Dash for dollars

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Discussion by

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  - *P*: Bond-level data; key for identification: firms with bonds in >1 currency (within-firm analysis)
  - *Q*: Transaction-level data (secondary market): within-firm-investor → higher selling of dollar bonds

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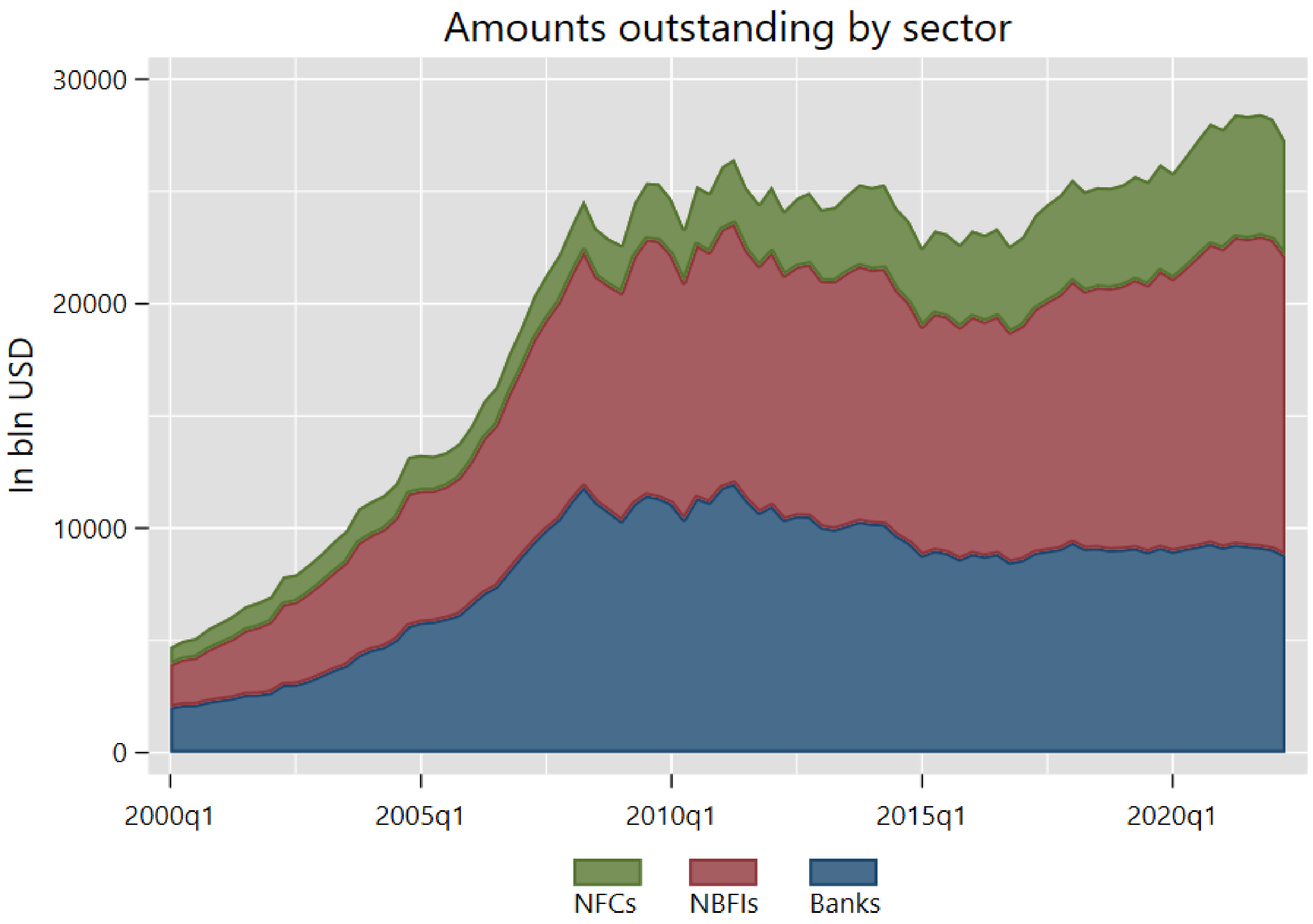
- **Why?** → Dominant currency
  - Medium of exchange: liquidity
    → dollar bonds have lower bid-ask spreads ex ante
  - Unit of account: dollar obligations
    → insurers with higher dollar payment needs sell more
    - "A dollar (cash) is a dollar (deposits) is a dollar (securities)"… until it's not

#1 Some early choices would benefit from additional justification



Graph constructed from BIS IDS; see also Aldasoro, Hardy & Tarashev (2021): " Corporate debt: post-GFC through the pandemic", BIS Quarterly Review, June.

