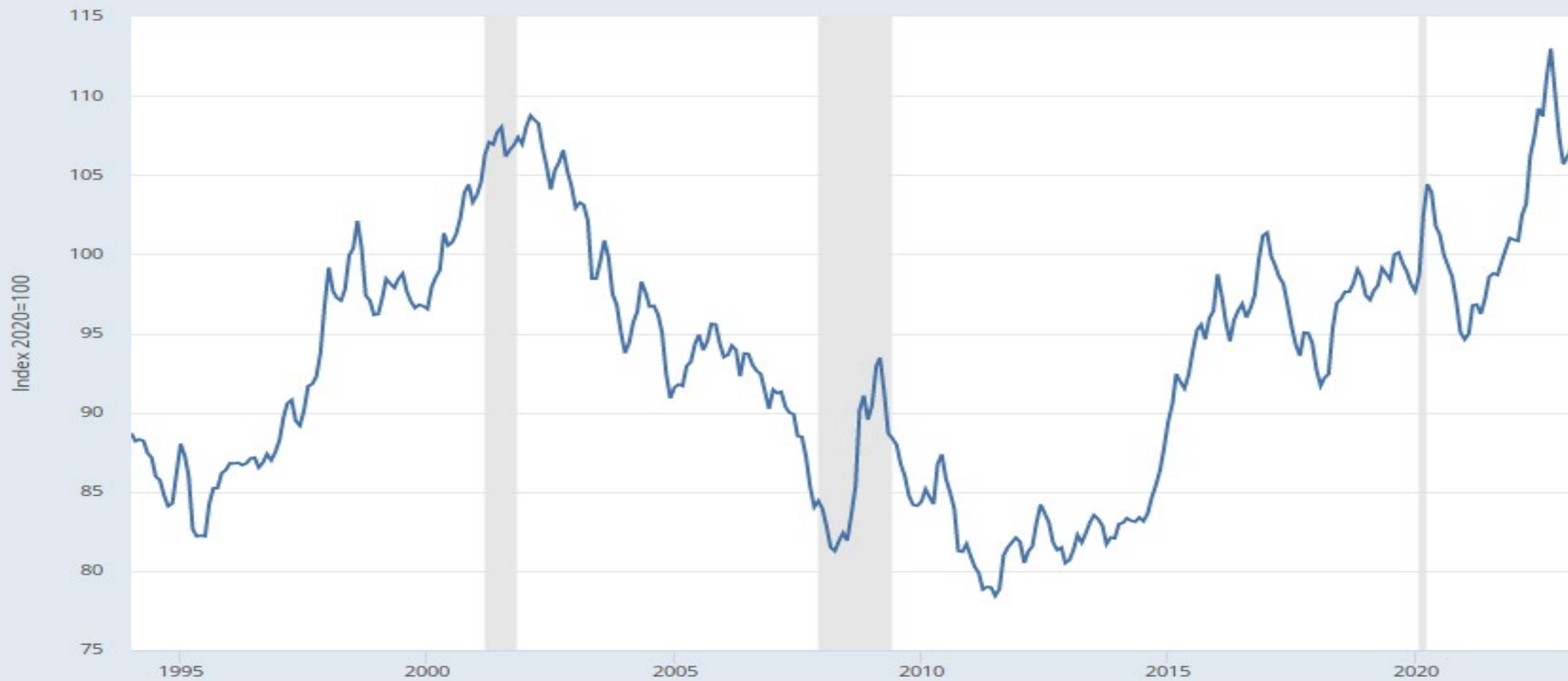
fred.stlouisfed.org



FRED



— Real Broad Effective Exchange Rate for United States



Source: Bank for International Settlements

myf.red/g/14GBy

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)

