



# Swap Line Dollar Supply *by P. Klok*

Discussion by D. Rime

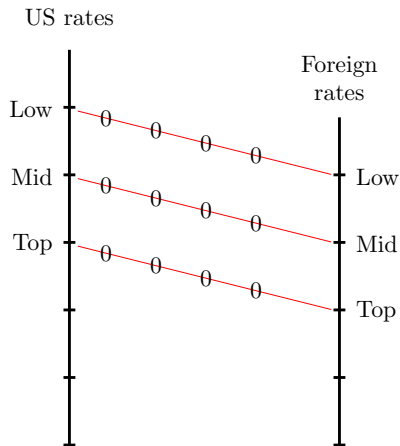
**BI**

- Study behavior in FX Swap market
- ... using CB Swap Lines for identification
- Results:
  - 1 Swap Line availability reduce “imbalance” in FX Swaps
  - 2 Lower imbalance reduce FX Swap Transaction Costs
  - 3 Swap Line drawings raise USD-supply in FX Swap market

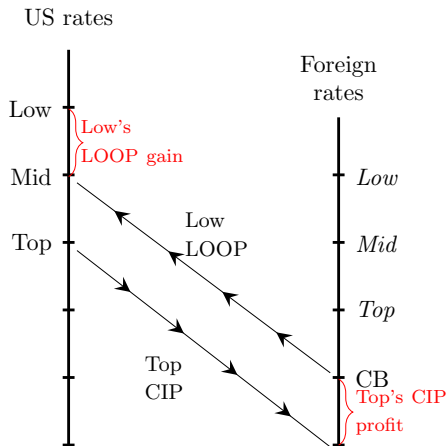
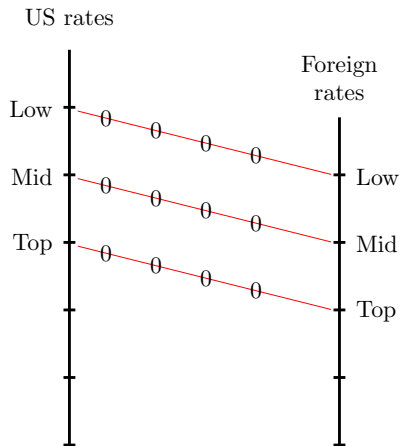
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- FX Swap market under-studied (opaque)
- CB Swap Lines critical part of international liquidity
- Unique data = Unique analysis!

- Standing facility where, e.g., Fed provide USD to ECB
- Penalty (high) interest rate
- ECB (recipient) decides on drawings
- For Financial Stability: Shock to USD credit markets
  - ▶ Fed: avoid fire sales of US assets
  - ▶ ECB: provide USD-credit access to EU banks
- Drawings increase USD liquidity in times of shortage
- A key part of the International Monetary System

