



University of Economics, Prague

Faculty of Finance and Accounting

Study programme "Finance and Accounting"

Master Thesis Evaluation

Reviewer form

Student name: *Bc. David Ivanov*

Title of the thesis: *Dynamics of Exchange Rates in Selected Emerging Markets in Risk-on/Risk-off Periods*

Year of the defence: *2017*

Supervisor name and affiliation: *doc. Ing. Karel Brůna, Ph.D. (Department of Monetary Theory and Policy; Department Chair - Associate Professor)*

Reviewer name and affiliation: *Ing. Ondřej Šíma (Department of Monetary Theory and Policy; Interim academic staff)*

THESIS CONTENT SUMMARY:

The thesis consists of six chapters (excluding Introduction and Conclusion). In the first chapter Mr. Ivanov scrutinizes the theory of exchange rate and its dynamics (purchasing power parity, interest rate parity...).

Second chapter presents information about foreign direct investments, so-called "cold capital", and portfolio + other investments, so-called "hot capital" (the classification of investments is crucial, see the following). Then the author briefly mentions volatility and VIX index ("the investor fear gauge") and risk-on/risk-off phenomenon in the context of exchange rate movements. See excellent graph no. 3 on p. 25 where David Ivanov highlights nine risk-off periods he uses in the rest of the thesis. Second chapter finish with the description of safe haven currencies (USD, JPY, CHF).

Following three chapters (3rd, 4th, 5th) are dedicated to Mexico, Turkey and South Korea, respectively. Each of these chapters follows almost the same structure: short introduction, (net) capital flow (cold and hot capital), exchange rate regimes and their development and concluding remarks. Naturally the author focuses on the NEER (nominal effective exchange rate) performance during the risk-off events. However, these chapters are not monotonous. David Ivanov also informs about specific events that were typical to above-mentioned countries (p. 46 Mexico – oil price slump, election of D. Trump; p. 50 Turkey – coup attempt in 2016; p. 75 S. Korea – "mix" of emerging and advanced economy...) and had impact on the NEER.

6th chapter – the last one – concludes the thesis. Mr. Ivanov actually confirms “the theory” of international capital movements (see for example the latest papers authored by P. R. Lane & G. M. Milesi-Ferretti, G. L. Kaminsky, K. Forbes etc.), i.e. other investments and – to a less extent – portfolio investments (“hot capital”) are sensitive to risk-off periods and have obvious impacts on the NEER (p. 76). What is more, it also seems NEER are very sensitive to local crisis: 1997 Asian crisis – Korean won; 2001 crisis in Turkey – Turkish lira; 2011 US debt (and EU) crisis – Mexican peso. All of them reacted unison and intensively to 2008 financial crisis (see p. 78, table 13).

OBJECTIONS AND REMARKS:

The thesis is readable, up to date and very informative. I really appreciate illustrative graphs and tables. The author has solid theoretical background. In spite of the mentioned pros, the selection of analysed countries should have been better (they are very heterogeneous).

QUESTIONS FOR THE DEFENCE:

1) Why did JPY depreciate between approx. 2012-2015 (graph no. 5, p. 32)? What happened? Was there any connection between the JPY NEER depreciation and the so-called Abenomics?

2) On the one hand, there was a massive appreciation of CHF NEER during 2008-2011. On the other hand, there was a “plateau” of the Swiss exchange rate between late 2011 and the beginning of 2015 (graph no 6, p. 33). On p. 45 you write “...*the Swiss National Bank intervened on the foreign exchange market in September 2011 and pegged its exchange rate to Euro.*” What does it mean? How can I imagine „pegged exchange rate“? Why did Swiss National Bank decide to employ this exchange rate regime?

3) You stress the importance of foreign direct investments, FDI, (p. 38 Mexico, p. 59 Turkey, p. 64 S. Korea) and their high resistance to capital flights (or sudden stops) during risk-off period or other turmoils. Turkey suffers from low inflow of FDI (p. 59). Why? Can you suggest any incentives to attract FDI to Turkish economy?

4) Can you describe and differentiate impacts of “cold” and “hot” capitals inflows on emerging market economies? (i.e. the impact on inflation, indebtedness, balance of payments, output gap etc.) Try to generalize your ideas and not focus on one specific country.

ASSESSMENT:				
Criterion	Excellent	Very good	Good	Insufficient
Aim formulation and fulfilment	X	X		
Work with literature	X			
Methods and data used	X			
Results and their discussion	X			
Formal aspects	X			
Suggested overall grading: <i>1 - Excellent</i>				

Prague, 6th June 2017

Ing. Ondřej Šíma

Signature