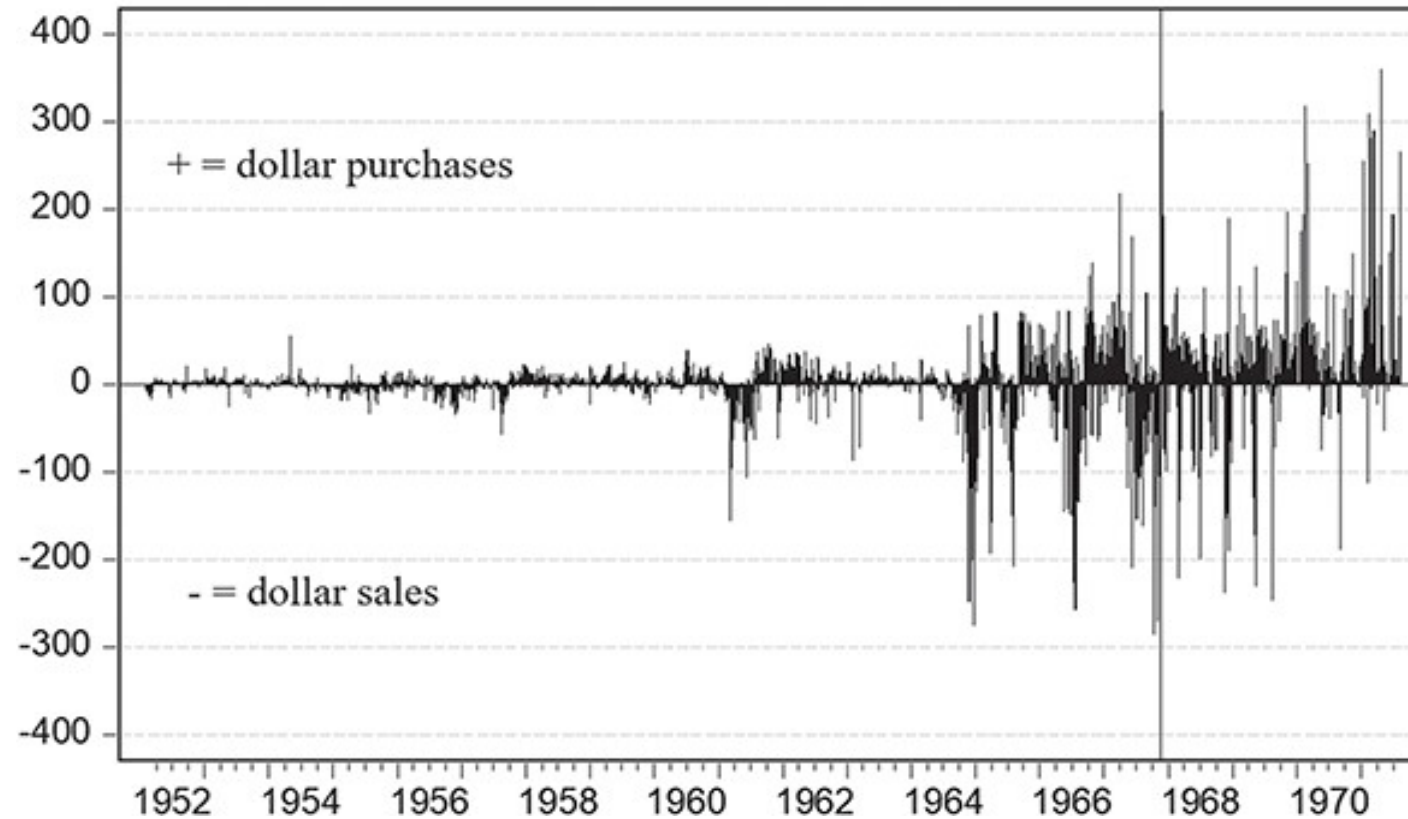
Directly in foreign exchange market through brokers (is this the same?)

- 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



Figure 1 Bank of England intervention data in US dollar. Source: Bank of England Archives, Dealers' reports, reference ...

Bank of England intervention (in million dollars)



Alain Naef (2021) Dirty float or clean intervention? The Bank of England in the foreign exchange market, *European Review of Economic History*, 25(1)