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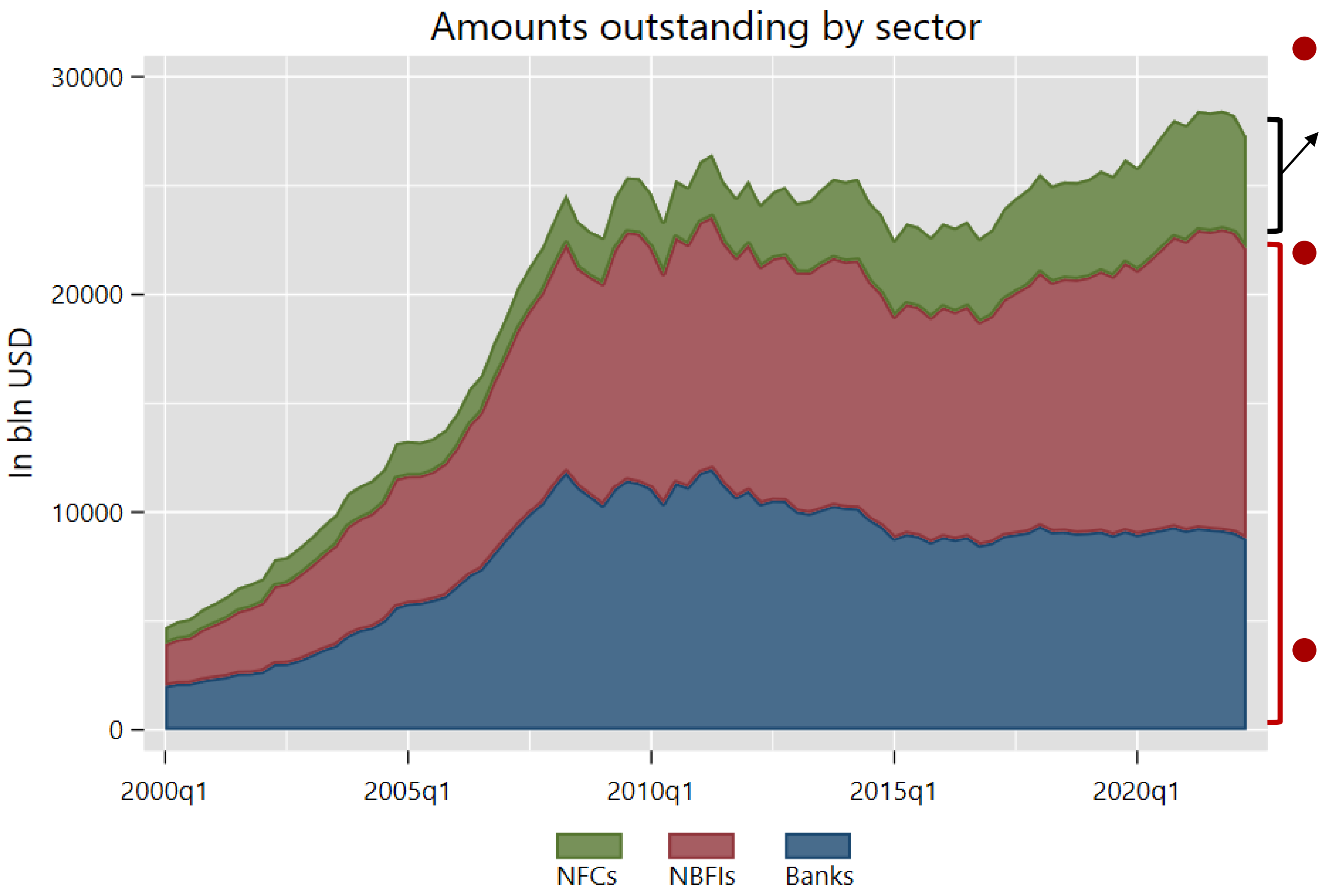

- Why look only at **NFCs**? (more on this in next slide)
- The universe of debt securities is considerably **larger**
  - Liquidity (incentive to sell) and need to settle debts (pressure to sell) should apply to these as well
- Why the focus on maturity >1yr?
  - Well-known action in shorter maturity instruments (eg CPs, MMFs); also Haddad et al (2021)
  - Core arguments should apply as well

