

# Discussion of Global Liquidity, Market Sentiment and Financial Stability Index by N. Osina Distatrous Default by C. Gouriéroux *et al.*

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*Disclaimer: All views expressed here are those of the author, and do not necessarily reflect the views of Drees or Insee.*

# Roadmap

- 1 Global Liquidity, Market Sentiment and Financial Stability Index
- 2 Disastrous Default

# In a nutshell

- The paper investigates the notion of global liquidity defined as "the general easing in financing conditions" and measured as "the change in cross-border claims on banks".
- It show empirical evidence that global liquidity is more driven by global factors (called "push factors") than domestic factors (called "pull factors").
- It show empirical evidence that global liquidity (accounting data) is related to market indicators (market data), namely market sentiment and financial stability index.
- Results are based on panel regression of 149 countries over 2000-2016 (annual basis). Robustness check.

## Comment 1 : global liquidity

- In the conceptual discussion and the literature review, the notion of "global liquidity" is presented as one global concept.
- In the empirical part of the paper, there is no one measure of global liquidity but 149 measures of global liquidity, as many as the number of countries in the data set.
- I would be interest on a link between your panel results and the global feature of global liquidity.
- Moreover, panel estimators are derived from unweighted average of your observations, whereas one may expect that US observation has a significant impact on global liquidity.

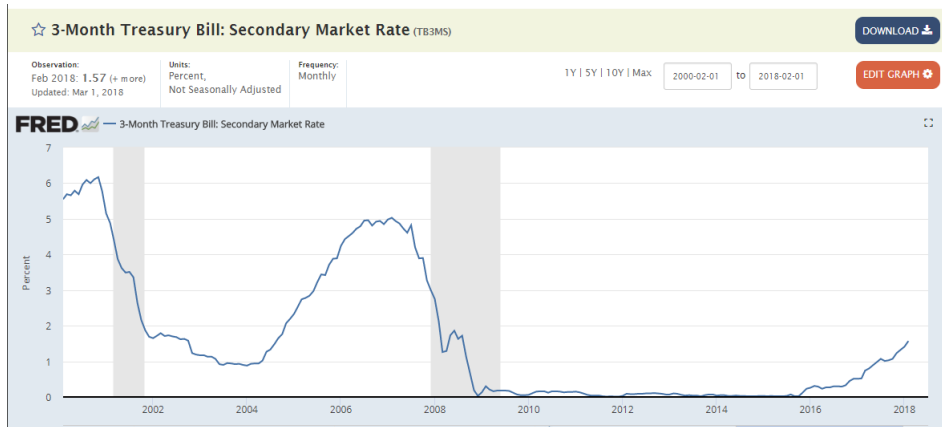
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## Comment 2 : economic significant

$\beta$ 's are statistically significant but linking them to "economic" scale would ease to assess the economic significant of the result.

*"one-percentage point of the US Treasury Bill rate will increase the flows by 0.0146%" (p11)*



## Comment 3 : USD perspective

- All cross-border claims are in USD.
- It simplifies the choices of explanatory variables.
- Yet, it should be discuss in the paper that this choice does not veil difficulties, namely...
  - for the Euro-area (cross-border claims without FX risk).
  - for oil-oriented economies (FX linked to oil price linked to inflation).
  - inflation is introduced (to correct from price effect I assume) but US TB, FED rates, etc. are related to US inflation.

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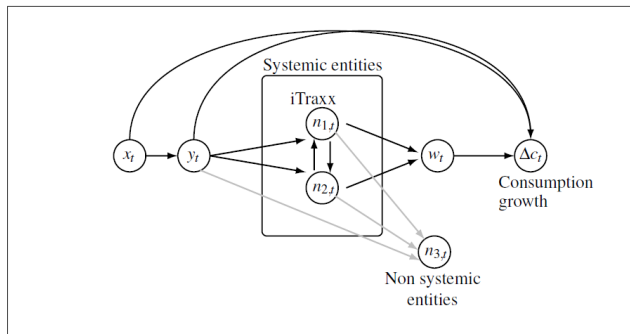
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- 2 **Disastrous Default**



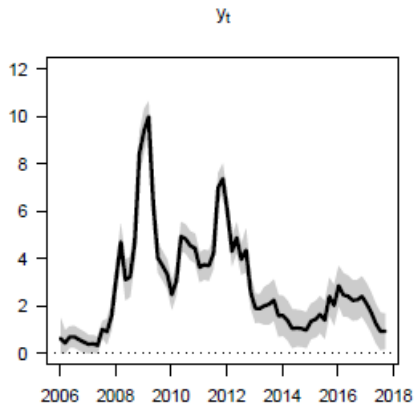
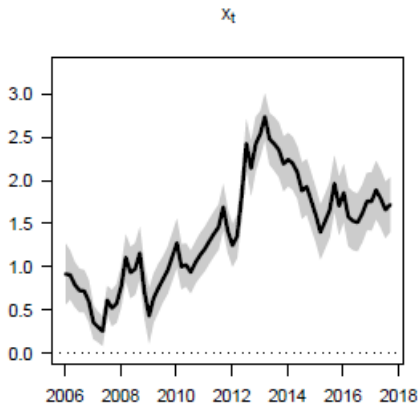
# In a nutshell

- The paper propose a financial pricing model combined with a macro-economic model.
- The focus is set on "disastrous" events that are not coming from outside the system, but that are default of systemic entities.
- An empirical calibration is carried out.

Figure 1: Causality scheme

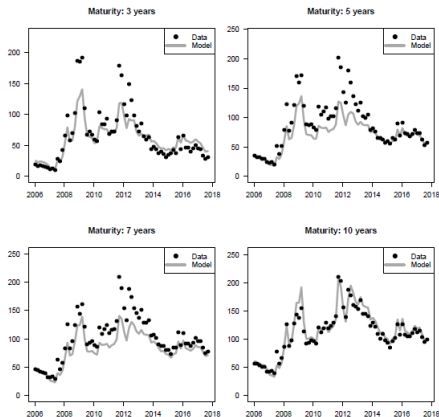


# Comment 1 : $x_t$ and $y_t$ factors



- Do your result indicates that credit risk is high since 2012 ( $x_t$ )?
- Can we add the two to get an idea of total credit risk?

# Comment 2 : fit over maturity



This figure displays index swap spreads (iTraxx Europe main index, solid lines) and their model-implied counterparts (symbols). The data cover the period from January 2006 to September 2017 at the bi-monthly frequency.

Why is the fit the best for 10-year maturity?

# Comment 3 : systemic risk

Figure 9: Probability that at least 10% of iTraxx constituents default in the next two years

