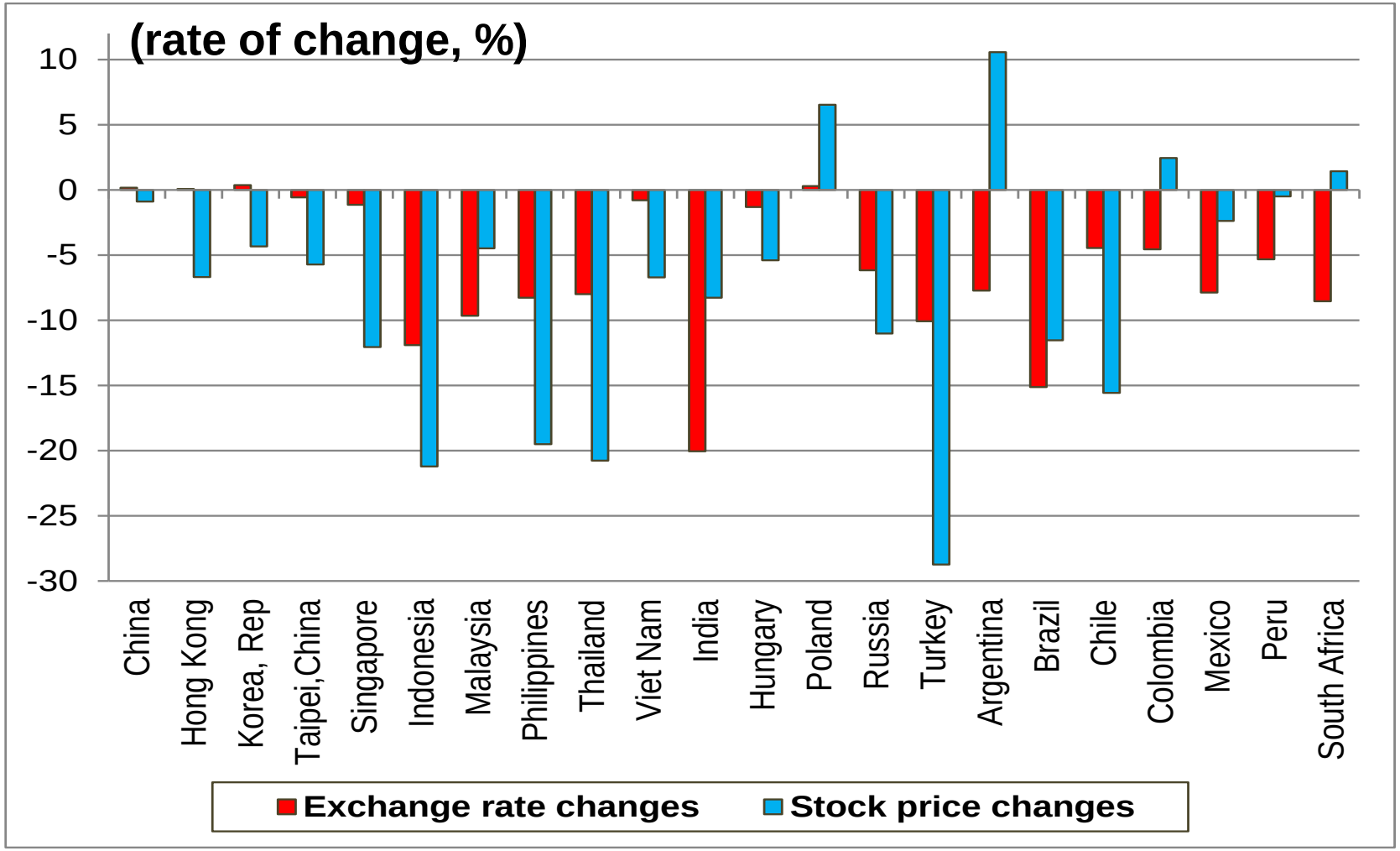
New approach

- Use of raw data—exchange rate changes (%)
- Use of abnormal returns extracted from FW estimation
- But FW estimation does not capture EM factors
- Thus, use of abnormal returns extracted from augmented FW (FW) estimation

Exchange rate and stock price changes between 22 May and 29 August 2013



Note: An increase (decrease) in the exchange rate means currency appreciation (depreciation)
Source: Bloomberg

Emerging economy exchange rate changes affected by the current account & inflation

Explanatory variables	Eq. 1	Eq. 2
Constant	-2.859	0.066
	(2.329)	(2.322)
Current account balance/GDP	0.589**	0.507**
	(0.193)	(0.181)
Gross public debt/GDP	-0.084	-0.059
	(0.050)	(0.045)
Inflation rate	---	-0.859**
		(0.350)
Number of observations	22	22
Adjusted R-squared	0.263	0.430

Note: Exchange rate changes are the rates of change in nominal exchange rates against the US dollar between 22 May and 29 August 2013, with positive values indicating appreciation. Eq.1 uses 2012 data for the explanatory variables, while Eq. 2 uses 2013 projections for the explanatory variables. Projections are from IMF, *WEO database*.

Source: Kawai, M. (2015), "International Spillovers of Monetary Policy: US Fed Policy and Abenomics." ADBI Working Paper 512.

Some questions

- Fragile EMs were clearly affected by the tapering talk in June-August 2013
- Definition of EMs
- Problem with using CHF as a numeraire currency
- Using PC1 for EM factors—any other alternatives
- Signs of the estimated coefficients?
- The value added of using AFW?—some mixed results, particularly the role of CPI inflation in the Ahmed, et al model