

Cross-Border M&A Flows, Economic Growth, and Foreign Exchange Rates

Steven J. Riddiough Huizhong Zhang

Ingomar Krohn
Bank of Canada
Discussion

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*The views expressed by the speaker do not necessarily reflect those of the
Bank of Canada's Governing Council.*

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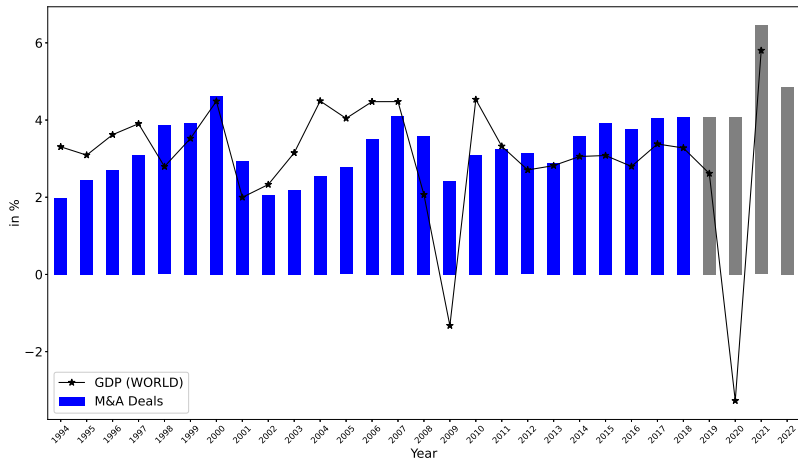
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 2. Finding II: Improving conditions **lead to** foreign currency appreciation
 - ▶ Acquisition activity of domestic firms matters most
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- ▶ **Contribution:** New channel bridging two streams of literature:

Corporate Finance and **Exchange Rates**

M&A Cross-Border Deals and Economic Activity



- ▶ # ann. M&A deals resembles business cycle dynamics
- ▶ Significant positive correlation across years

Main Measure: M&A Cross-Border Deals

- ▶ Differences between announced deals from/to country i to/from the U.S.

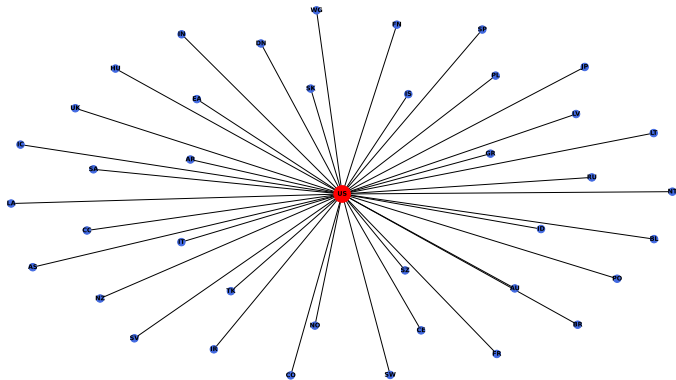
$$MA_{i,t} = MA_{i,t}^{in} - MA_{i,t}^{out} \quad (1)$$

- ▶ $MA_{i,t} < 0$: Firms in country i announced more deals (rel. to the U.S.)

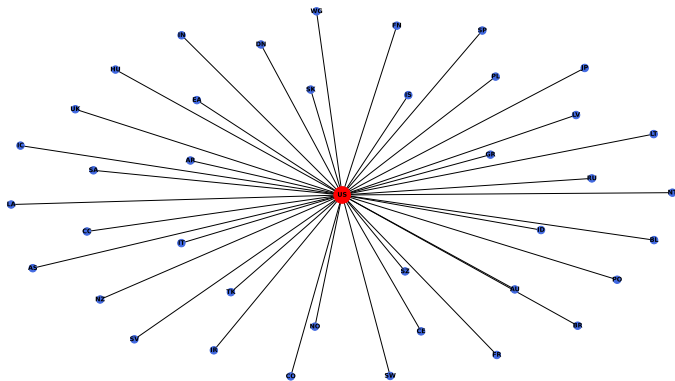
$$\tilde{MA}_{i,t} = \frac{MA_{i,t} - \bar{MA}_{i,t}}{\sigma_{i,t}} \quad (2)$$

- ▶ Standardization accounts for heterogeneity
- ▶ Averages out idiosyncratic information

Comment I: M&A Cross-Border Deals - "U.S. Centric"

