Is Bad News About Inflation Good News for the Exchange Rate?

Discussion by

Gian Maria Milesi-Ferretti
International Monetary Fund

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Discussion of
Is Bad News About Inflation Good News for the Exchange Rate?
Richard Clarida and Daniel Waldman

Gian Maria Milesi-Ferretti
IMF, Research Department
Why me?

- The research division I lead focuses on exchange rate analysis and assessments from a medium-term perspective (3-5 yrs)

- This paper focuses on exchange rate responses to news over 10 minutes...

- ...well, they are still exchange rates, aren’t they?
On a more serious note…

- Nice paper!
- Very focused:
  - clear question
  - Analytical framework
  - Simple but convincing econometric evidence
Comments: Structure

- The “balance” of the paper skewed towards theory (pages 1-18), even though the meat is in the data and evidence (pages 19-25)
Comments: Empirical evidence

- Neat and strong results...
- ...remarkable for exchange rate regressions!
- Results stronger for core inflation surprises (not “surprisingly”)
- Results weaker for U.S. and Japan (not surprisingly, at least for Japan)
Empirical evidence—suggestions (I)

- Authors use only the first moment from the distribution of forecasts (median value)

- Is the strength of exchange rate effects of inflation surprises related to the dispersion of expectations?
Empirical evidence: Suggestions (II)

- The difficult question: what is the underlying shock?

- Authors could provide more information on the time series properties of inflation surprises (are they negatively/positively correlated)?

- Difference in coefficients across countries (coeff. for Norway above 1...)