Sterilized intervention not effective

International Role of the Dollar and FXI

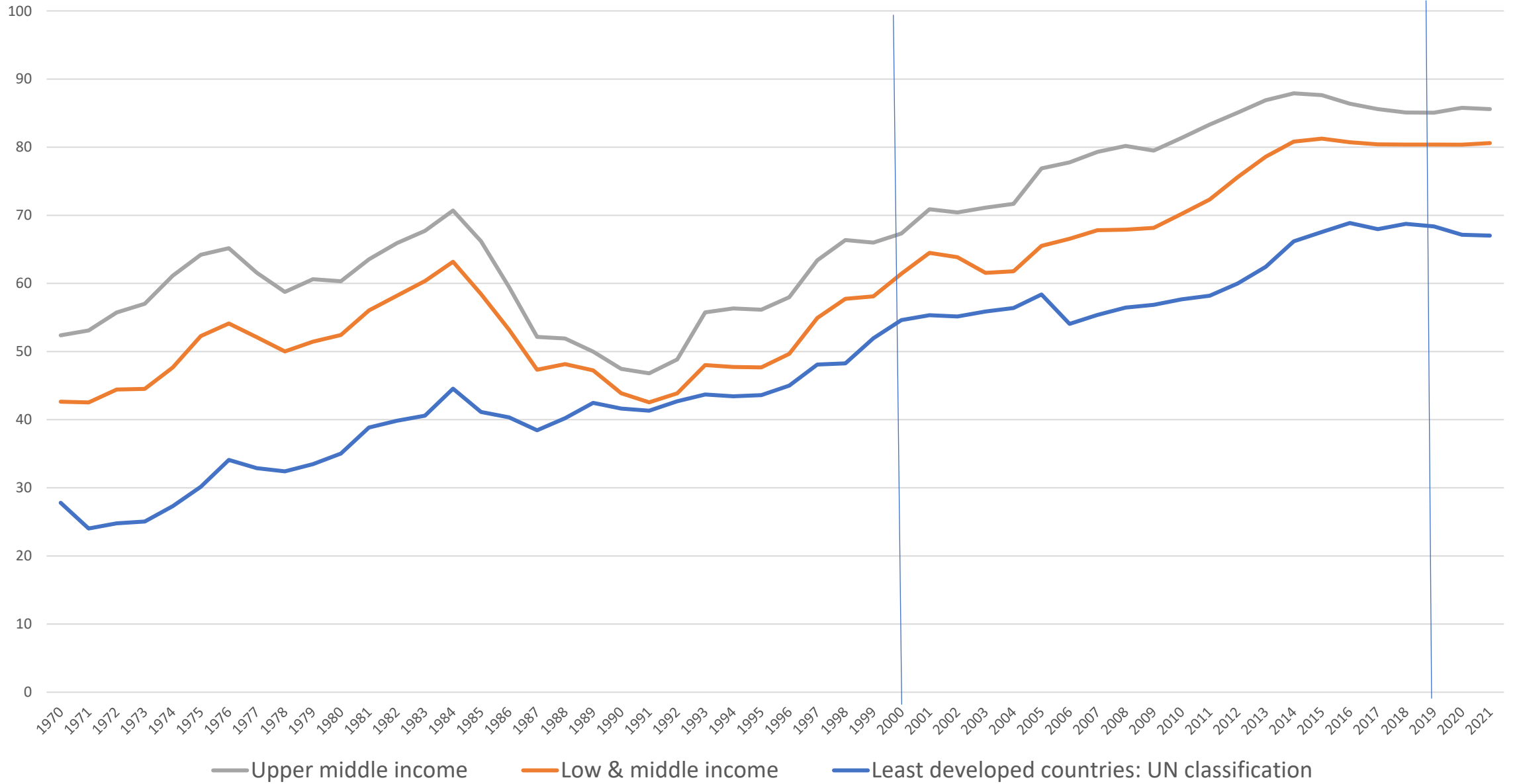
- 1960s-1970s – FXI using reserves, coordinated, swaps as well as reserves (Naef 2020, 2021)

Directly in foreign exchange market through brokers (is this the same?)

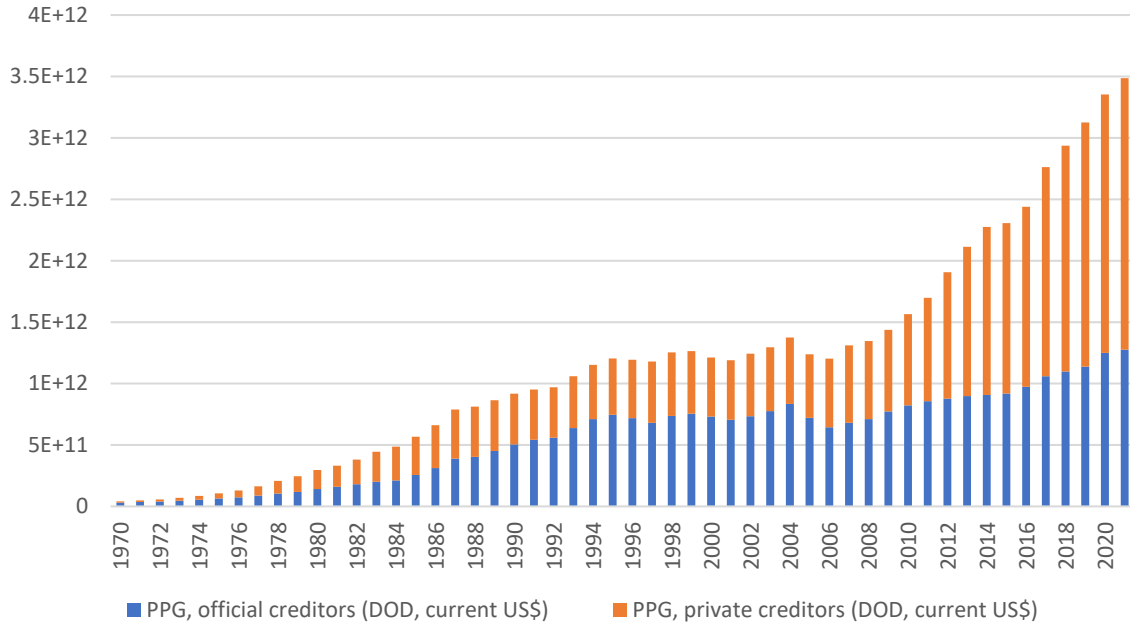
- 1979-82 – major Fed induced shock to Global Financial Cycle
 - Impact through dollar- denominated debt -> EME debt crisis
- 1980s – efforts at FXI not effective (debate)
 - Plaza 1985 and Louvre 1987 Accords: asymmetric effectiveness
- 1990s – EMEs pegged rates, AEs inflation targeting
- 2000s – Inflation targeting, less FXI
- 2010s – QE Spillover effects: ‘currency wars’, CFM, FXI