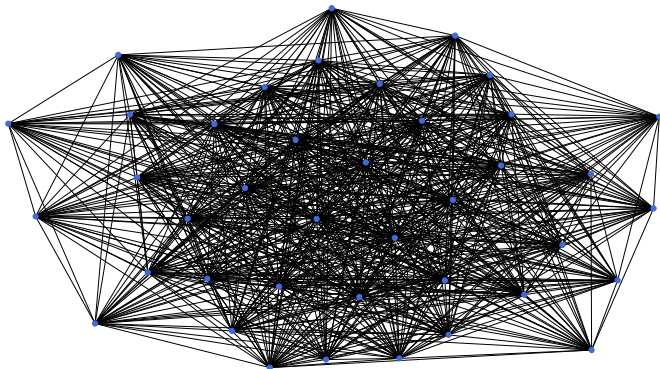


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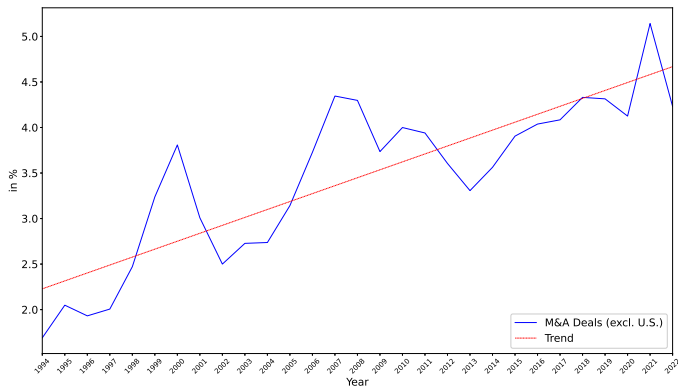
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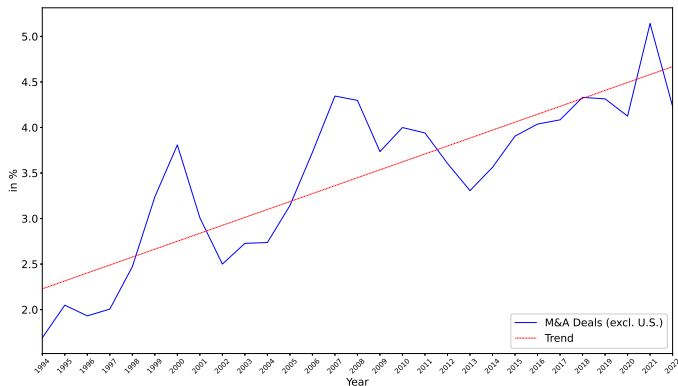
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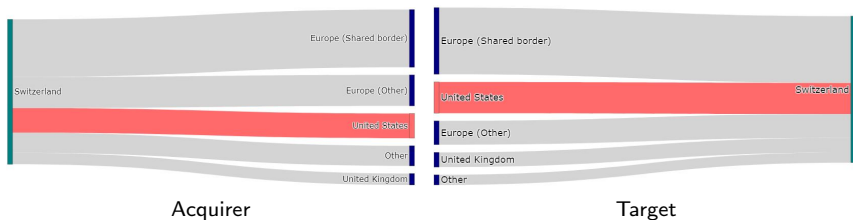
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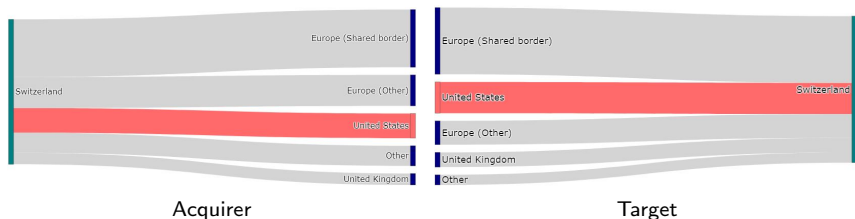


- ▶ U.S.: Most active cross-border M&A market, but ...
- ▶ ... there exists a complex global M&A cross-border network, and ...
- ▶ ... non-U.S. M&A activity has been growing strongly over the sample
- ▶ Is the information of non-U.S. M&A deals relevant?

