

Discussion: Avdjiev, Du, Koch and Shin (2017):
«The dollar, bank leverage and the deviation...»

Farooq Akram

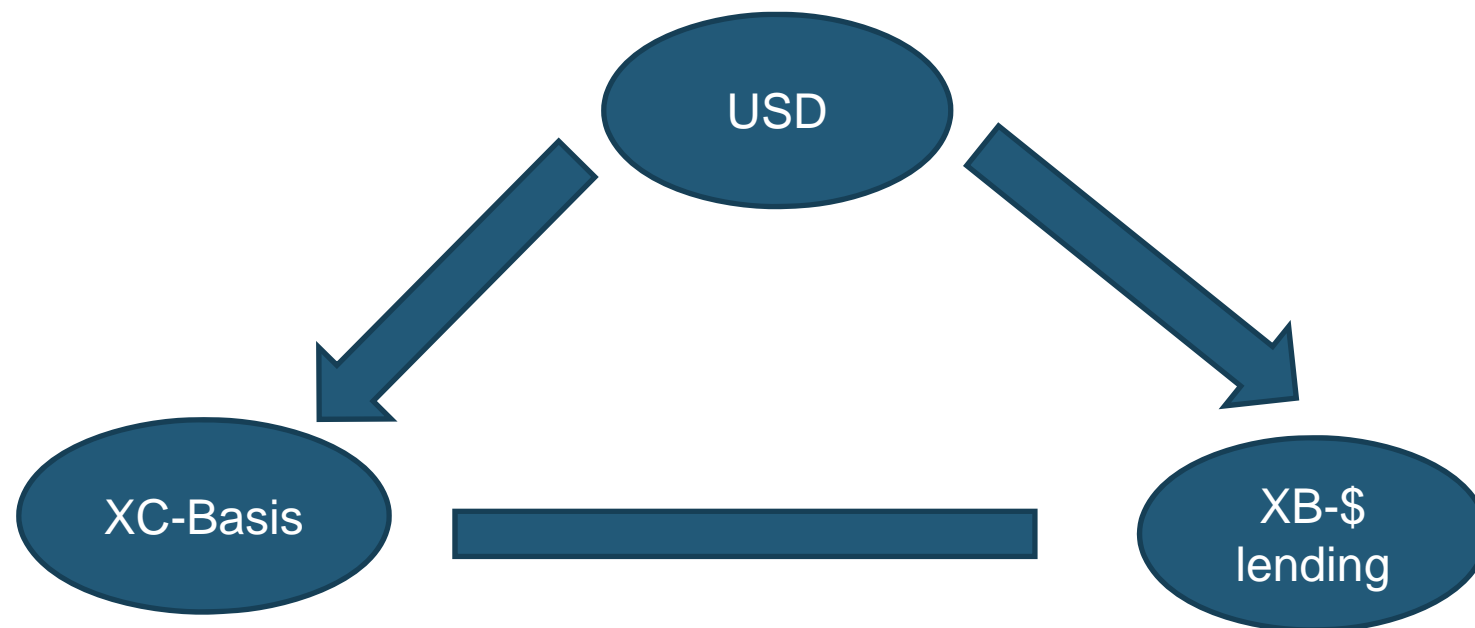
BIS Symposium, May 2017

Disclaimer: Views expressed should not be interpreted as reflecting those of Norges Bank.



The Triangle

- Stronger dollar widens CIP-devs and contracts XB-dollar lending



Generality and interpretation of results?

- Suggested relationships based on general arguments/model

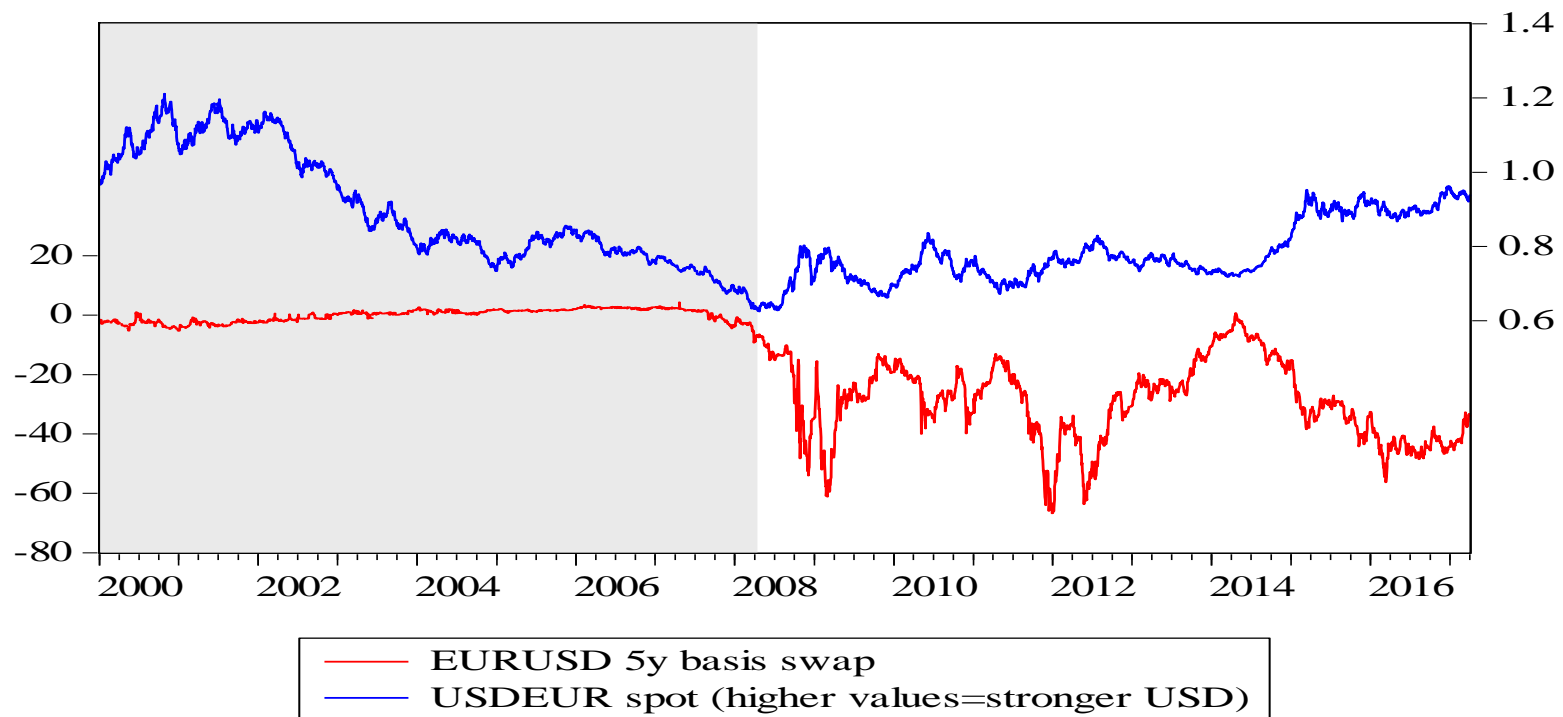
Focus on:

- Empirical validity of relationships over time, interest rates data?
- Empirical validity of relationships across countries/currencies?
- Is there an alternative interpretation of data?



