

# Discussion of 'Asynchronous Monetary Policies and International Dollar Credit' by He, Wong, Tsang, and Ho

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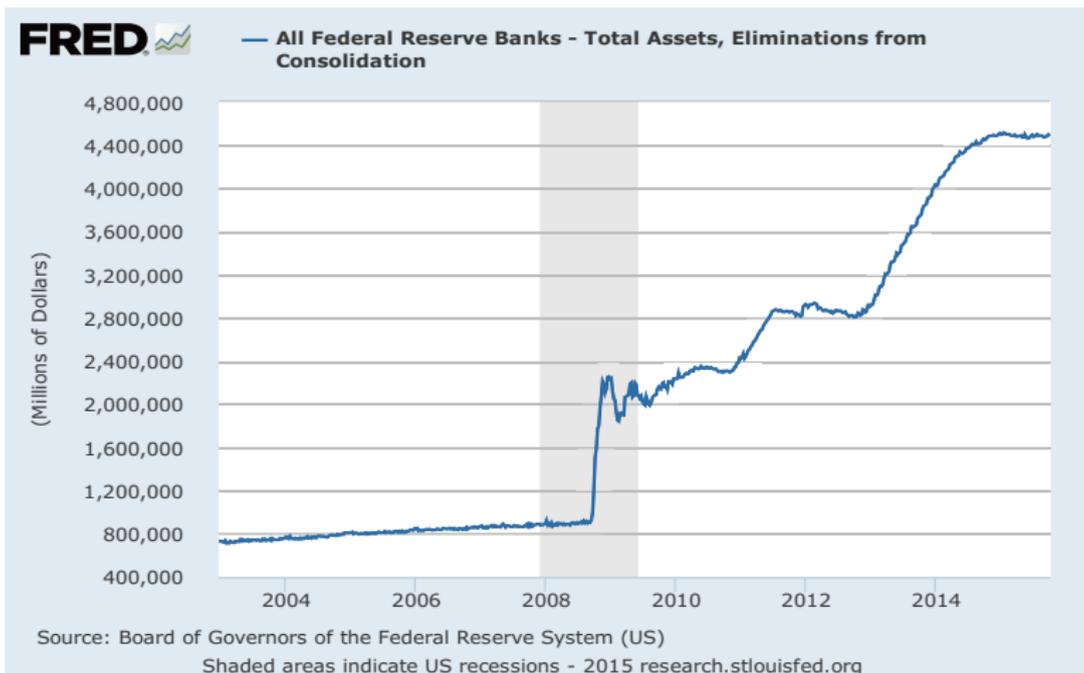
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October 2015

## Central Question

- Balance sheet of the Fed exploded during Great Recession and has not been unwound

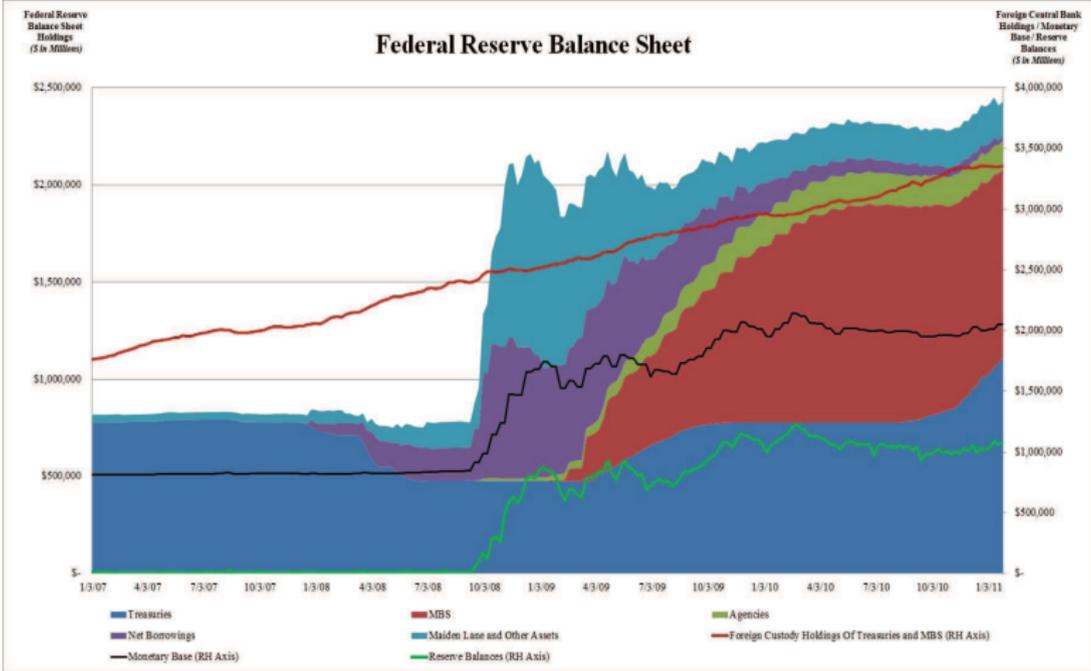
# Federal Reserve Total Assets



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# Federal Reserve Total Assets



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- Balance sheet of the Fed exploded during Great Recession and has not been unwound
- Large part of this expansion is in 'Unconventional Monetary Policy'
- If Fed unwinds what happens to global supply of dollar credit?

# Main Results

- UMP is transmitted internationally in all directions – stimulate lending at home and abroad, no matter who is doing it
- Large effects of spreads in ForEx market (CIP violations) and CDS spreads on dollar credit
- VAR implies that future changes in Fed-supplied dollar liquidity could be partially offset by BoJ and ECB
- Balance sheets matter – banks with inadequate capital and/or higher quality loans respond more to US UMP
- Stress tests imply nonzero chance of severe global liquidity contraction

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# Deviations from Covered Interest Parity

Background

Model

Dollar Lending After Shock

MMF Dependence

## Deviations from Covered Interest Parity (CIP)



FX swaps are the primary means through which global banks manage the currency mismatch between their assets and liabilities (e.g., Fender and McGuire, 2010)

## Deviations from Covered Interest Parity

- Deviations get much smaller during 'normal' periods (outside Great Recession and European debt crisis)
- Normalization of US MP would lead to smaller swap costs, not larger?
- Maybe time-invariant VAR is not the best data description to run stress tests (regime switching?)
- Curious that exchange rate coefficients have different signs – why would Fed UMP appreciate yen but depreciate euro?

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