E pluribus plures: shock dependency of the USD pass-through to real and financial variables

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This paper

Quantifies the pass-through of a USD appreciation on

- trade variables
- domestic financial conditions

$\Rightarrow$ investigating differential impacts depending on the source of the shock

Sources of shocks

1. US demand
2. US monetary
3. risk [think: global risk $\rightarrow$ flight-to-safety]
4. US supply

Identification restrictions

- Sign restrictions
- Can always be debated, but overall **very standard**
- Not entirely clear on the supply shock (particularly on 10-year yield)
- Perhaps use shorter maturities to better identify monetary shocks

$\Rightarrow$ Provide acceptance ratios of sign restrictions

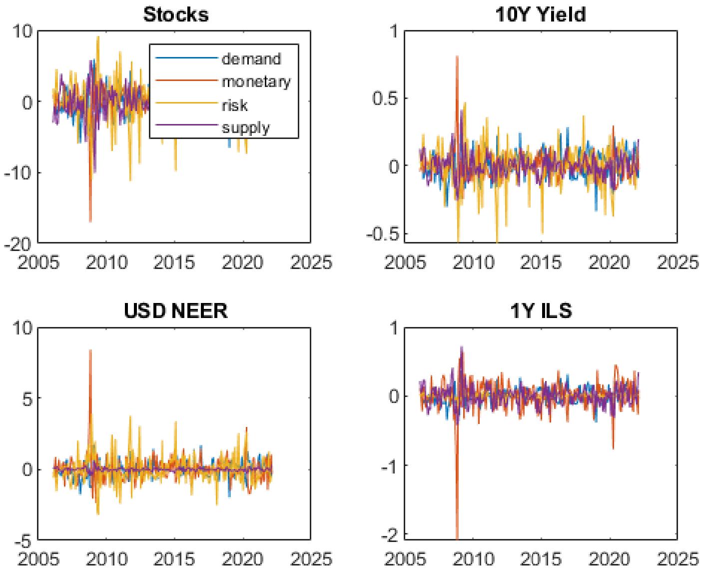
Extracting macro shocks from financial variables

à la Cieslak and Pang (2021)

Daily frequency but shorter sample (use BEIR instead)

- Real GDP $\Rightarrow$ S&P 500 returns
- 10-year yield
- USD NEER
- CPI $\Rightarrow$ 1-year ILS

Using financial variables



Comparing shocks

Decomposition of

- US NEER is similar: monetary and risk
- ILS is predominantly driven by monetary
- Stock quite different from GDP
  [increasing disconnect between equity and the economy (Greenwald, Lettau, Ludvigson, 2019)]

Might be usseful as higher frequency variables become available (Covid-19)

More considerations

- Exchange rate fluctuations can be hedged (costly)
- Demand/Supply (commodity-specific, Kilian)

Overall, great contribution!

- Useful frameworks to think about important questions
- Moving the conversation in the right direction

$\Rightarrow$ Very topical in light of the recent appreciation of the USD