

Understanding the Strength of the Dollar

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Discussant:

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Institutional members: Università Bocconi, CEPR and NBER



Roadmap of the Discussion

- What is wrong in many models
- What I learned from this paper
- Conclusion

Currencies and Flows

- Colacito-Croce & Associates (2011—2022):
 - Complete markets + EZ preferences + News shocks =
 - solution to many puzzles in Intl Macro Finance
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 - Option II: this paper!

FX Determination: fully coming from short-term bonds

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MKT value of supplied assets in USD

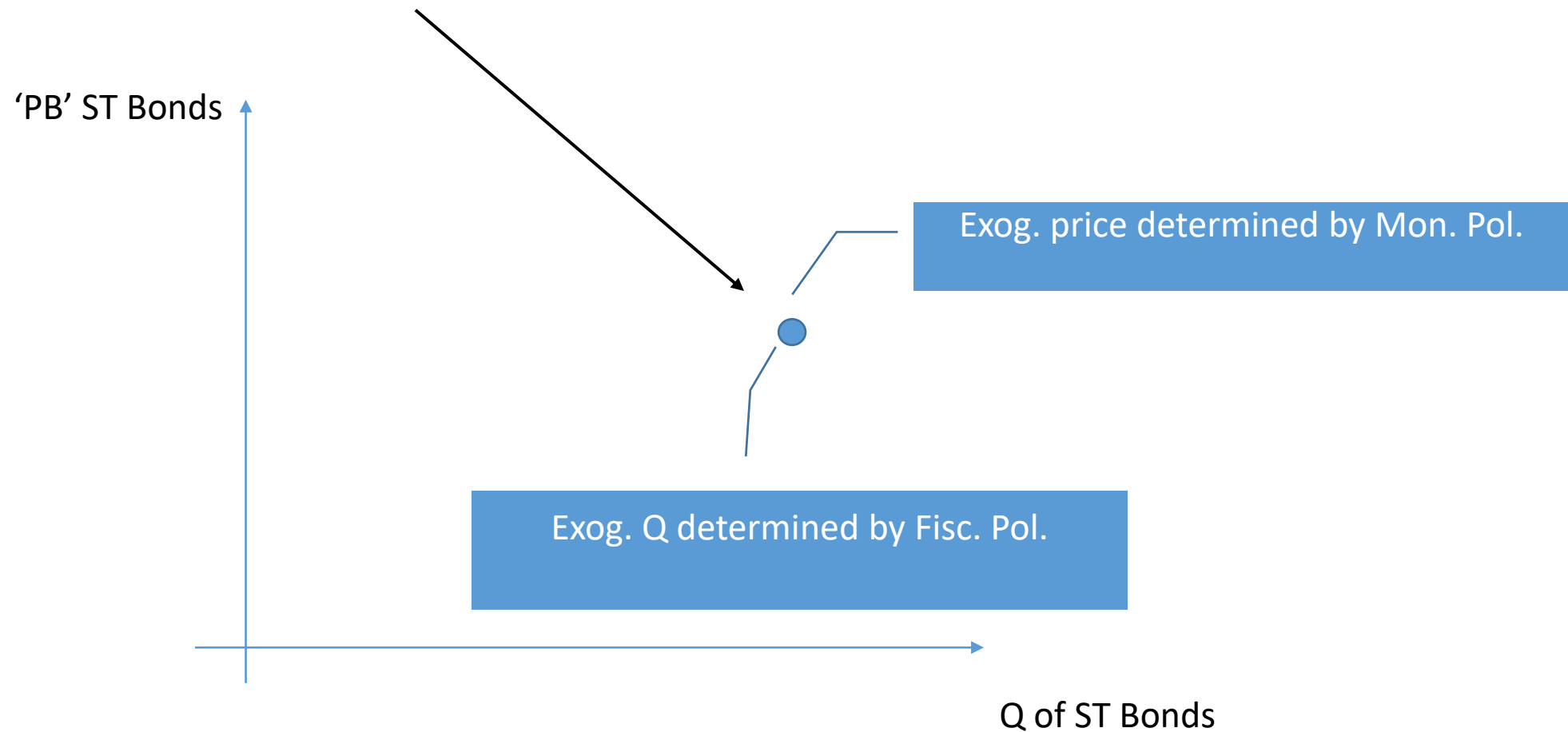
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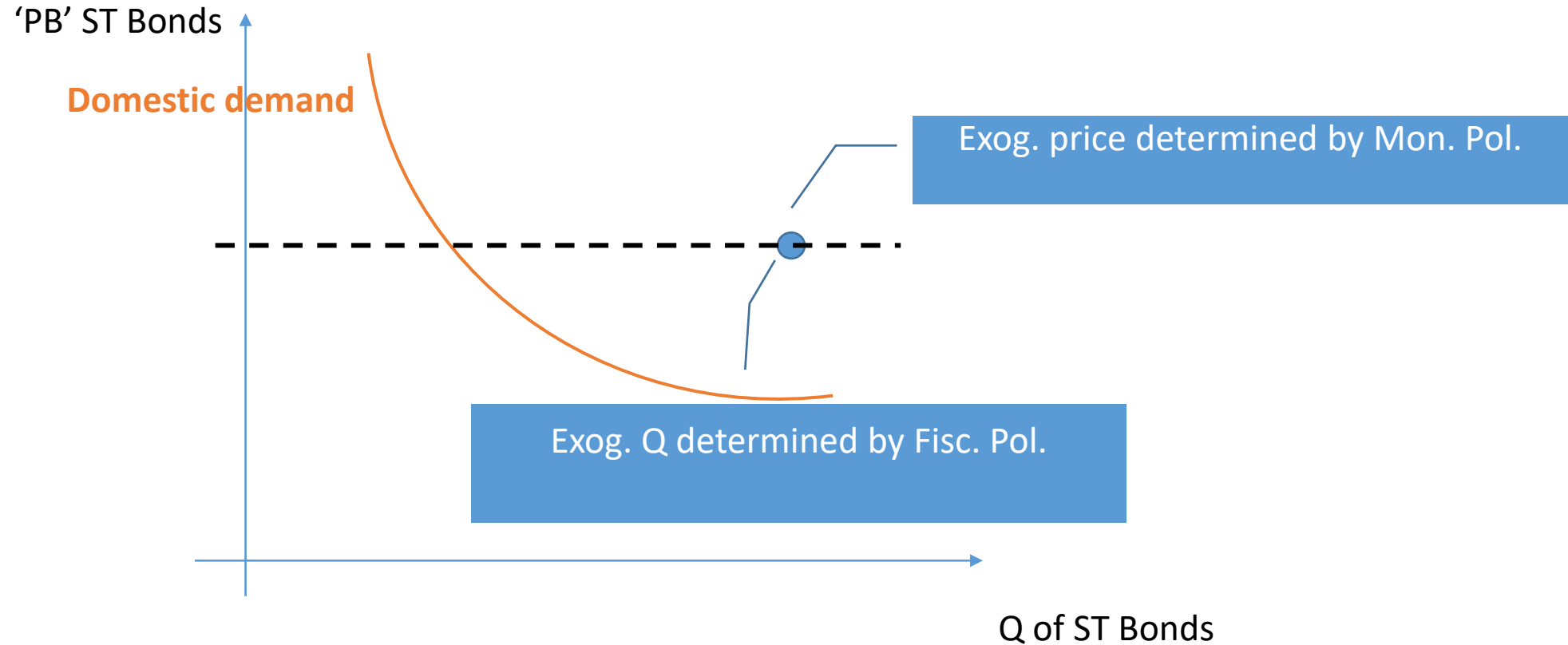


