

Order flow and the real: Comments

Eric Girardin

Aix-Marseille school of Economics

Topicality

- Several rounds of quantitative easing in the northern hemisphere
- Carry trades targeting southern-emisphere emerging economies
- Legitimate attempt by their governments to prevent the associated appreciation of their domestic currency

The paper

- Test of an indirect channel of effectiveness of sterilized intervention:
 - Damping the price impact of private trades
- Unique data set for emerging economy:
 - Exhaustive daily order flow for financial and non-financial customers over a decade for the real/\$ from 2002 onwards.

The paper

- Results:
 - Damping channel works: The price impact of private trades is lower on days of intervention than on days without intervention
 - Price impact of non financial customers much larger than for financial ones
 - Intervention is sterilized: Brazilian interest rate does not deviate from its target.
 - Size of intervention matters for damping.

Effectiveness of indirect intervention

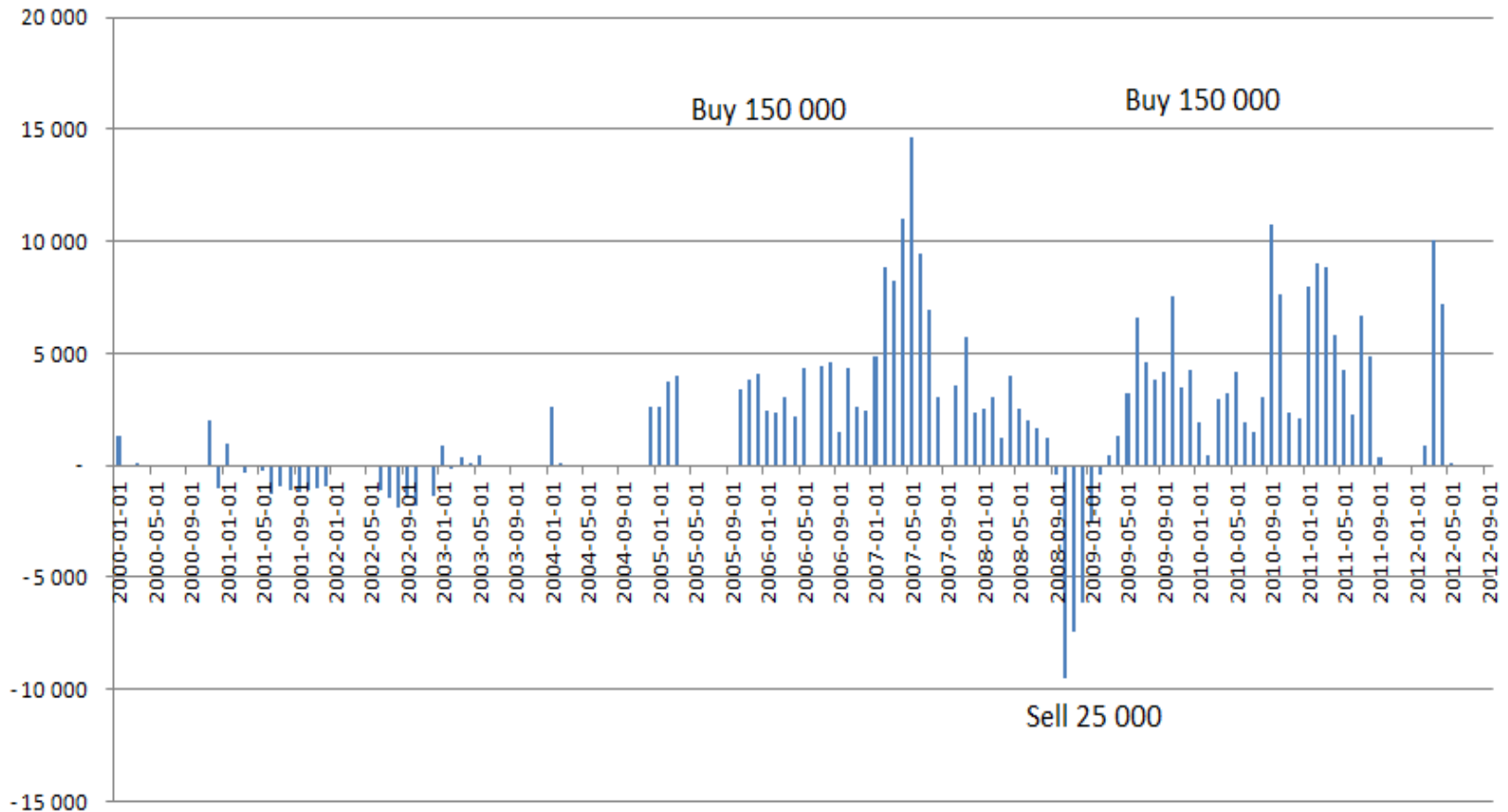
- Effectiveness:
 - Weak:
 - Price impact of private trade is zero on days of intervention
 - Strong:
 - Price impact of private trade is zero even on days of no intervention
 - Semi weak? (This paper's result)
 - Price impact of private trade is lower on days of intervention than on days of no intervention