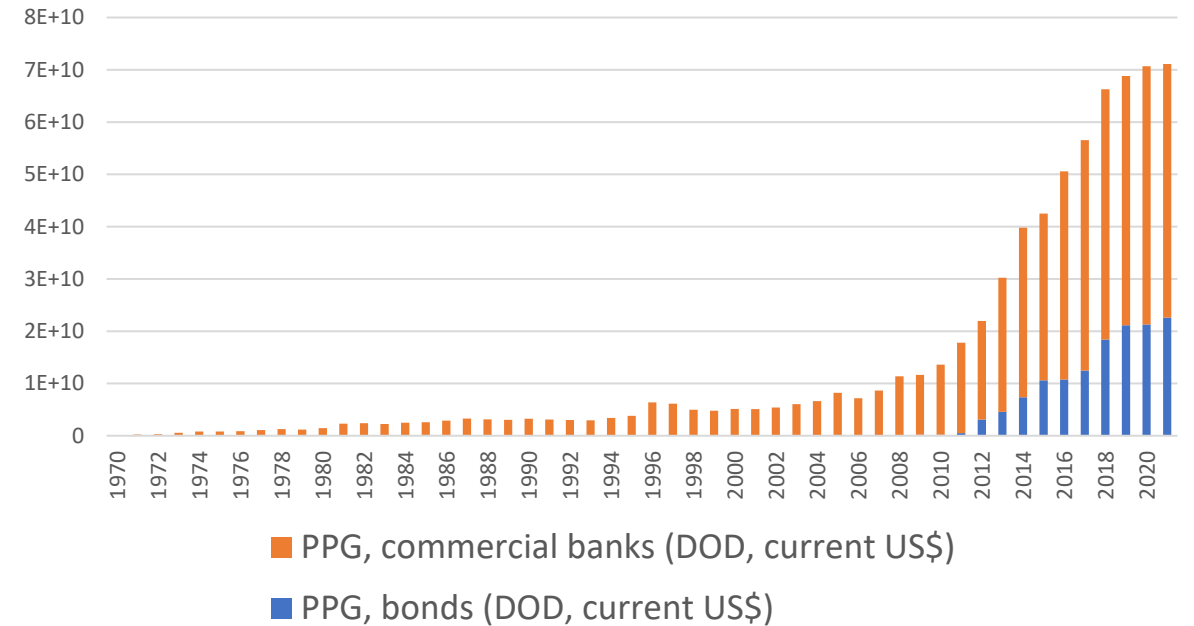
Public and Publically Guaranteed Debt Outstanding - Share denominated in USD %