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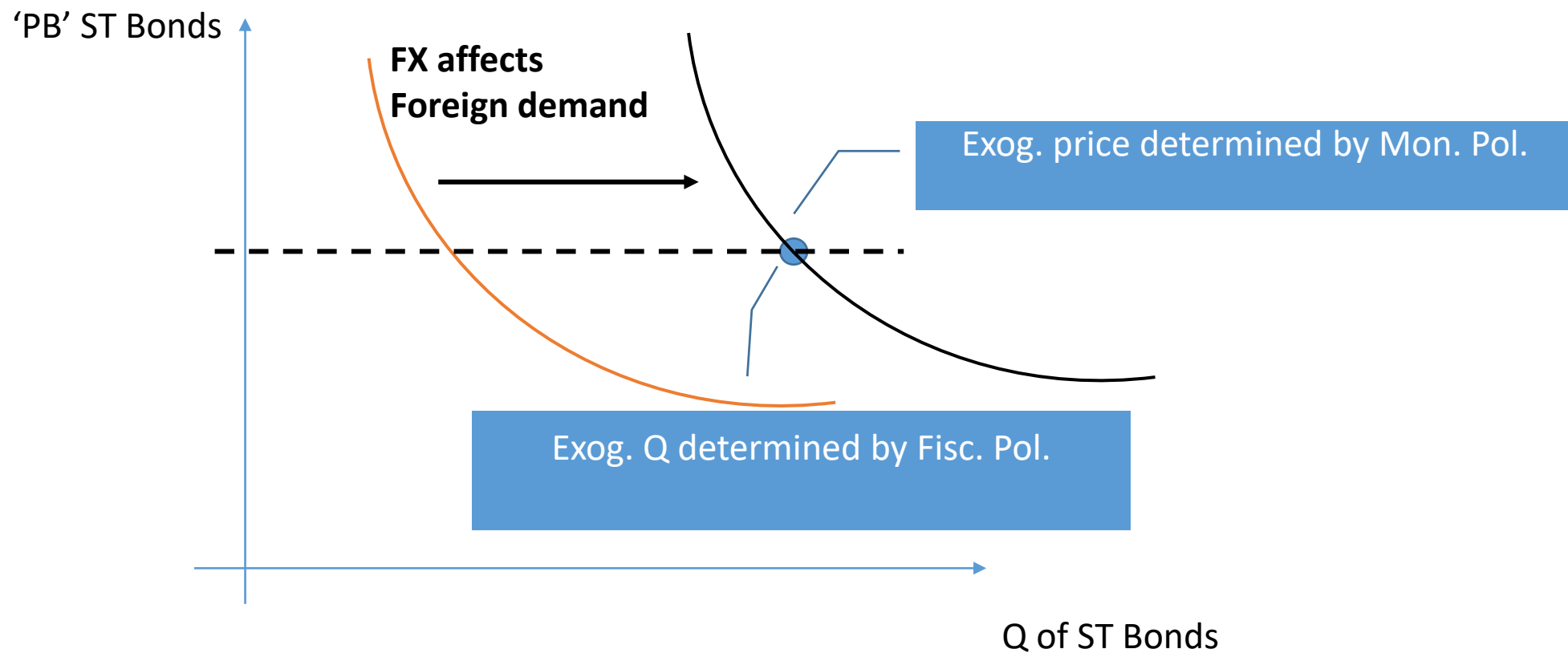


