

Discussion: “The Transmission of International Monetary
Policy Shocks to Firms’ Expectations”

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and Javier Turen

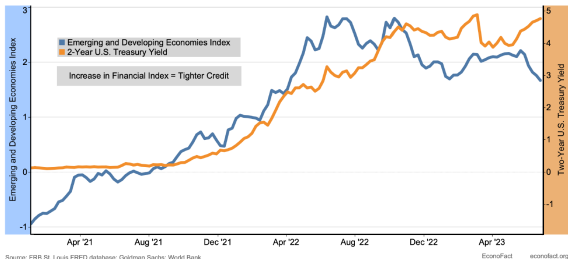
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Why Study US Monetary Policy Transmission to Intl' Firm Expectations?

EMERGING AND DEVELOPING ECONOMIES AND U.S. INTEREST RATES

FINANCIAL TIGHTENING IN 11 EMERGING AND DEVELOPING ECONOMIES AND 2-YEAR U.S. TREASURY YIELD



Source: FRB St. Louis FRED database; Goldman Sachs; World Bank

Note: Emerging and developing economies index is a GDP-weighted aggregate of Goldman Sachs financial conditions indices for 11 emerging and developing markets, excluding China and the Russian Federation.

EconoFact econofact.org

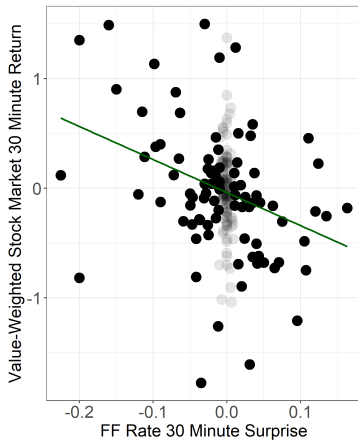
Arteta, Econofacts, July 18, 2023

Emerging market central banks front-ran current US rate cycle.

1. Review: Monetary policy surprises and international financial markets
2. Paper summary
3. Comments
 - ▶ Model mechanism based on agents being unsure about monetary policy rule
 - ▶ I think this is realistic (Bauer, Pflueger, Sunderam (2023))
 - ▶ Link cross-sectional evidence more clearly to proposed channel

Monetary policy surprises and international financial markets

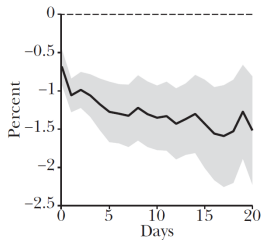
Effects of a Surprise US Monetary Tightening



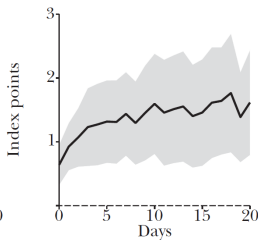
Pflueger and Rinaldi (2022), updated from Bernanke and Kuttner (2005)

Surprise US monetary tightening raises risk premia

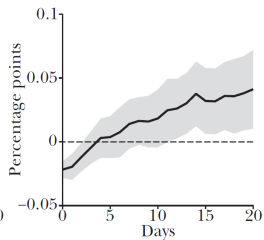
A: S&P 500



B: S&P volatility index (VIX)



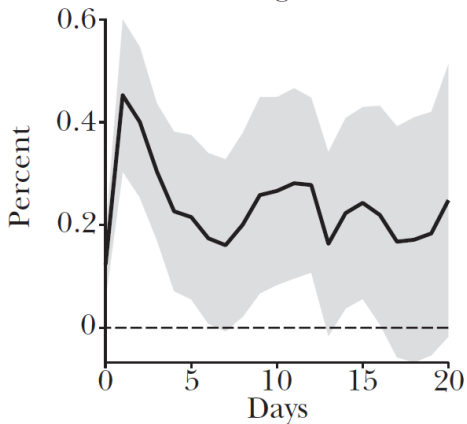
C: Baa spread



Bernanke, Bauer, and Milstein (2023)