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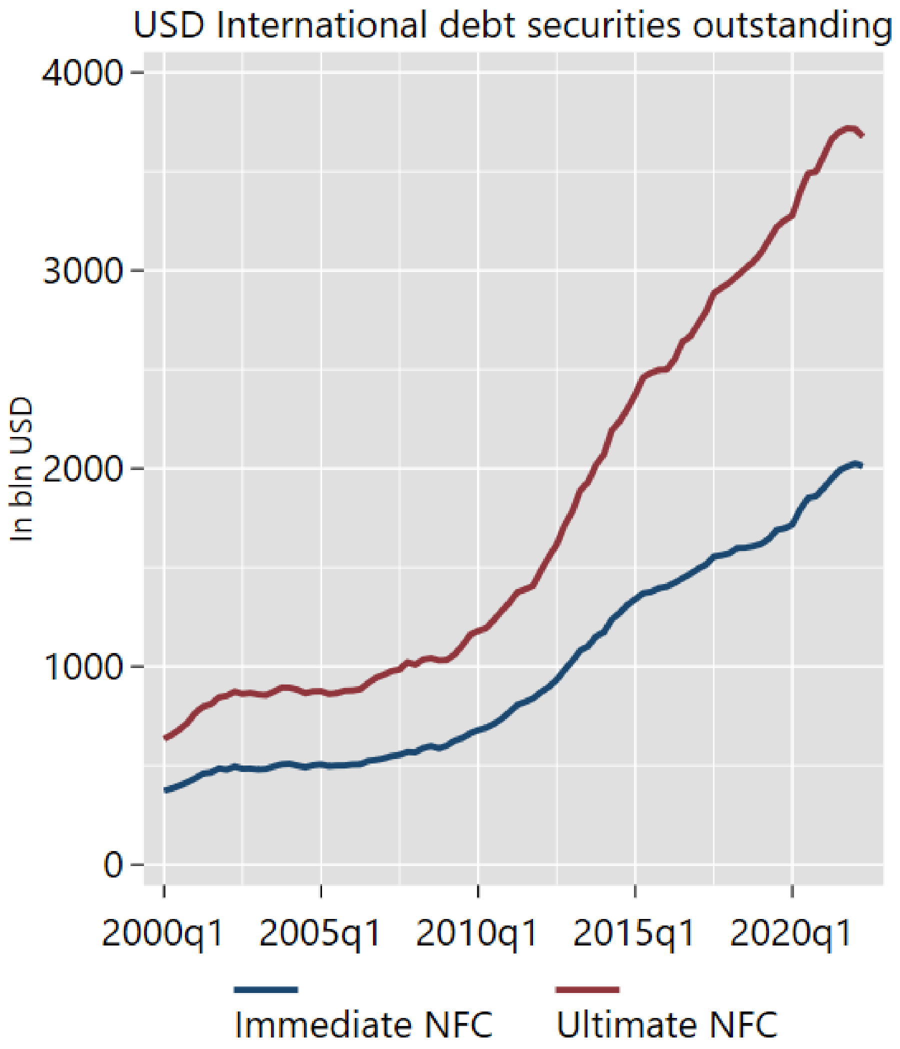
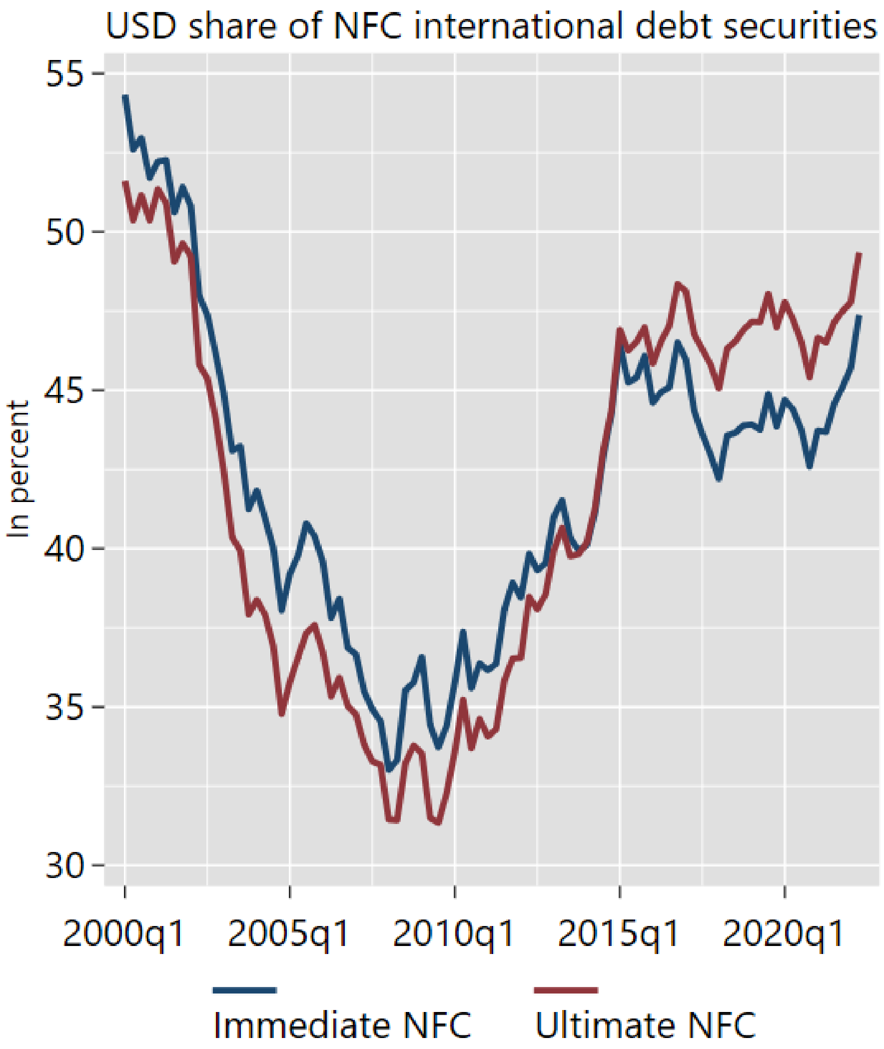
#2 Which NFCs? Issuance through offshore NBFI affiliates huge