Dollar and cross-currency basis

Correlation absent pre-crisis, appears post-crisis



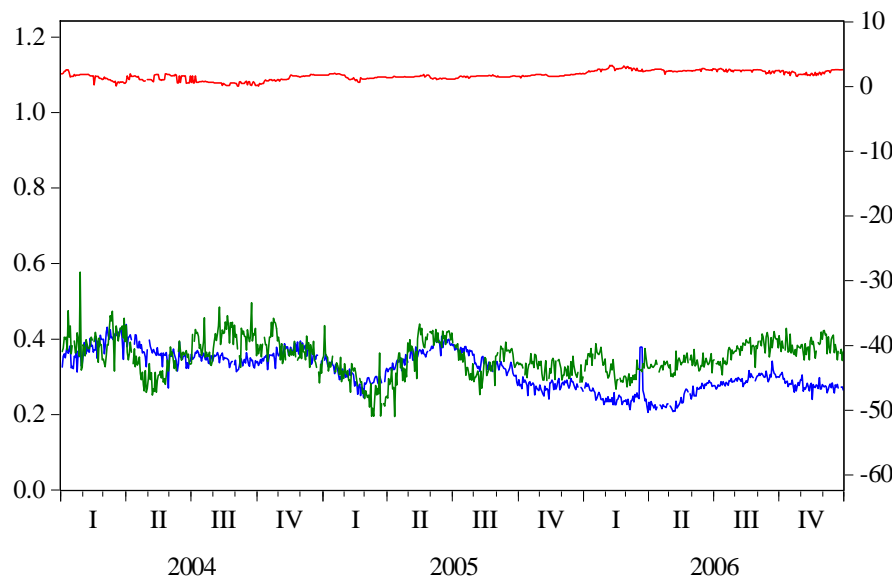
Need to look for post-crisis factors

- Deviations and correlation emerge post-crisis
- What has changed since the crisis?
 -financial regulations and transactions costs
 - risk-conciuosness, and risk premia
 - Monetary policies: ZLB, QE,...
- Unconventional policies behind unconventional deviations and correlations?

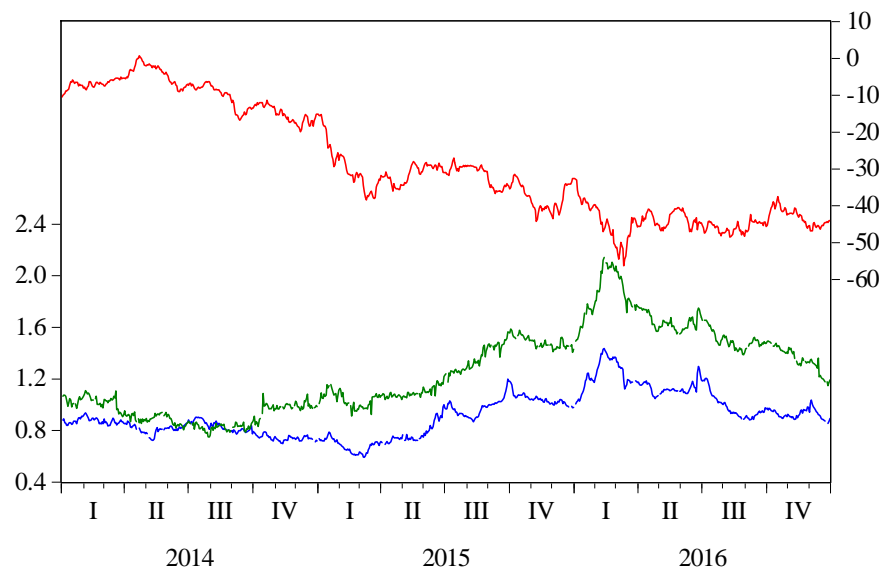


The XC-basis and the credit spreads

- reflects their gap?



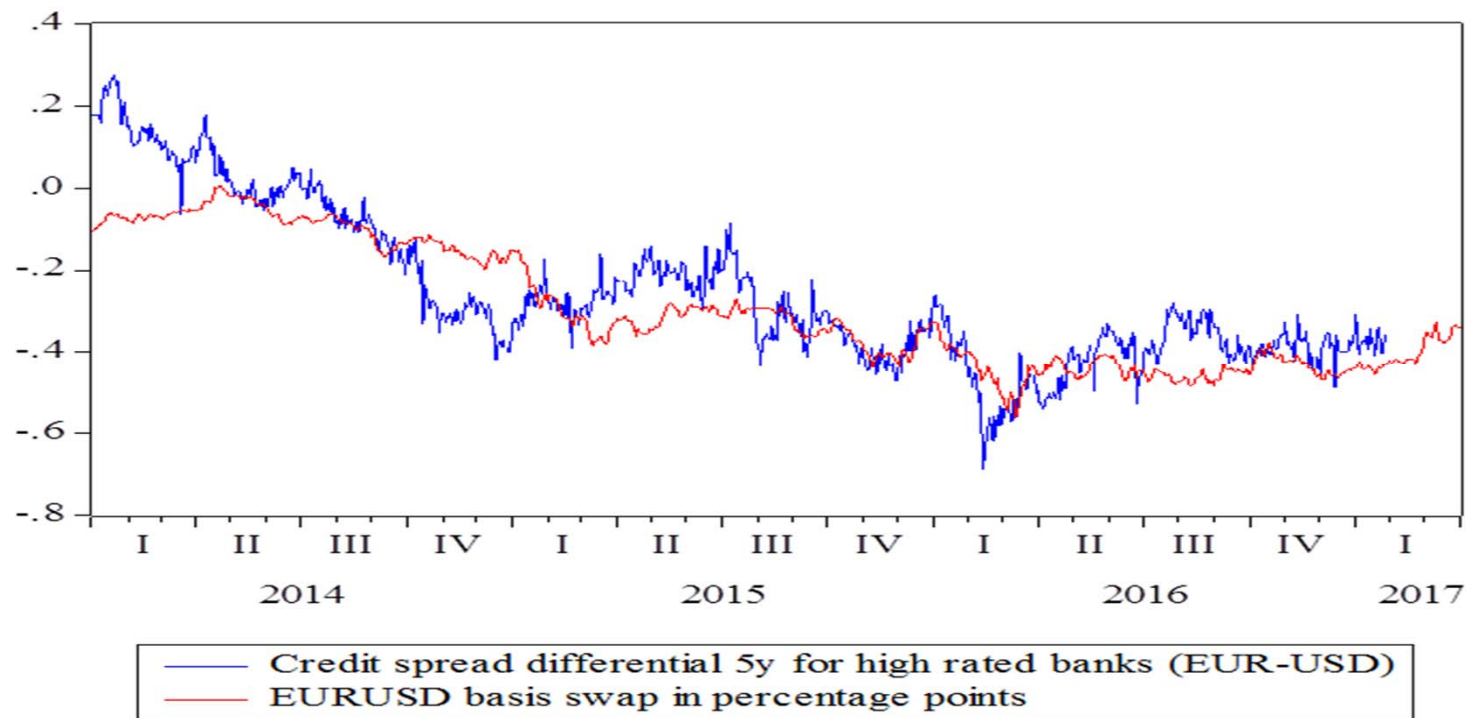
— Credit spreads in EUR (financials 5-7 years, Barclays index)
— Credit spreads in USD (financials 5-7 years, Barclays index)
— EURUSD basis swap 5y (rhs)



