

Discussion - The 2009-2013 Corporate
Bond Issuance Global Frenzy: what role
for US Quantitative Easing by Marco Lo
Duca, Giulio Nicoletti and Ariadna Vidal
Martinez

XI Emerging Market Workshop - Bank of Spain

MOTIVATION AND RESULTS

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- ▶ Corporate bond issuance has increased substantially in many countries.
- ▶ The paper investigates whether the QE in the US has contributed to this increase. It looks at both purchases of Treasuries and MBS, and attempts to separate flow and stock effects.
- ▶ In between event study and a standard panel estimation
- ▶ They show QE has had a significant economic impact in emerging markets issuance.

ENDOGENEITY

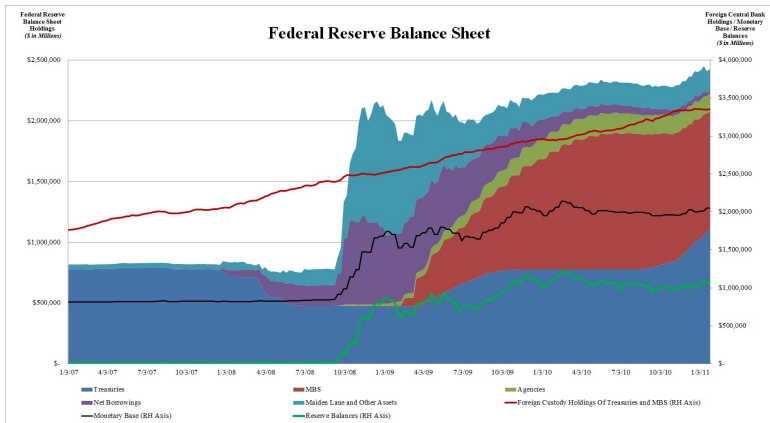
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- ▶ Claim: QE size and pace independent of market conditions, thus endogeneity is mitigated
- ▶ Few concerns -
 - ▶ Announcements always say FED would buy up to an amount of certain assets. Different announcements and programs were established during the 4 year sample, and these have important endogeneity element for instance, first interventions had more effect in the short-run thus Operation Twist.
 - ▶ Even if one believes that amount of assets bought in QE each quarter is exogenous, these interventions affect the dependent variable but also some independent variables used as controls.

Robustness (or even main methodology given that empirical investigation is moving away from a classic event study) one must employ a Panel VAR...(could use FAVAR if there is a concern with number of variables).

FED BALANCE SHEET

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TIME FREQUENCY

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- ▶ Dealogic database is rich enough for one to get issuance data on a monthly frequency, weekly even daily. Issuance has to be planned a bit in advance, so some lag effects could be expected but given that announcement was done sufficiently in advance, if that is truly exogenous, a QE effect could be there on the day that purchases were made.
- ▶ Time dimension is really crucial to differentiation between flow and stock effect. For instance, in D'Amico and King (2013) flow is only considered for the day of the purchase. Here it is done in a quarter and thus separation between flow and stock is much harder to see (maybe that is the reason stock effect is not significant).

CROSS SECTION DIMENSION

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- ▶ Could not quite get why authors decided to aggregate all data for the country. One could explore the data a lot more and if worried about controlling for country, fixed effects or fixed effect with interactions could be used.
- ▶ One could then explore sector differences using measures for dependency on external finance to gather whether flows are related to credit supply issues or for a general portfolio flow in search of alternative assets.

BANK VS MARKET FINANCING

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- ▶ Authors perform some robustness including some variables related to the domestic bank sector. These are very important control variables, and perhaps should be included in the benchmark model...
- ▶ Most interesting variable is international bank credit to country j . What does that measure exactly? Could one explore more cross boarder bank exposures impacting this process? For instance Shin (2012) - *Global Bank Glut and Loan Risk Premium* shows that many banks were funding a lot of their activity with dollar instruments. Additional controls on flows within the subsidiaries of banks.
- ▶ Firm could also be issuing bonds in US before crises. Could be interesting to look at pattern of issuance of foreign entities in the US as controls (so increase in Global issuance is a substitution effect).

PRICING EFFECTS

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- ▶ Always difficult to talk about quantities and prices together, simultaneity biases could be a problem. But leaving interest rate out is not an option.
- ▶ Studies have shown that QE has important price effects globally. One robustness using Adrian et. al. (2012) model starting moving model in this direction but again, this is too important to be a robustness exercise and again, independent variables will be affecting each other, so is a simple Panel enough...
- ▶ Instead of controlling for rates only one could use more on the interest rate curve: short term, long-short, and a curvature measure both for domestic and US.

OTHER

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- ▶ Level vs Growth Rate of Issuance
- ▶ Appetite for more - what is the channel? Is that a pricing effect due to arbitrage and not necessarily flows, or flows are occurring? Could one get data on bond holdings of corporate issuance? Could one explore dates of issuance and observe flow of funds between countries?