

Discussion of

Portfolio Rebalancing and the Transmission of
Large-Scale Asset Programs: Evidence from the Euro
Area

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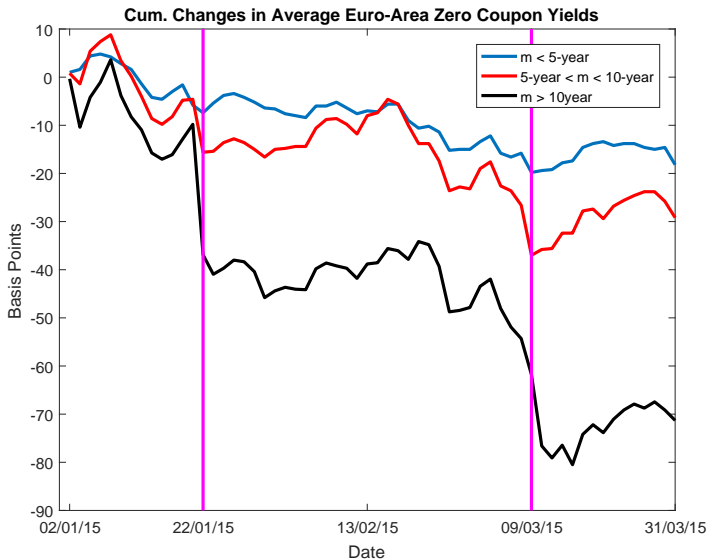
- My take of the paper
- Things I like
- Things I don't like

- How does the QE(e.g. APP) work?
- Three channels:
 - ▶ Signaling Channel
 - ▶ Portfolio Rebalancing Channel
 - ▶ Scarcity Channel
- Understanding the effects of the QE is important for policy.
 - ▶ Through risk premia or expected short rates?
 - ▶ Financial stability risks?
 - ▶ Macro effects?

Portfolio Balance

- Works through risk premia.
 - ▶ Long end of the yield curve changes more than the short end.
- This paper:
 - ▶ Using security-by-security data on financial portfolios look at portfolio balancing and find it.

Helping the paper indirectly



Andrade et al.(2016) agrees

VARIABLES	(1) average effect	(2) average effect	(3) maturity
announcement	-12.61*** (0.44)	-12.60*** (0.44)	-3.43*** (0.36)
implmentation	-14.44*** (0.38)	-14.43*** (0.38)	-3.30*** (0.36)
MT bond x announcement			-6.25*** (0.54)
MT bond x implementation			-8.73*** (0.42)
LT bond x announcement			-19.64*** (0.86)
LT bond x implementation			-22.82*** (0.42)

- Data for 2014Q1 and 2015Q2 (exploit cross-sectional heterogeneity)
- Run a regression:

$$h_{i,h,t} = (\beta_0 m_i + \beta_0' r_{it} + \beta_0'' m_h r_{it}) + (\beta_1 m_h T_t + \beta_1' T_t r_{it} + \beta_1'' m_h T_t r_{it}) \\ + \gamma T_t + a_{i,t} + b_{h,t} + \varepsilon_{i,h,t}$$

- $\beta_1'' > 0$: More exposed investors rebalance their portfolio.
- Works if m_h is exogenous.

Things I like

- Question
- Focus
- Data
- Clarity

Things I don't like

- Regression equation:
 - ▶ Levels and changes

$$h_{i,h,t} = (\beta_0 m_i + \beta_0' r_{it} + \beta_0'' m_h r_{it}) + (\beta_1 m_h T_t + \beta_1' T_t r_{it} + \beta_1'' m_h T_t r_{it}) + \gamma T_t + a_{i,t} + b_{h,t} + \varepsilon_{i,h,t}$$

h : log holdings (level)

r : yield-to-maturity (level)

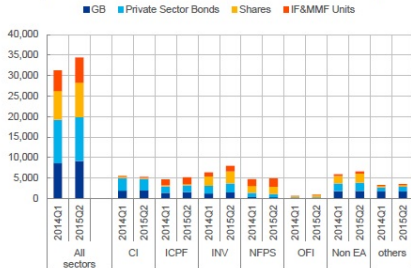
m : Exposure (change)

- Directly look at changes in the portfolio holdings.
- Endogeneity of m_h :
 - ▶ There might be something special about the maturities (e.g. bank's balance sheets).
- ECB is buying assets to relieve the banks from the balance sheet pressures.

Visible Portfolio Rebalancing

Chart 1: Portfolio rebalancing between 2014Q1 and 2015Q2 across types of instruments

a) Outstanding amounts (*billions of euro*)



b) Shares (*percentage points*)