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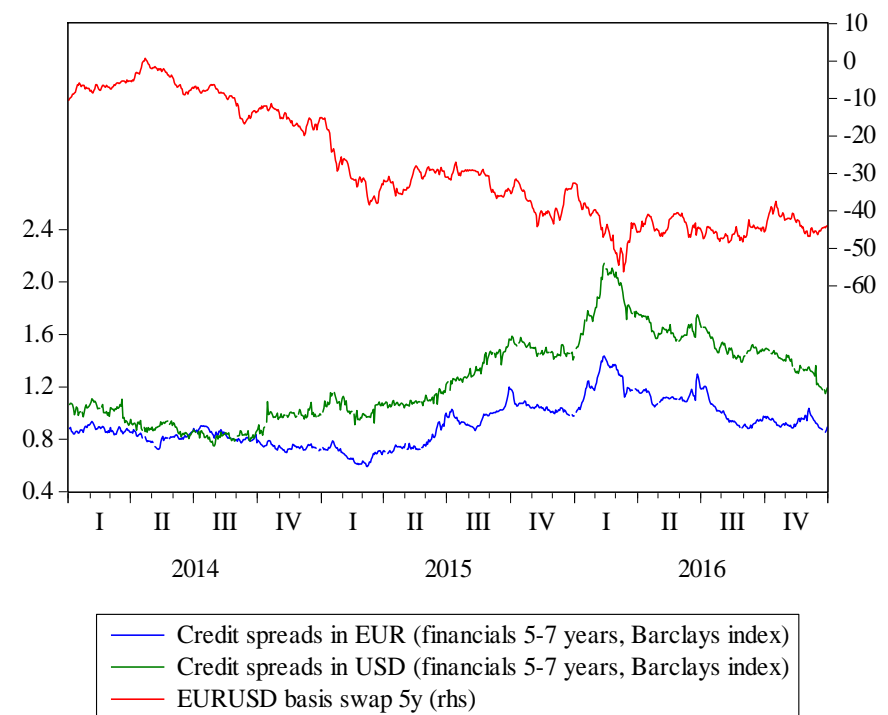
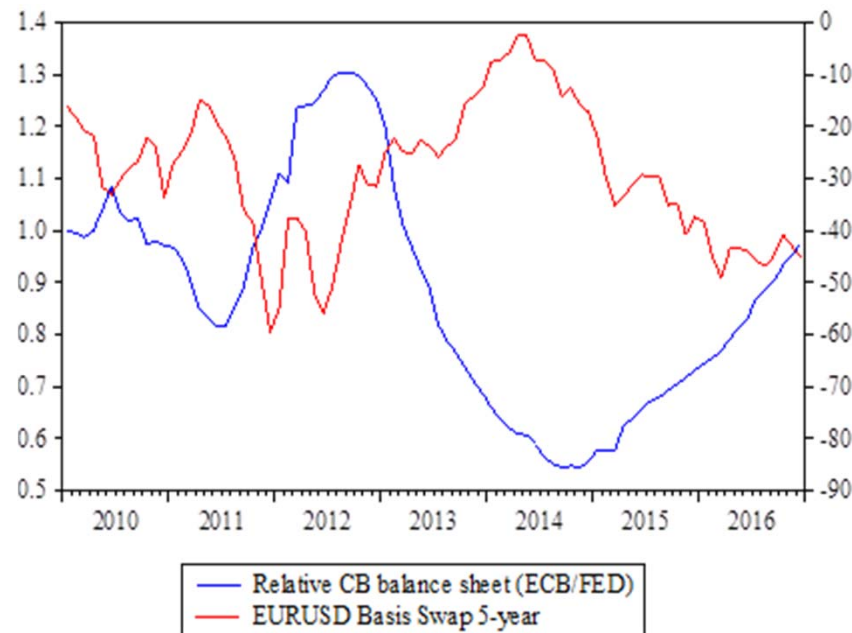
XC-Basis largely reflects credit spread gap?



Source: Syrstad (2017)



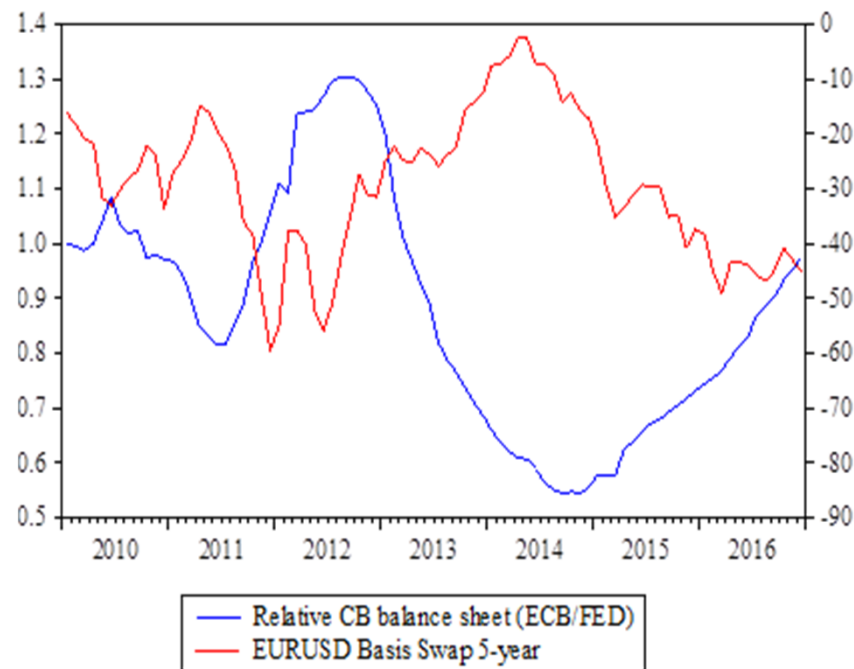
Central banks' balance sheets and spreads?