- It seems you look at immediate issuer (clarify!)
- With a consolidated perspective (ie ultimate NFC owner) the universe of debt securities would differ markedly
- Especially on quantities, but also in terms of USD share

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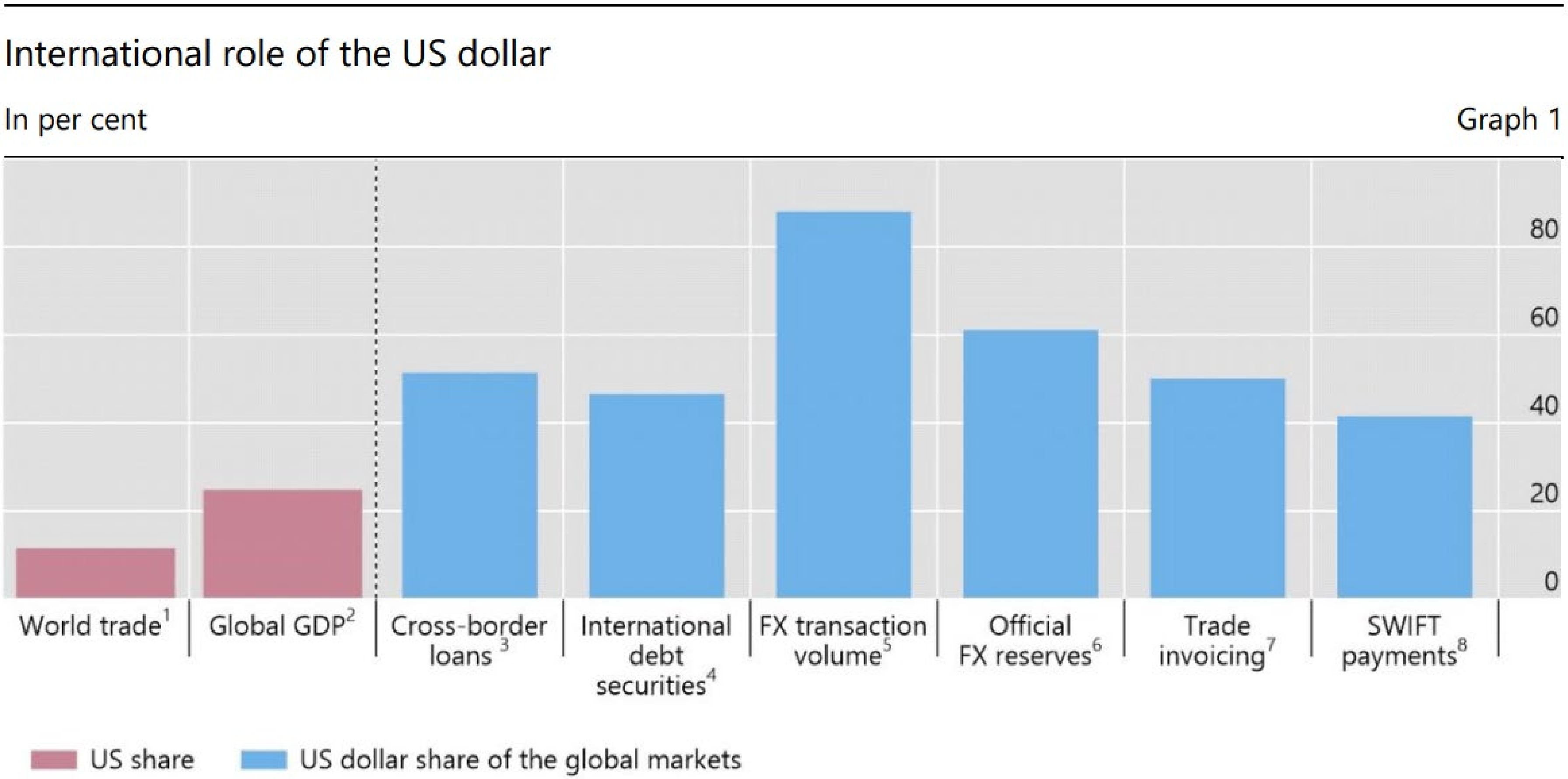
#3 Stating the obvious: It's a dollar world