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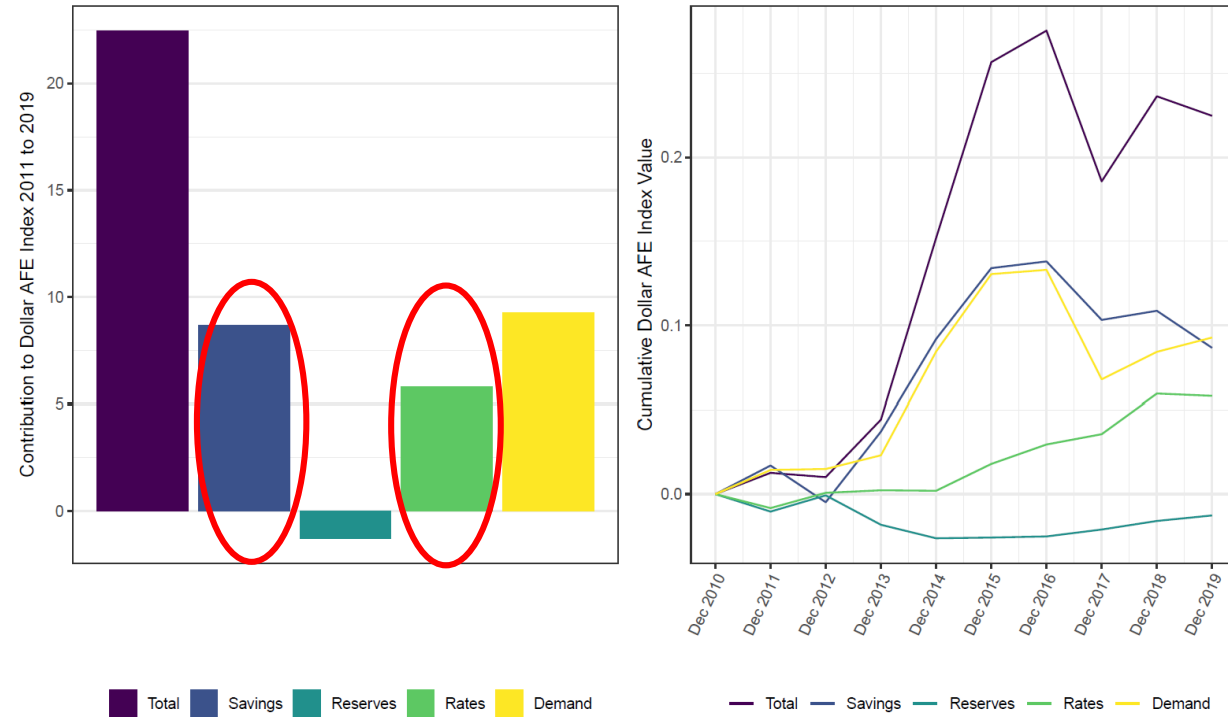
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Rates & Saving Capacity Matter!