Public and Publicly Guaranteed Debt: Low and Middle Income Countries



Public and Publicly Guaranteed Debt - Least Developed Countries



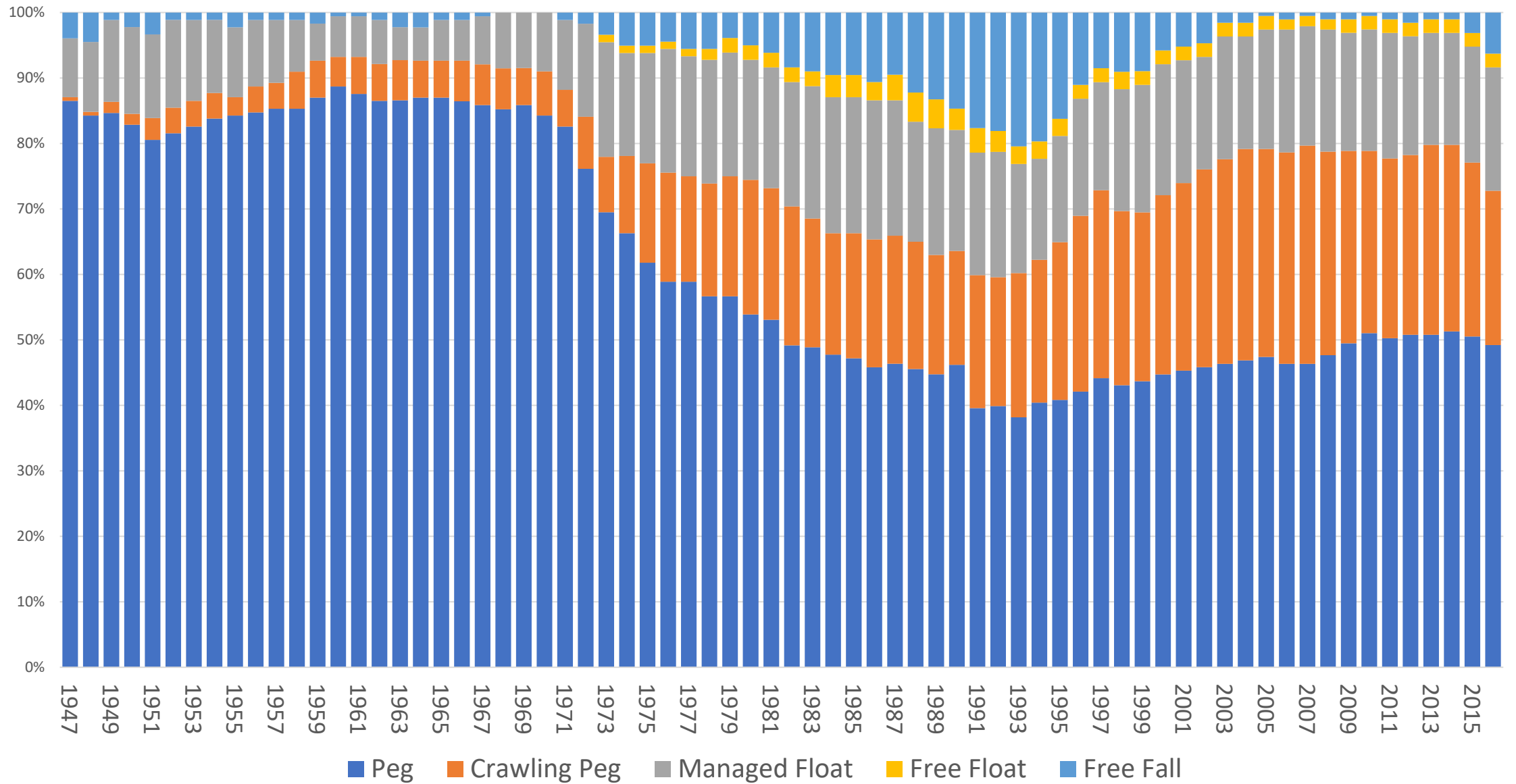
International Role of the Dollar and FXI

- 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 1985 and Louvre 1987 Accords: asymmetric effectiveness
- 1990s – EMEs pegged rates, AEs inflation targeting
- 2000s – Inflation targeting, less FXI
- 2010s – QE Spillover effects: ‘currency wars’, CFM, FXI

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

Country	Frequency			Ave. Net Purchase of USD		Periods
	Buy USD (1)	Sell USD (2)	Counter (3)	Millions USD (4)	% GDP ($\times 10^{-4}$) (5)	
Argentina	59	45	15	11	2.9	2003-2019
Australia	0	2	2	-0.7	-0.094	2000-2019
Brazil	11	1	8	19	1.2	2009-2019
Chile	6	0	4	0.01	0.0062	2008-2019
Colombia	34	2	18	5.6	2.3	2000-2019
Costa Rica	34	32	3	0.61	2.1	2006-2019
Georgia	9	12	15	0.21	2.3	2009-2019
Hong Kong	83	58	13	26	12	2000-2019
Japan	4	0	1	0.0094	0.0019	2000-2019
Mexico	0	24	7	-17	-1.6	2000-2011
Morocco	0	1	0	-6.7	-7.81	2018
Peru	72	51	26	6.6	4.7	2000-2019
Switzerland	0	0	0	-0.45	-0.094	2000-2001
Turkey	1	1	0	2.3	0.34	2002-2019
Total	313	229	112	6.8	2.9	2000-2019