...and US Dollar Appreciates

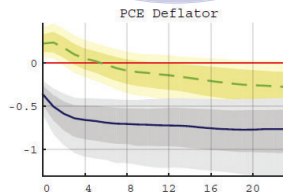
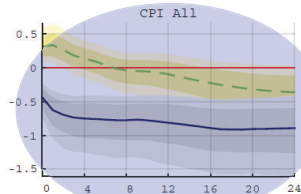
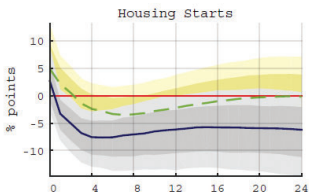
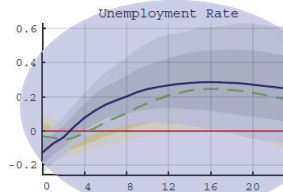
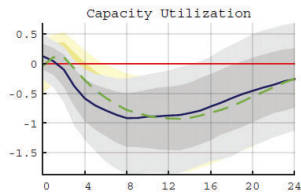
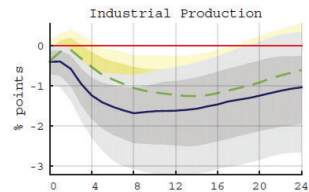
F: US dollar exchange rate



Bernanke, Bauer, and Milstein (2023)

Kekre and Lenel (2021) interpretation: Lower risk bearing capacity.

Surprise US monetary tightening lowers US inflation and economic activity

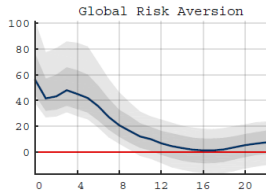
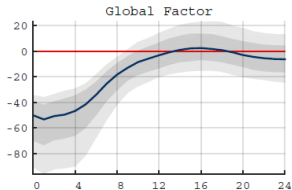
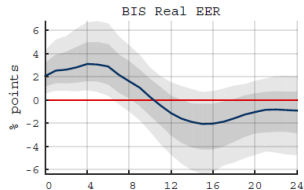
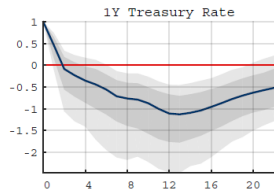
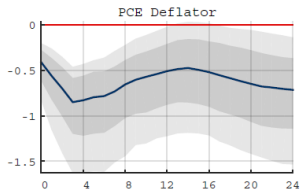
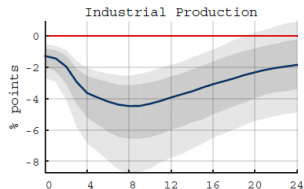


Miranda-Agrippino and Rey (2020)

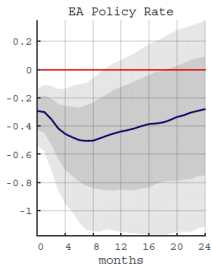
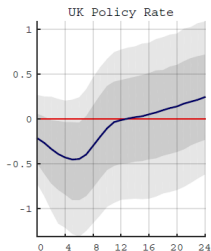
See also Christiano, Eichenbaum and Evans (2005) or Ramey (2016)

Surprise US monetary tightening lowers international inflation and economic activity