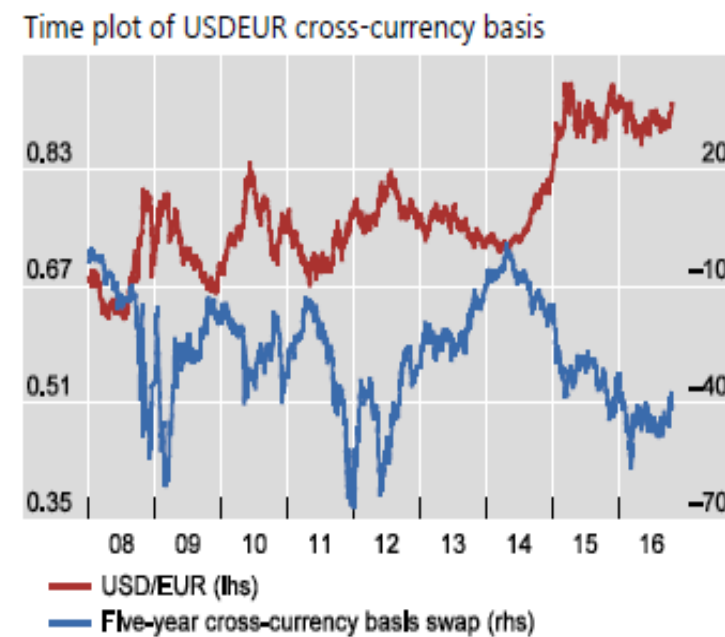
Source: Syrstad (2017)



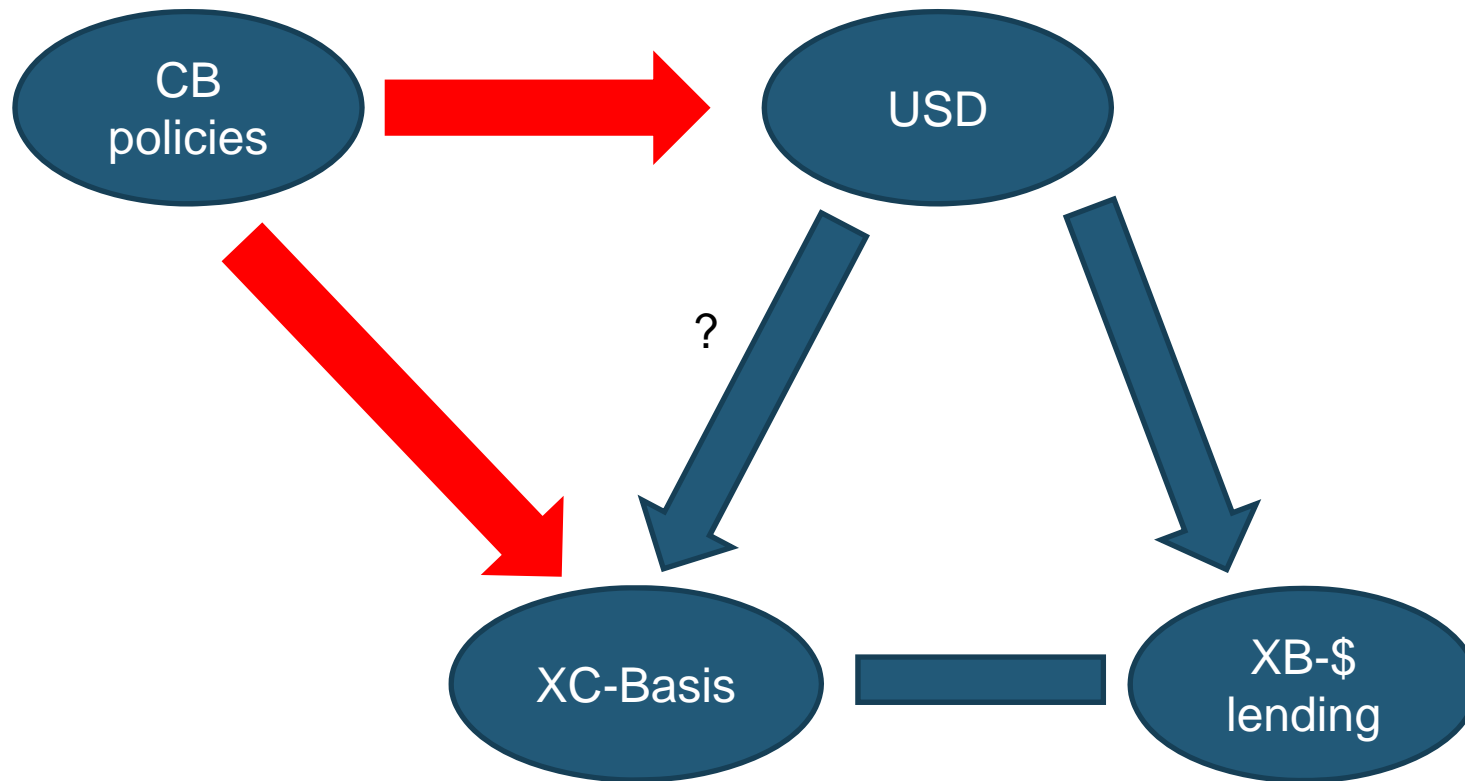
Central banks' balance sheets and dollar?



Source: Syrstad (2017)



Central bank policies behind USD and Basis ?