Comment I: M&A Global Deals - Switzerland (Proximity)

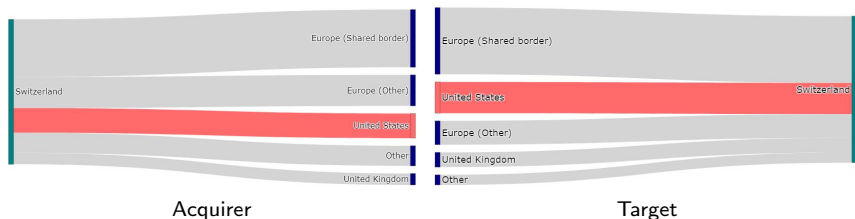


Comment I: M&A Global Deals - Switzerland (Proximity)



- ▶ Distance/Proximity between countries matter for cross-border flows
 - ▶ Information costs affect investment decisions ([Portes and Rey \(2005\)](#))
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- ▶ Could “closer” agents be better informed about neighboring economies?

Comment II: Novel Trading Strategy - Benchmarks

Table 5: Cross-Border M&A Portfolios

	P_1	P_2	P_3	HML	Linear	Rank	Rank _{DM}	Rank _{EM}
<i>mean (%)</i>	-0.86	1.19	3.43	4.29	4.06	4.13	3.01	6.01
<i>t-stat</i>	-0.44	0.68	1.89	3.76	3.61	3.79	2.48	3.25

- ▶ P^{MA} : Positive and significant returns
 - ▶ $S_{i,t+1}$ associated with higher (lower) $\tilde{M}A_{i,t}$ appreciate (depreciate)
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- ▶ Could alternative benchmarks help to strengthen further the argument that agents' expectations matter?
 - ▶ Global Imbalances (Della Corte, Riddiough, and Sarno (2016))
 - ▶ Business Cycle Dynamics (Colacito, Riddiough, and Sarno (2020))
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- ▶ Even higher hurdle: Nucera, Sarno, and Zinna (2022) ?

Comment II: Novel Trading Strategy - Characteristics

- ▶ Explore link between P^{MA} -characteristics and economic growth
- ▶ Expectation: Positive economic growth is persistent

Comment II: Novel Trading Strategy - Characteristics

Panel C: transition matrix

P_1	0.71	0.21	0.06	0.01	0.01
P_2	0.20	0.53	0.18	0.06	0.02
P_3	0.05	0.20	0.46	0.20	0.08
P_4	0.01	0.04	0.22	0.48	0.24
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T-Matrix

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T-Matrix

		Excess returns				
		Holding period h				
f		1	3	6	9	12
1		9.46 [5.31]	7.00 [4.11]	6.17 [3.13]	5.15 [2.73]	5.75 [3.6]

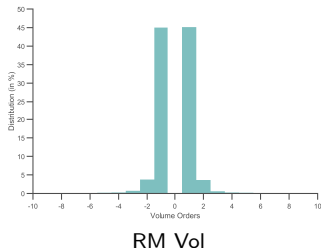
Holding-period

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- ▶ Expectation: Positive economic growth is persistent
 - ▶ Persistence in portfolio corners of transition matrix (Della Corte, Ramadorai, and Sarno, 2016)?
 - ▶ Contribution of static vs. dynamic trade components (Hassan and Mano, 2018)?
 - ▶ Average portfolio returns for longer holding periods (Della Corte, Ramadorai, and Sarno, 2016) ?

Comment III: Number of Trades vs. Volume

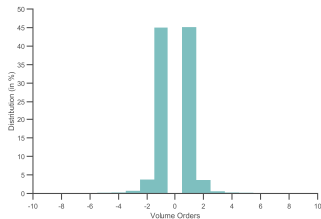
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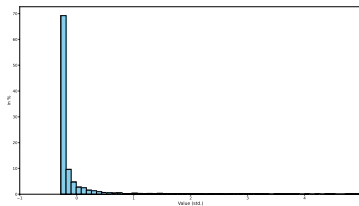


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 - ▶ Minimum trade size has been 1 million of the base currency
 - ▶ Potential incentives to submit lowest possible volume amount

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RM Vol



Ann. Deals

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 - ▶ Minimum trade size has been 1 million of the base currency
 - ▶ Potential incentives to submit lowest possible volume amount
- ▶ Distribution of (std.) ann. \$-value appears different (+ data gaps)
- ▶ Possibly valuable to match ann. \$-value with mcap/size (e.g., CUSIP/SEDOL+ Global Compustat)

Conclusion

- ▶ Intriguing paper highlighting a new channel that matters for currency markets
- ▶ Interesting and novel approach, well-written - enjoyed reading it!
- ▶ I would like to understand better the role of global M&A deals
- ▶ I would like to learn more about the portfolio returns and characteristics of abnormal M&A patterns across portfolios
- ▶ Is it possible to provide further comparisons between portfolio returns and “related” existing currency risk factors?

References

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