# 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

$$r_t^j = a + b_1 \bar{r}_t^m + b_2 \, \Delta e\hat{r}_t + e_t$$

$\underbrace{r_t^j}$
industry j
index
return

# What the paper does

$$r_t^j = \boldsymbol{a} + \boldsymbol{b}_1 \; \overline{r}_t^m + \boldsymbol{b}_2 \; \Delta e\hat{r}_t + \boldsymbol{e}_t$$

industry j
index
return

orthogonalized
market
return

exchange
rate
innovation
IND/USD

$$r_t^m = \boldsymbol{a} + \boldsymbol{b} \; \sum \Delta e\hat{r}_t + \boldsymbol{e}_t$$

# What the paper does

$$r_t^j = a + b_1 \overline{r}_t^m + \Delta e\hat{r}_t + e_t$$

$\underbrace{\phantom{r_t^j}}$ industry j index return

$\underbrace{\phantom{\overline{r}_t^m}}$ orthogonalized market return

$\underbrace{\phantom{\Delta e\hat{r}_t}}$ exchange rate innovation IND/USD

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

- For <u>most</u> 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)

$$\downarrow\downarrow \Delta e\hat{r}_t \text{ (full appreciation)}, r_t^j = 0 \rightarrow \hat{\boldsymbol{b}}_2 = 0$$

+ Fully Fixed regime (Period 1)

$$\Delta e\hat{r}_t = 0, \ \uparrow\uparrow r_t^j \rightarrow \hat{\boldsymbol{b}}_t = 0$$

+ Semi-fixed regime (Periods 3 & 4)

$$\downarrow \Delta e\hat{r}_t \text{ (partial appreciation)}, \uparrow r_t^j \rightarrow \hat{\boldsymbol{b}}_2 < 0$$

# Case of better fundamentals

+ Good news

  + Productivity shock

  $$\downarrow \Delta e\hat{r}_t, \uparrow r_t^j \rightarrow \hat{\boldsymbol{b}}_2 < 0$$

+ Good policies

  + Fiscal responsibility

  $$\downarrow \Delta e\hat{r}_t, \ \uparrow r_t^j \rightarrow \hat{\boldsymbol{b}}_t \ < 0$$

# 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!