FIGURE D.5: GLOBAL VAR (2B) - FX FLOATERS AGGREGATES

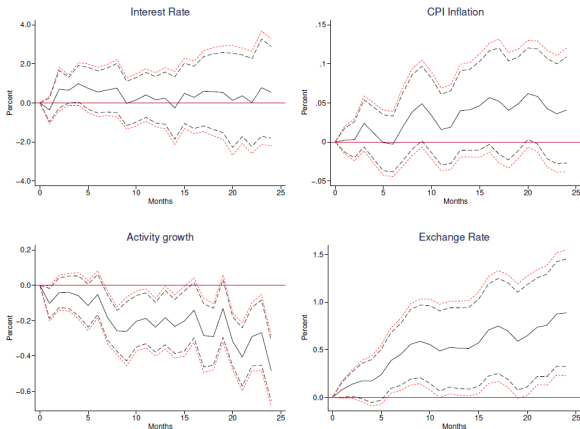


Bank of England and ECB tend to ease after surprise US surprise tightening



SUMMARY

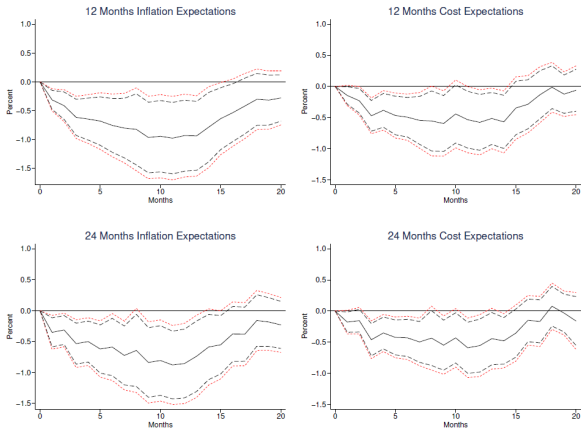
Effect on Uruguayan economy



FLPT (2023), Figure 1

- ▶ Uruguayan Peso depreciates and economic activity declines
- ▶ No significant effect on CPI inflation or policy rate

Effect on Uruguayan firm inflation expectations

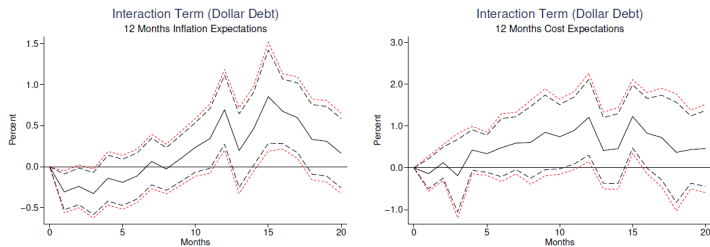


FLPT (2023), Figure 2

Surprise US monetary tightening lowers firm inflation expectations in Uruguay

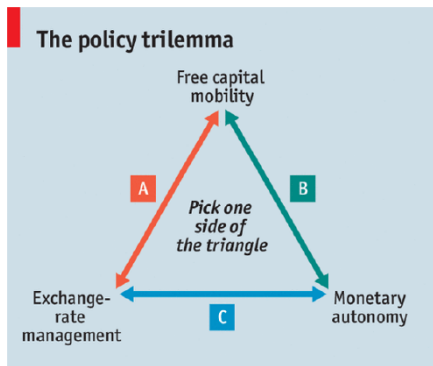
Question: Can you benchmark against professional/consumer forecasts?

Firms with US debt revise inflation expectations upwards



FLPT (2023), Figure 3

Proposed channel: Misperceptions of monetary policy regime



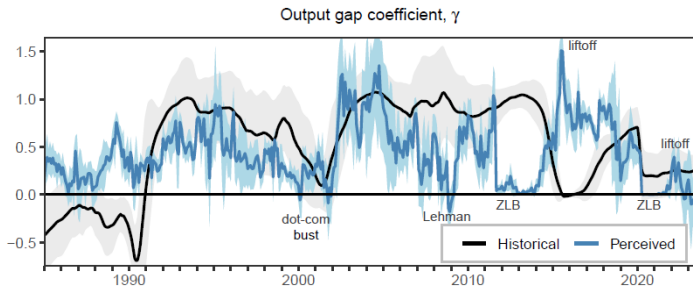
Economist.com

Source: The Economist

Proposed channel: Perceive A when truly B

COMMENTS

Plausible: US Perceived Monetary Policy Rule Varies



Figures 1, Bauer, Pflueger, and Sunderam (2023)

- ▶ Perceived rule based on cross-forecaster-horizon regression of fed funds rate forecasts onto output gap forecasts
- ▶ Perceived rule responds to policy decisions as if not fully known
- ▶ Perceived rule affects monetary policy transmission to financial markets

Exploit cross-section further to illuminate mechanism

- ▶ Richness of your survey data is really cool!
- ▶ Can you exploit cross-section further? Cross-sectional proxies for who perceives a peg?
 - ▶ Does survey ask for exchange rate expectations directly?
 - ▶ If I expect a peg I should be more inclined to borrow using USD ⇒ narrative around Asian Financial Crisis
- ▶ Or measure perceived monetary policy rule using comovement of policy rate/exchange rate expectations with expected GDP
- ▶ Different responses in USD debt might allow you to distinguish between all three sides of the trilemma: exchange rate management, capital controls, and monetary policy

Conclusion

- ▶ Fascinating paper on firm inflation expectations in emerging economy
- ▶ US monetary policy surprises matter
- ▶ Interesting cross-sectional results by firm debt structure and firm decisions
- ▶ It would be great to see more empirical evidence pinning down the precise behavioral bias at play here