Strong not semi-weak?

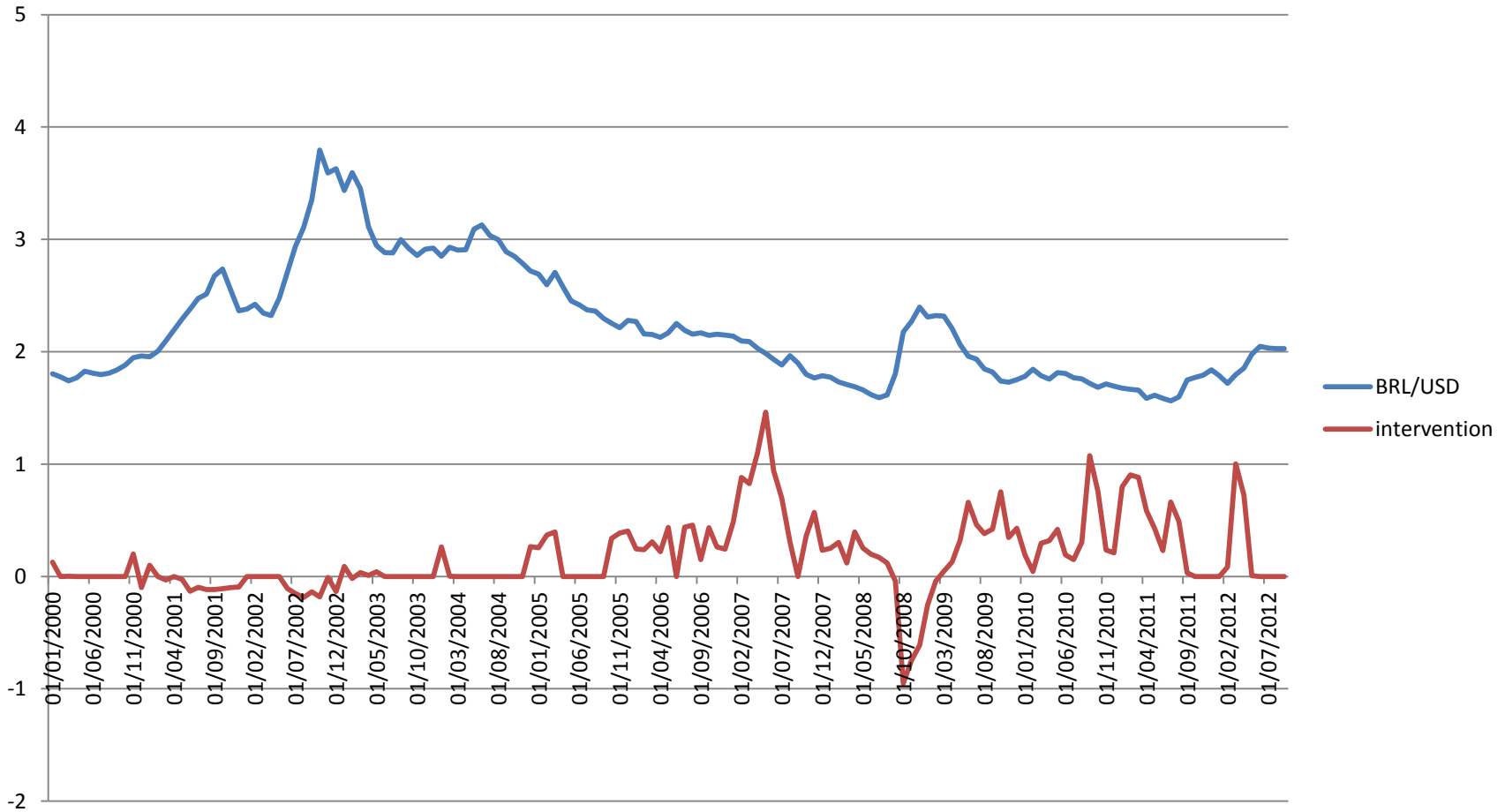
- Financial customers' price impact
 - Never significant on its own (Tables 2,3, 4 col.IV)
 - Full sample as well as on day with/without intervention
=> strong effectiveness?
 - Significant only when non-financial flows included (Tables 2,3, 4 col.II and VI)
 - Multicollinearity?
 - » Full sample correlation between the two flows: '- 0.213'
 - Lack of price impact
 - Leveraged vs. unleveraged financial customers
 - Opposite price-impact coefficients may cancel out?
 - Were they on the same side of the market as the BCB?
 - Need of disaggregation of financial customers' flows?