- Dollar (financially) punches well above its (real economy) weight
- How much you sell = f(how much you own)? How to disentangle this from say liquidity?

Graph from "US dollar funding: An international perspective", CGFS Paper No 65, June 2020.

#4 On liquidity

- Results for GFC sort of undermine the "perceived liquidity of USD" argument
  - If investors learned from the past, they should know that ex ante liquidity != ex post liquidity

- Liquidity inversion not surprising given key documented stylized fact
  - Spreads for USD bonds going up is starting point!
  - So only piece missing is lower bid-ask spreads pre-crisis, but… can you really say GBP meaningfully different from USD (Fig5)?

- Can you control for liquidity in baseline regressions? Might be better to assess its role
  - Bid-ask spreads throughout sample (or initial, or Amihud, etc)

- Side remark: pattern of bid-ask spreads (Fig6) does not match that of OAS (Fig2)
  - Former picking up considerably earlier in March than latter
  - What to make of this? Are samples consistent?

#5 Digression on unit of account

- Key defining quality of money: means of payment/settlement
  - All other moneys (eg GBP, EUR) are unit of account just as the USD is
    - It's just that a lot of obligations are in USD (back to "it's a dollar world")

- At times of stress the survival constraint kicks in and the "chickens come home to roost"
  - Your promise to deliver money (credit) cannot be extended and you have to deliver
  - And the promise is mostly to deliver cash dollars (again, "it's a dollar world", "a dollar is a …")

- Of course: this is not inconsistent with what you have! I would just reframe it slightly

- Full disclosure: I am all in on the second explanation, and think the first one is a sideshow
  - Problem is: it is very hard to fully back or disprove either!

#6 Additional (minor and disjoint) comments

- In the spirit of adding (yet more!) robustness, consider distinguishing bonds along two additional dimensions (used for defining BIS IDS): listing location and governing law

- Provide some descriptives on the multi-currency bond sample
  - How many firms issuing USD+EUR, USD+GBP, USD+EUR+GBP and so on
  - Robustness only looking at this three currencies, and only EUR

- Why exclude interdealer trades (MiFiD sample)? Don’t they also scramble to meet margins?

- Don’t understand why you don’t make more use of EMIR: you have the actual margins! By counterparty! Daily! By currency!

- Not fully clear why the focus on ICPF (12% of trading volumes) only: others also faced massive (USD/other) margin calls (answer: Fig B5 → give it more prominence, how would it look for GBP?)
  - Figure A3 (derivatives by currency): GBP share very large, why don’t we see similar effects?

Conclusion: “rumors of my death have been greatly exaggerated”

- Really enjoyed reading the paper, learned a great deal from it
  - You should read it too!
  - Intuitive, very thoroughly done, great data and use of it, policy-relevant
- Important contribution to our collective understanding of the dominant role of the dollar (Goldberg & Tille (2008), Gopinath (2016), Maggiori et al (2020), Eren & Malamud (2022))
  - My takeaway: need to settle payments in USD entrenches dominance
  - Despite crises, USD goes from strength to strength
- I look forward to the next version!