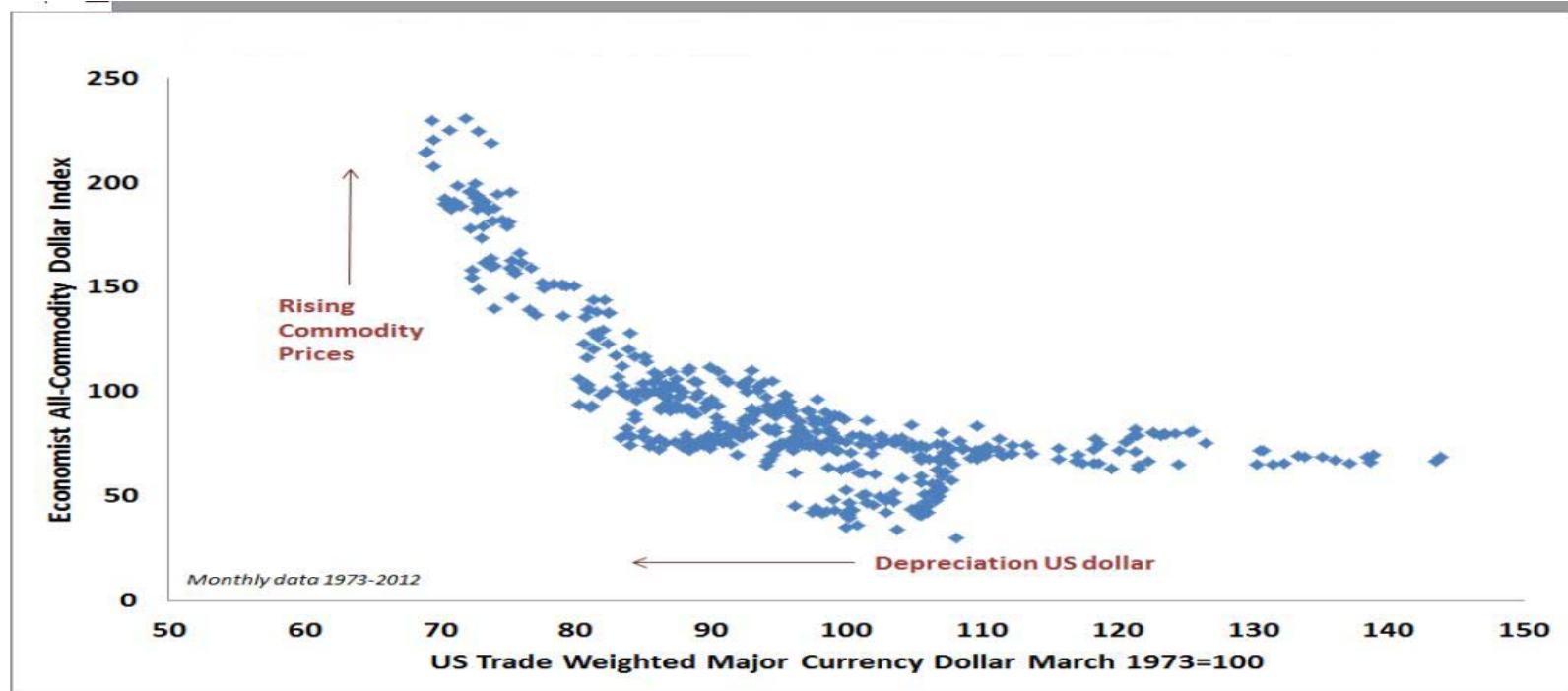
Strong dollar or fall in commodity prices?

4 commodity currencies in the sample; (NOK, CAD, AUD, NZD)

- Strong dollar, fall in dollar-denominated commodity prices
- Fall in commodity prices, strong dollar bilaterally
- Two negative shocks to banks' balance sheets in commodity producers
- Overstate the importance of dollar for banks equity and funding conditions in commodity producers?



Strong dollar, fall in commodity prices

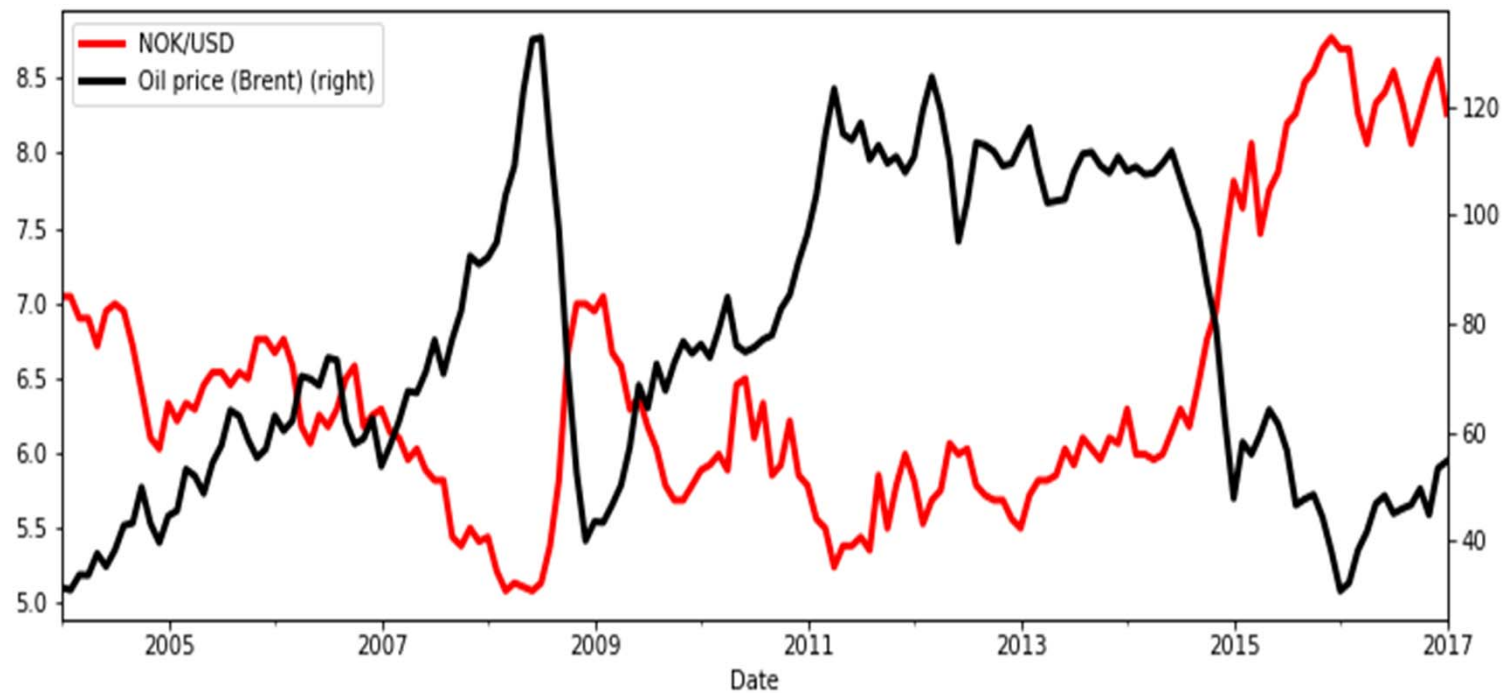


Source: Bloomberg, Global Financial Data, AMP Capital

Source: Naeimi (2013)



