Discussion of "Currency Stability and Unconventional Balance Sheet Practices - a Panel Approach" by Gabor David Kiss

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[1]Legal disclaimer: The views expressed in this presentation do not necessarily reflect the stance of the Swiss National Bank.

Major comments (I)

What is the theoretical transmission channel (or several channels?) through which central banks' asset quality transmits to nominal exchange rates?

- quantitative easing: monetary theory of exchange rate determination, i.e. transmission through relative money supply
- qualitative easing: ?
  - e.g. impact of sterilized FX interventions impact on exchange rates ambiguous (e.g. Dominguez, JIMF 2006) and depends on market microstructure.
  - Fratzscher, Gloede, Menkhoff, Sarno, Stöhr (2015): success of FX interventions (moving exchange rates in the "right" direction) depends on exchange rate regime, intervention volume and CB's communication.

Major comments (II)

Empirical analysis: control variables?

- CB's intervene in crisis periods which makes inference about causality and the drivers of extreme exchange movements difficult.
  - The global financial crisis and the subsequent euro area crisis dominate your sample period
- Potential control variables:
  - asset pricing literature (e.g. Lustig and Verdelhan, AER 2007; Lustig, Roussanov and Verdelhan, RFS 2011):
    - "carry trade" risk factor (independent of base currency), monthly data readily available on Adrien Verdelhan's website.
    - VIX index ("fear" index)
  - econometric literature (e.g. Greenaway-McGrevy, Mark, Sul and Wu , 2016): Deviations of exchange rates from principal components (proxy of "fundamentals") forecast exchange rate changes

Minor comments

- Definition of variables presented in tables 1 and 5 would help the reader
- Potentially interesting: Spillovers from ECB unconventional monetary policy measures (asset purchase programs, negative policy rate) to CEE countries' exchange rates.