Discussion: "Unveiling the Dance of Commodity Prices and the Global Financial Cycle" Luciana Juvenal and Ivan Petrella

Romain Houssa

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2nd ERSA/CEPR Workshop on Macroeconomic Policy in Emerging Markets

Outline

Summary

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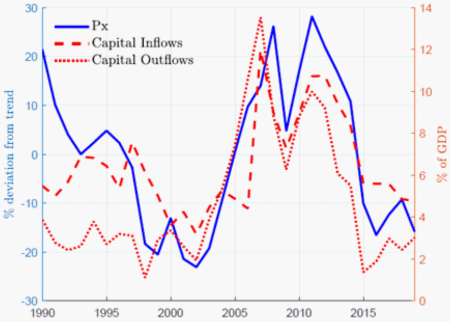
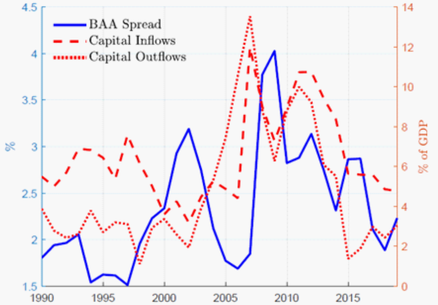
  - Commodity price shocks cannot explain co-movement in capital flows in EMDE

Facts



(b) Export Prices and Capital Flows



(c) BAA Spread and Capital Flows

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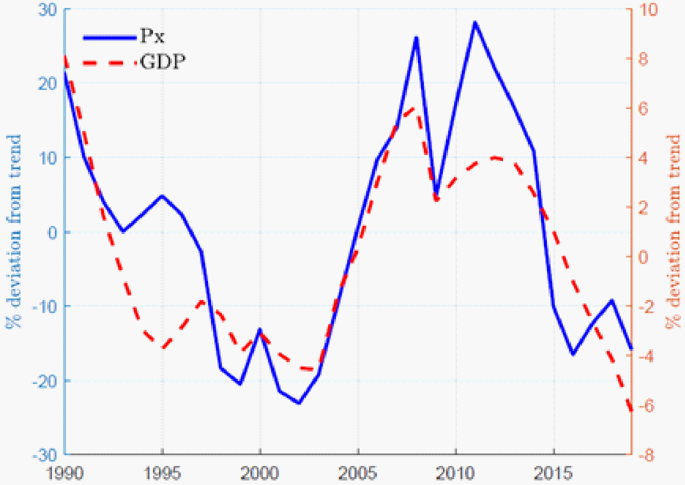
    - Narrative shocks on commodities (agriculture, mining, energy)
    - Causal inference: global shocks explain co-movement in business cycle and capital flows in EMDE
- I like the paper a lot, congratulation!

GDP: great recession 2007-2009?



(a) Export Prices and GDP

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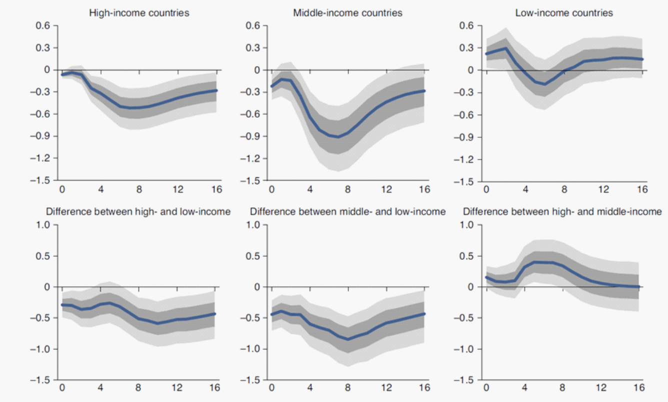

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- Global business cycle explains most of the dynamics in commodity prices
- Different global shocks affecting the global business cycle and the global financial cycle can affect EMEs through commodity prices.
- How do advanced countries respond to your identified global shocks?