Fall in commodity prices, strong \$ bilaterally



Dollar and commodity producers

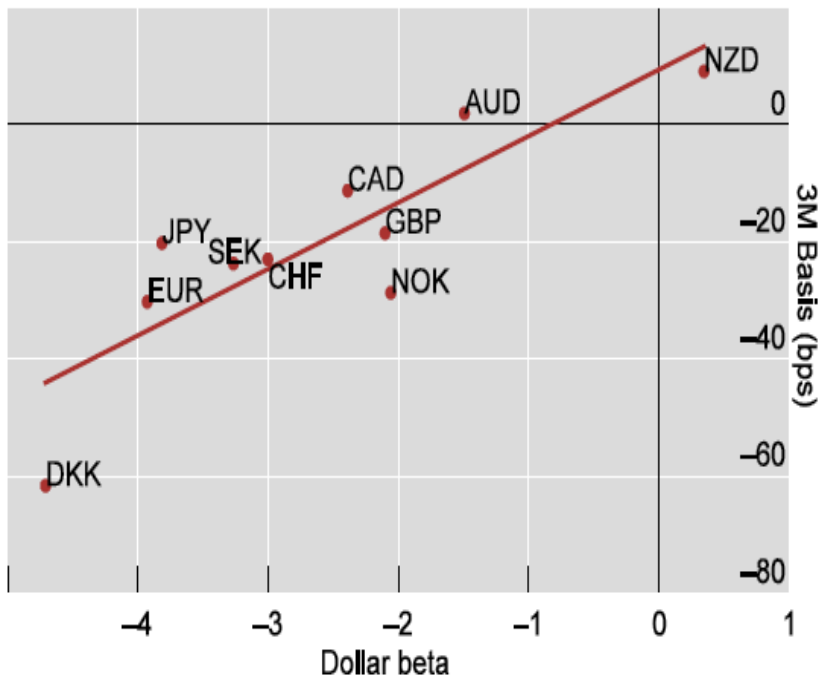
Mixed results for commodity currencies

- When substantial revenues in USD and costs in local currency, strong dollar eases funding conditions for borrowers, and their banks?
- Outweigh the effects of fall in commodity prices on banks' equity and funding conditions?
- Explain why the results for commodity currencies are mixed?

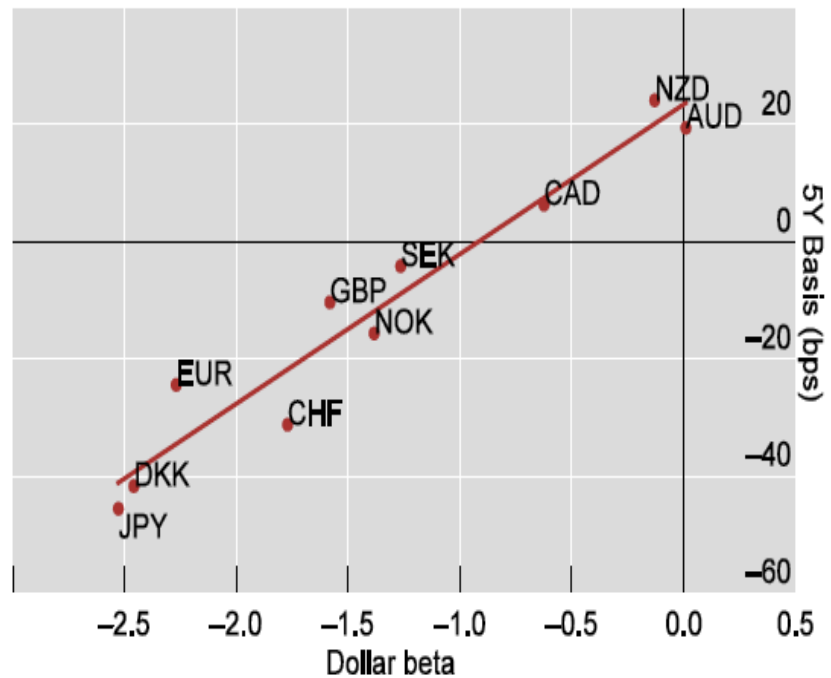


Strong dollar good for commodity producers?

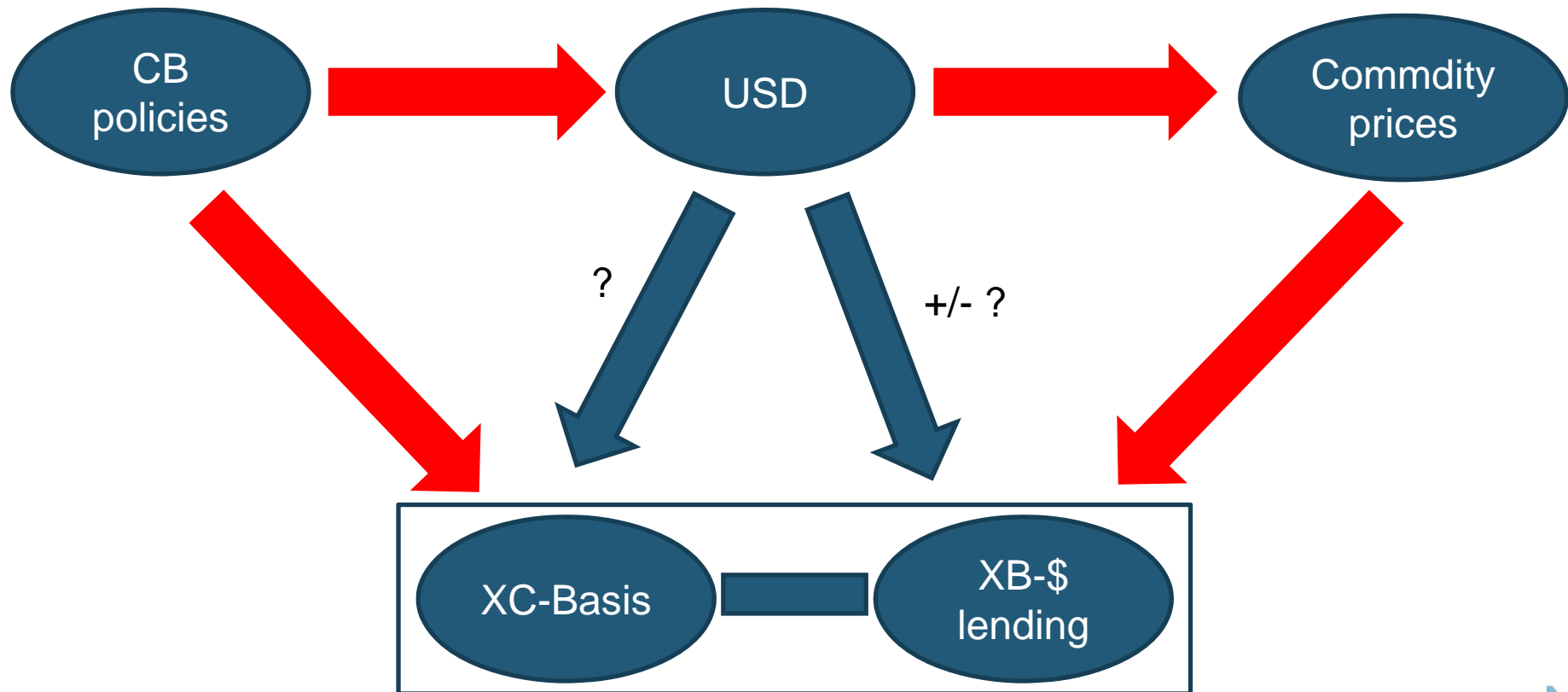
Three-month cross-currency basis vs dollar beta



Five-year cross-currency basis vs dollar beta



An alternative interpretation of results?



