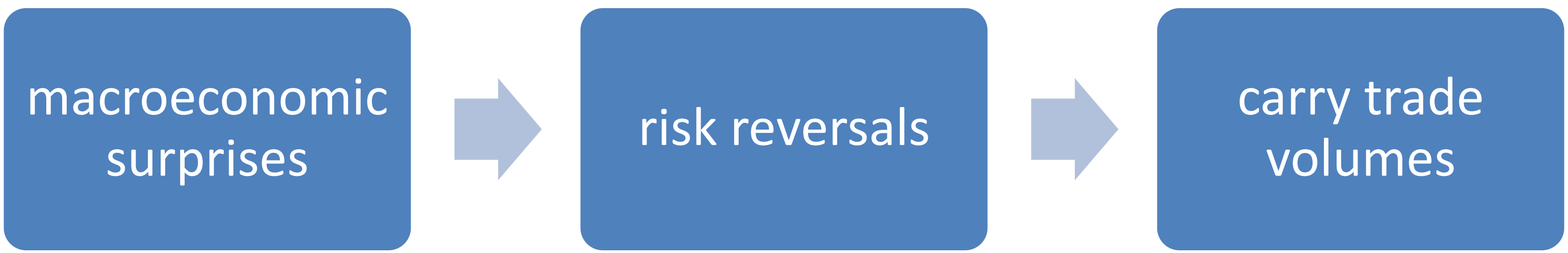
Impact of Macroeconomic Surprises on Carry Trade Activity

By Michael Hutchison and Vlad Sushko

Comments: Ilan Noy



Japan – U.S.

March 2004 – December 2006

My assessment

- Very interesting and well written work
  - It’s my dissertation advisor….
- I learned a lot
  - “I don’t know anything about this topic”
- Maybe two papers?
  - But too late…

Findings on First Link

- Risk reversals are always negative
- Some macro surprises are important!
  - How correlated are these?
  - Are they normalized?
  - How many are ‘large’?
  - Why some macro-news are important?
  - Magnitude of these impacts?

Findings on Second Link

- Causality tests between the risk reversals and a proxy for carry-trade volumes
- Show that risk reversals Granger-cause changes in the proxy that corresponds with the theory (i.e., more risk of Yen appreciation leads to unwinding of carry trades).

More comments

- The time period and explanatory power of findings (p. 15)
- Same for section 4 for the ‘back of the envelope’ calculations
- Too much financial jargon: volatility smile and smirk