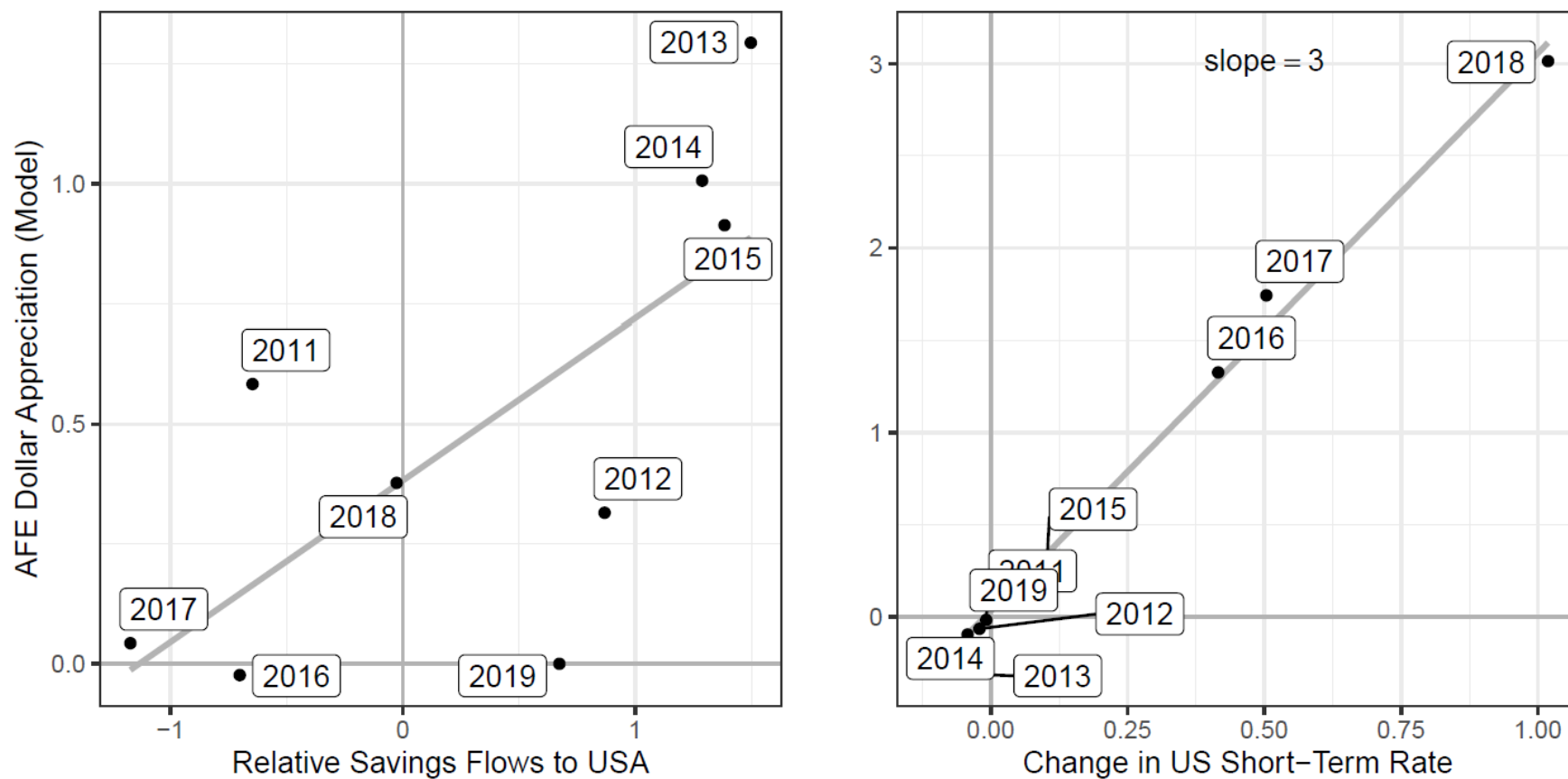
TREND DECOMPOSITION OF DOLLAR AFE INDEX



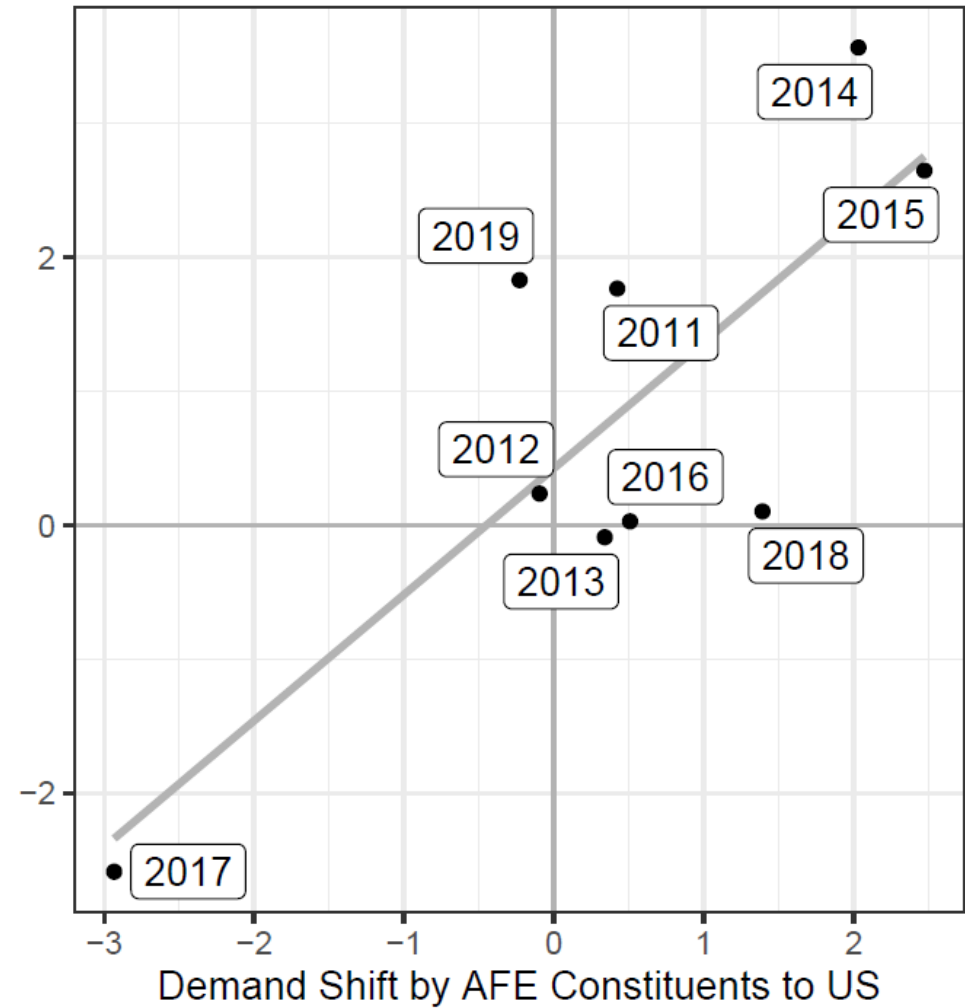
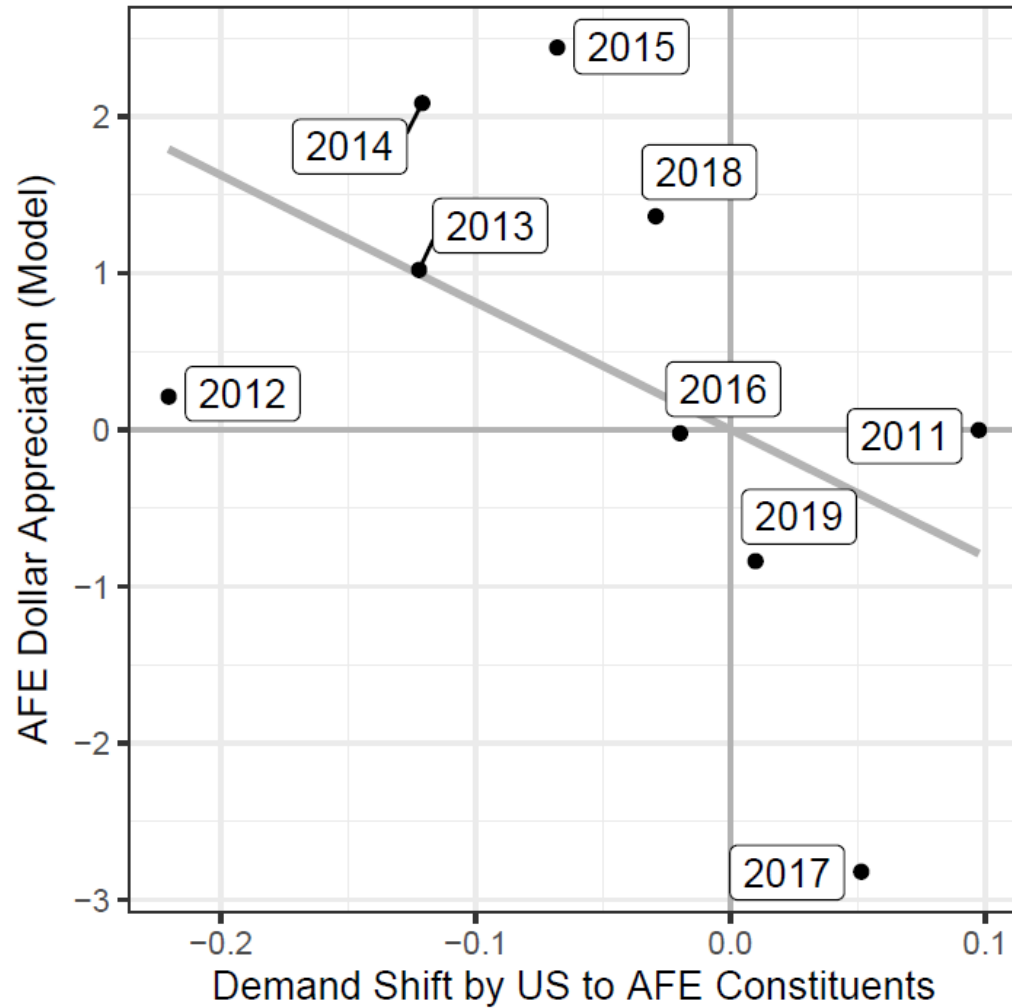
This figure presents the share of the dollar AFE index appreciation explained by each block of economic primitives. The left panel presents the decomposition of the cumulative change in the total dollar AFE index appreciation from 2011 to 2019. The right panel presents the time-series of the cumulative contribution of each block of variables to the dollar AFE index.

Rates & Saving Capacity Matter (II)

FIGURE 2
DOLLAR AFE INDEX APPRECIATION MECHANISMS



Demand Shocks Matter as Well...



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 - *Country-specific* shocks to:
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- In DSGE models, 'demand shocks' are a reflections of:
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- Can the authors say something about the deep origins of this demand shift toward the USD?
 - Is 'desirability' related to **forward looking variables**?
(consumer sentiment/expectation indices/new orders/leading indicators)
 - Post-2014, the US has been consistently expected to perform better (growth) than other DM.
 - Is there a link with **global** uncertainty measures?

To Conclude

- I learned a lot, **Superb Paper**:
 - Well written
 - Well executed