In summary

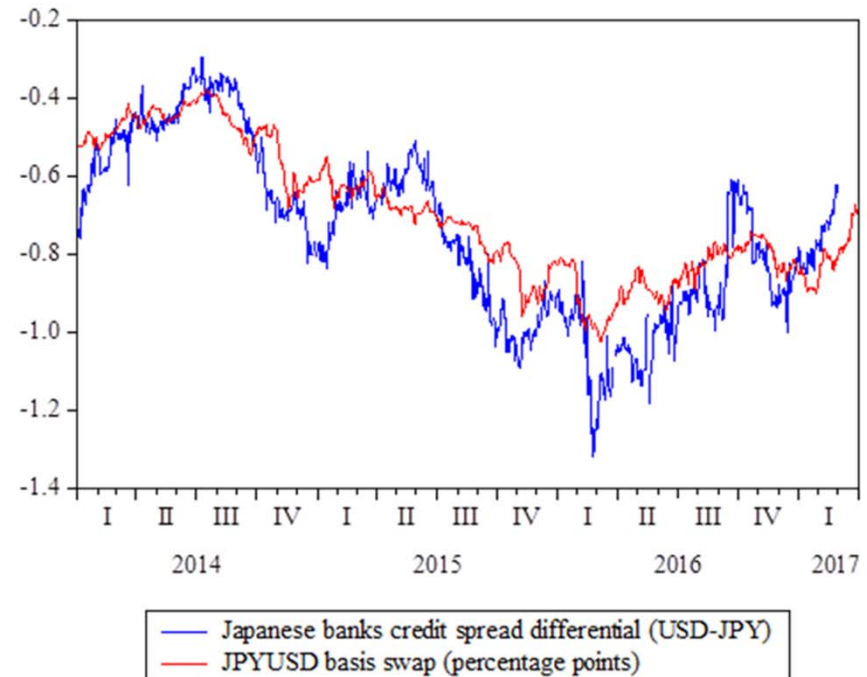
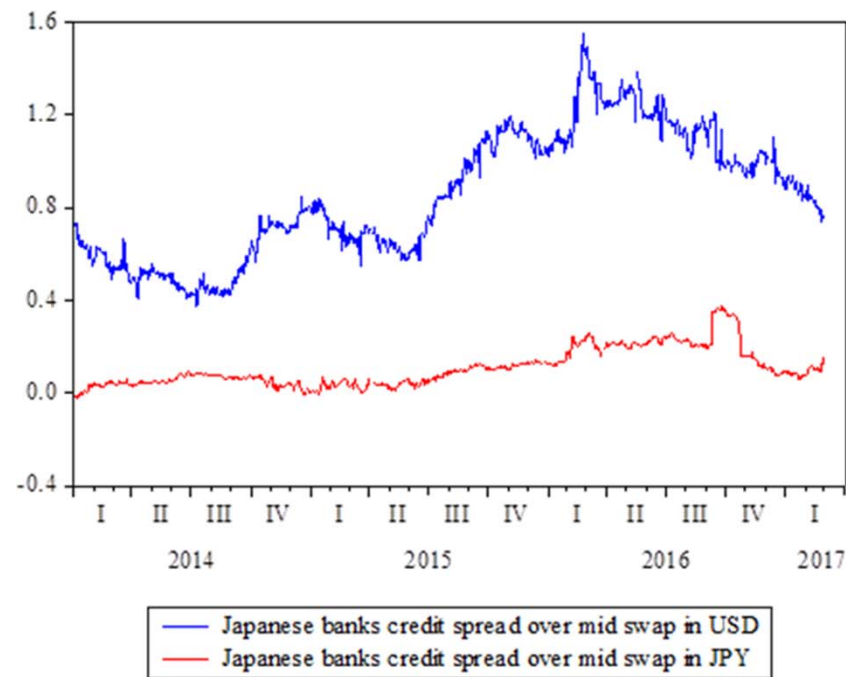
- An important paper with many interesting and striking results
- Robust to extensions of information set?
 - Other interest rates data
 - Unconventional policies
 - Commodity prices.



Appendix



Similiarly in the case of yen...



Source: Syrstad (2017)

