Comments on “One Way Bets on Pegged Exchange Rates”
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Overall comments

- Very nice paper
- Nice experiment
- Careful work
- Nice set of results
- Motivates much thinking
- Generates ideas for future research
Overall comments

- Would be useful to know more
- What are the alternative interpretations?
- Understand better what drives results
  - Explore more the channels
- Try other specifications
- Have more discussion
- Highlight better specific contributions to literature
What the paper does

\[ r_t^j = \alpha + \beta_1 r_t^m + \beta_2 \Delta e \hat{r}_t + \varepsilon_t \]

industry j
index
return
What the paper does

\[ r_t^j = \alpha + \beta_1 \bar{r}_t^m + \beta_2 \Delta \hat{e}r_t + \varepsilon_t \]

industry j index return
orthogonalized market return
exchange rate innovation IND/USD

\[ r_t^m = \alpha + \beta \sum \Delta \hat{e}r_t + \varepsilon_t \]
What the paper does

\[ r_t^j = \alpha + \beta_1 \bar{r}_t^m + \Delta e \hat{r}_t + \varepsilon_t \]

\[ \downarrow \Delta e \hat{r}_t \text{ (appreciation)} \rightarrow \uparrow r_t^j \]

- **For most** \( j \)
- **During periods of strong appreciation**
- **Most industries gain, regardless of exports**
What the paper does

Finding

- Gain from appreciation

Interpretation

- Net exports
- Gains happen in periods of strong appreciations
- One way bets
Explore more the channels

- If betting, how are they doing so?
  - Dollar debt
  - Speculative positions (derivatives)
- If betting, who is taking other position?
  - Not domestic financials because they also gain!
  - Government?
  - Foreigners?
Explore more the channels

- Any other channel than one way bets?
  - Common shocks affecting both returns and exchange rates
  - Investor sentiment
    - Capital flows
    - Domestic investor
  - Better fundamentals
    - Positive shocks/news
    - Better policies
Case of capital inflows

- Pure floating regime (literature)
  \[ \Delta \hat{e}_t (\text{full appreciation}), r_t^j = 0 \rightarrow \beta_2 = 0 \]

- Fully Fixed regime (Period 1)
  \[ \Delta e_t = 0, \uparrow \uparrow r_t^j \rightarrow \beta_t = 0 \]

- Semi-fixed regime (Periods 3 & 4)
  \[ \downarrow \Delta \hat{e}_t (\text{partial appreciation}), \uparrow r_t^j \rightarrow \beta_2 < 0 \]
Case of better fundamentals

- Good news
  - Productivity shock
    \[ \downarrow \Delta e \hat{r}_t, \uparrow r_t^j \rightarrow \hat{\beta}_2 < 0 \]

- Good policies
  - Fiscal responsibility
    \[ \downarrow \Delta e \hat{r}_t, \uparrow r_t^j \rightarrow \hat{\beta}_t < 0 \]
Other related comments

- Why using orthogonalized stock market returns?
- Correction of standard errors?
  - Orthogonalization
  - Innovation of exchange rate
Other related comments

- Why not using firm-level estimations?
  - Could exploit firm attributes
  - Actual exports
  - Size for ability to hedge
  - Dollar debt
  
  To be consistent with interpretation, expect:
  - Exporters betting: short dollars (debt, hedges)
  - Otherwise, exporters lose from appreciation
Other related comments

- If betting driver, how much can firms bet?
- Not clear how exchange rate regimes were determined
- Are there better ways of splitting the sample given goals?
- Omitted variables that could be used?
Conclusions

- Very nice paper
- More analysis would be welcomed
  - Useful to know more through future analysis
- More discussion would help
  - More explanations
- Alternative drivers
- Extent of one way bets
Thank you!