Global shocks in SOE

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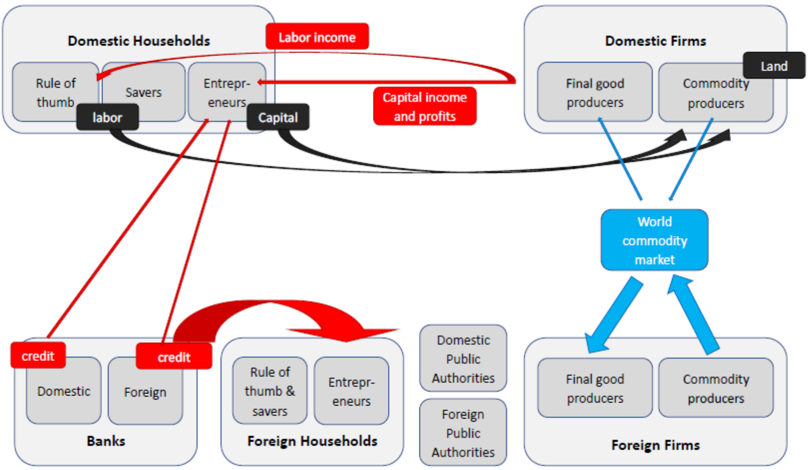
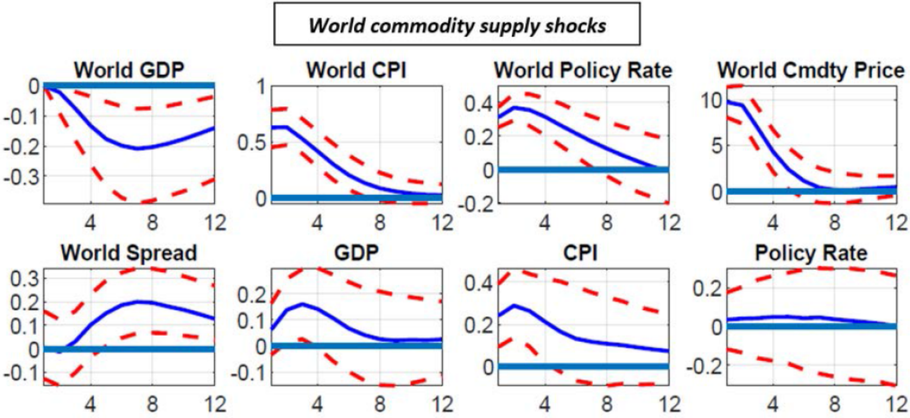
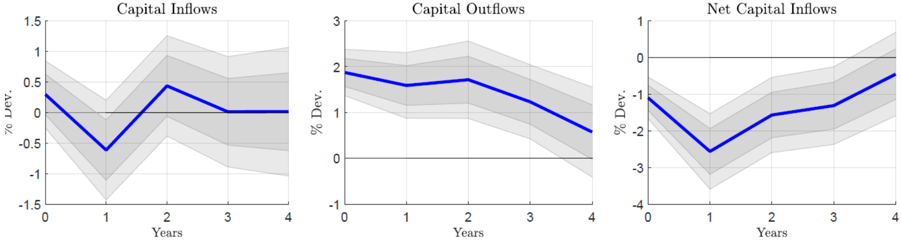
Houssa, Mohimont, Otrok



Impact of Global commodity shocks



Impact of Global shocks on capital in EMDE



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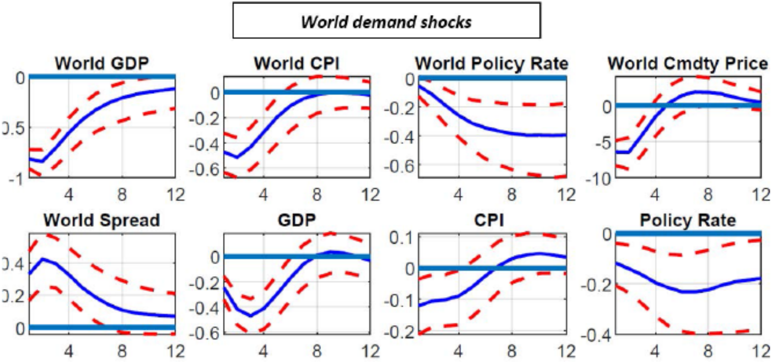
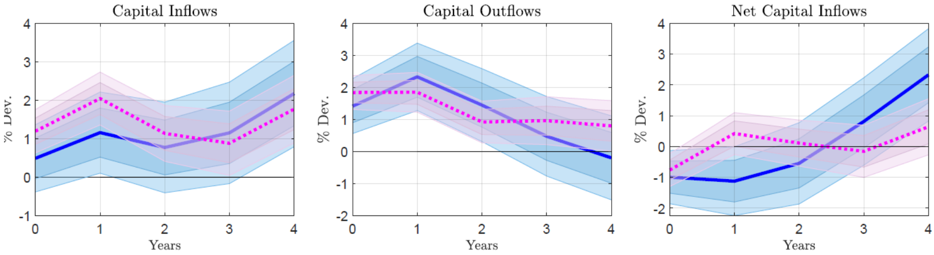
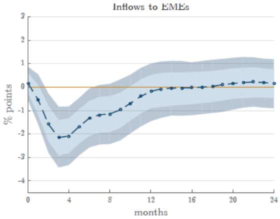


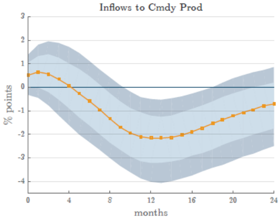
Impact of GFC on capital in EMDE



GFC on capital in EM (Miranda-Agrippino Rey, 2020)



(A) *Note*: Responses to a US monetary policy shock that raises the 1-year rate by 1% on impact. Median impulse response functions with 68% and 90% posterior credible sets. BVAR(12). 1991:01-2018:12.



(B) *Note*: Responses to a Chinese monetary policy contraction that raises the policy indicator by 1% on impact. Median impulse response functions with 68% and 90% posterior credible sets. BVAR(12). 1999:01-2018:12.

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- We capture heterogeneity in the domestic commodity channel (Houssa, Mohimont, Otrok)
  - The strength of exporters' response to world commodity price depends on the elasticity of substitution between productive factors (labor, capital and land)
  - A low elasticity of substitution (0.33) will limit exporters' response to world commodity price increase

Conclusion

- Great paper
- Interesting contribution
- Discuss more the results in a structural framework by characterizing the global dimension of the shocks