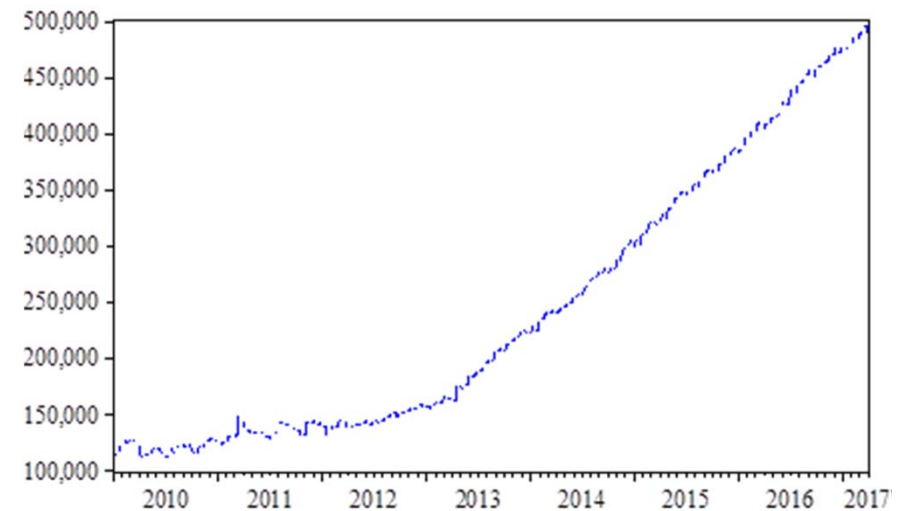


Funding costs, spot and BOJ Balance sheet

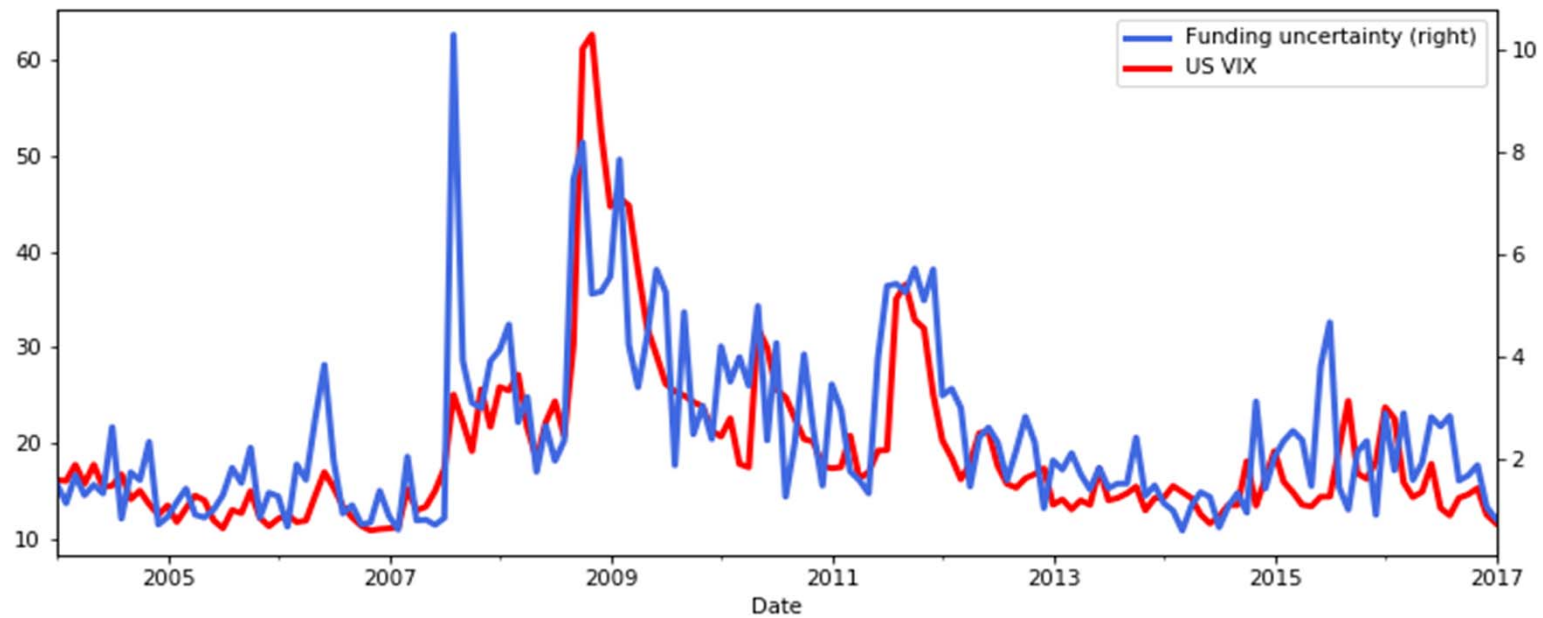


— Japanese banks credit spread over mid swap USD
— Japanese banks credit spread over mid swap JPY
— USDJPY spot (rhs)

BoJ total balance sheet



«Funding uncertainty» and VIX

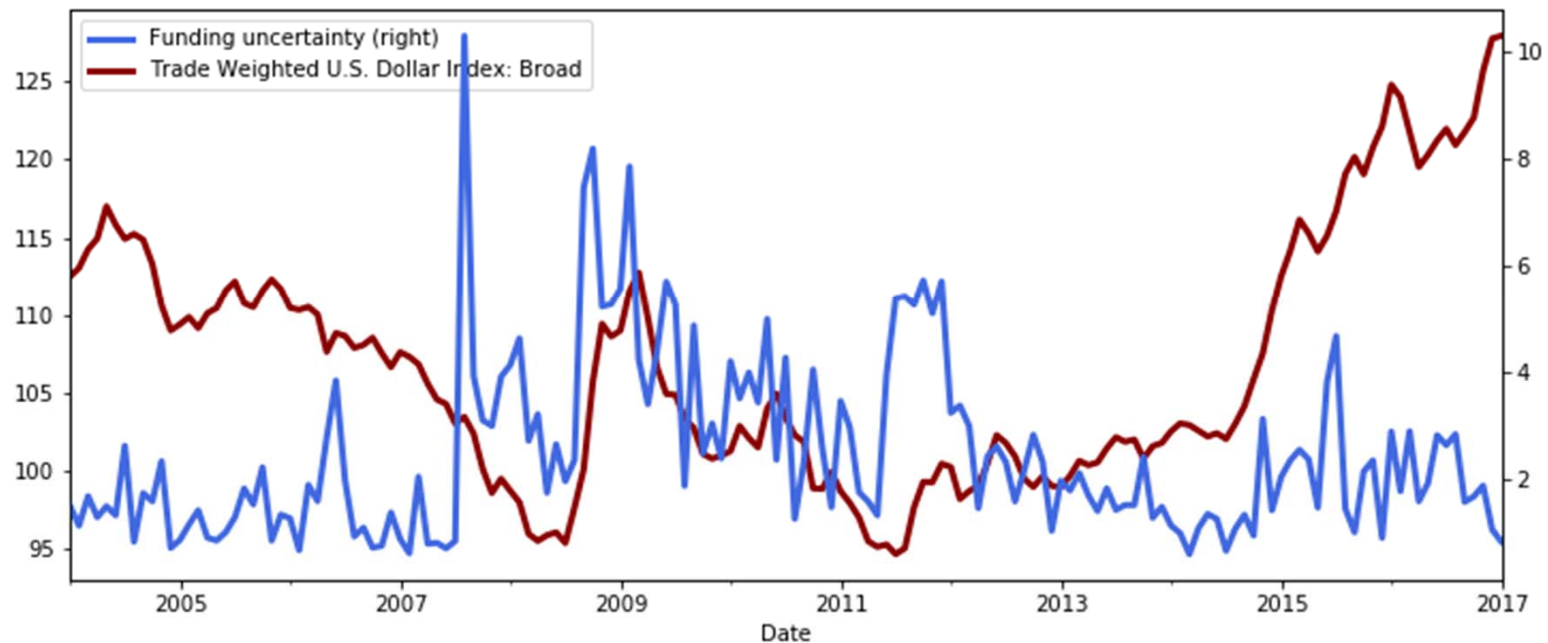


Source: Larsen (2017)



Strong USD raises funding uncertainty?

«Funding uncertainty» count in Norwegian business daily (DN)



Source: Larsen (2017)

