Impact of Macroeconomic Surprises on Carry Trade Activity

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macroeconomic surprises → risk reversals → carry trade volumes
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