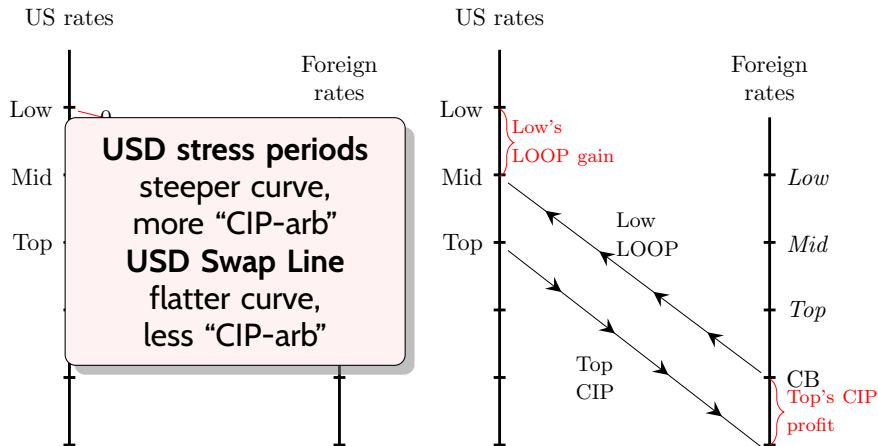
# FX Swap Equilibrium



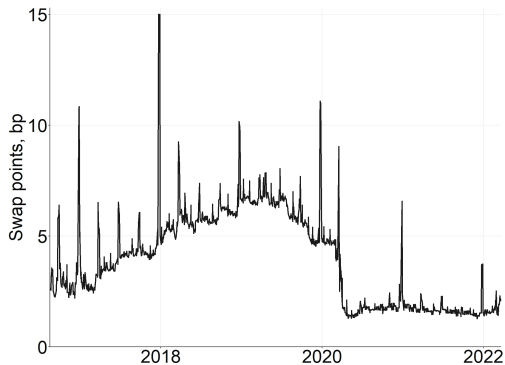
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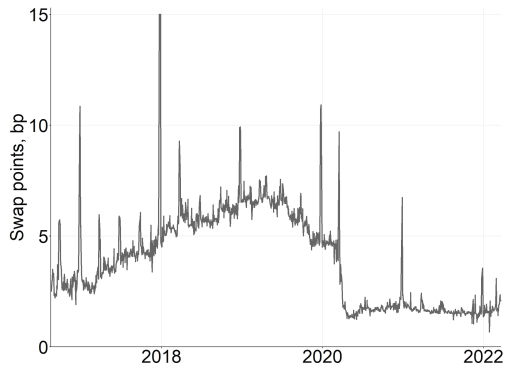
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# Swap points ( $F - S$ )



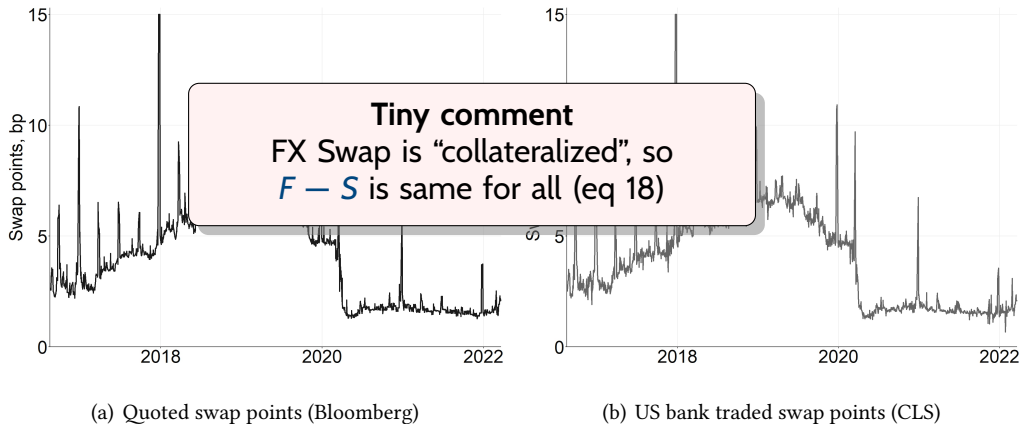
(a) Quoted swap points (Bloomberg)



(b) US bank traded swap points (CLS)



# Swap points ( $F - S$ )



# 1. Swap transaction costs (TC) and Swap lines

- Transaction Costs  $\Leftrightarrow$  Net USD demand
- ⇒ **instrument:** *availability* of USD auctions
  - ▶ 1st stage: Auction day lowers Net demand
  - ▶ 2nd stage: Net demand increase TC

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- 3 *Tiny:* Regress TC on Bid-ask spread?

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- A moral-hazard element in CB Swap Lines
- On top: Are rates (or collateral rules) too generous???
- **Why do recipient banks “take their USD and provide” them in FX swap market???**
- Puzzling/interesting/important  $\Rightarrow$  require discussion

- Important questions
  - Amazing data
- ⇒ Great paper! I learned a lot about FX Swaps