Break 2005?

Net Banco Central interventions (\$ million)



BCB intervention and the Real (Monthly 2000-2012)



Issues (I) before 2005

- Validation with other data?
 - Yen-dollar 2002-2004, Citybank daily data
 - Financial customers' price impact
 - No price impact of unleveraged customers during the Great Intervention on the yen in 2003
 - Significant price impact of leveraged customers during the same period (Girardin and Lyons, 2008) but they were buying dollar!
- Missing variable in the real/dollar estimates?
 - Quantitative easing by the Bank of Japan

**The real-dollar returns:
daily Citi customer order flow (\$ purchase against yen)
and Japanese QE**

- Rise in Jap. Banks' Excess reserves appreciates the real

- Non financial customer' order flow significant

- Dollar purchase appreciates dollar vs. Real

- Same sign as in Kohlscheen's paper

- Aggregate financial customer order flow significant

- but smaller effect than nonfinancial as in Kohlscheen's paper

- But unleveraged insignificant

- while leveraged significant

Oct 2002-May 2004	Δ Banks' Excess reserves with BOJ	Non financial order flow (-2)	Financial order flow	Unleveraged order flow	Leveraged order flow
Δ LReal/\$	-0.0015	0.0012		0.0005	0.0007
[P-value]	[0.04]	[0.00]		[0.19]	[0.02]
Δ LReal/\$	-0.0018	0.0012	0.0006		
[P-value]	[0.04]	[0.00]	[0.01]		
Citi	bank	Daily	data	Garch (1,1)	

Issues (II)

from 2005 onwards

- Missing variables?
 - Direct effects of BCB intervention
 - Left out in the paper's specification
 - Because insignificant in preliminary tests?
 - Or too highly correlated with customer order flow?
 - Effects of US quantitative easing
 - driving some (financial) customer order flow?

US Quantitative easing, BCB intervention and the real (Weekly data)

- Rise in US banks' Excess reserves with Fed

- appreciates the real
- After 2 weeks

- Direct effect of BCB intervention

- Dollar purchase appreciates dollar after 1 week
- Same size of impact as for customers in Kohlscheen's paper.

- Global uncertainty

- Rise in VIX
- depreciates the real after 1 week

5 May 2009 27 Dec 2010	Δ bank reserves with Fed (-2)	BCB intervention (-1)	Δ VIX (-1)
DL(Real/\$)	-0.007	0.0005	0.127
[P-value]	[0.05]	[0.06]	[0.00]
R2Adj: 0.15			
Weekly	data	(85 obs.)	

Issues (III)

before and after 2005

- Missing variables?
 - Long-run relationship between Fx rate and non-financial customer order stock (Wu, 2010)
 - Documented for the 2002-2010 period for non-financial customers
 - but left out in the paper's specification