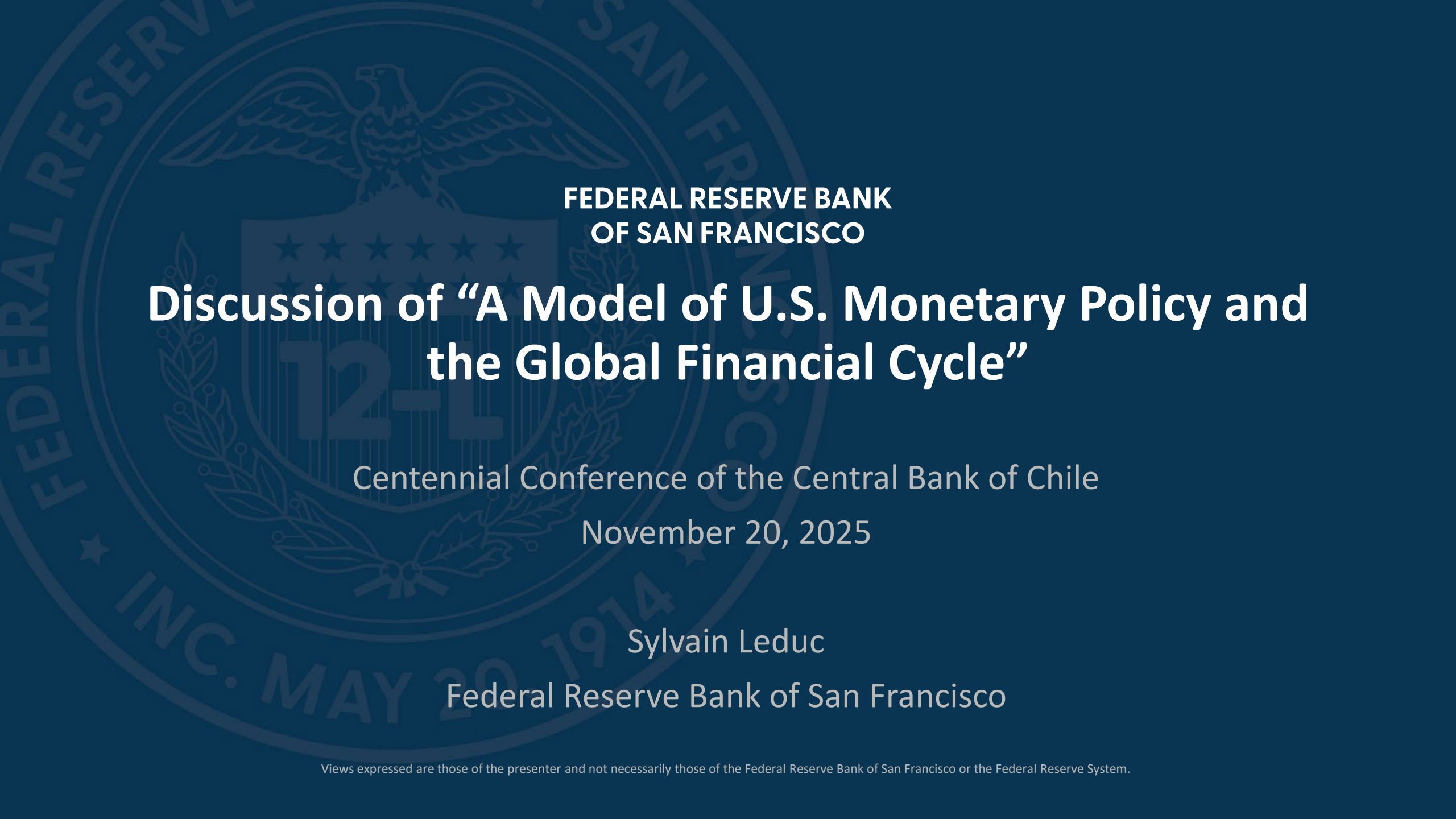




**FEDERAL RESERVE BANK
OF SAN FRANCISCO**

Discussion of “A Model of U.S. Monetary Policy and the Global Financial Cycle”

Centennial Conference of the Central Bank of Chile

November 20, 2025

Sylvain Leduc

Federal Reserve Bank of San Francisco

Views expressed are those of the presenter and not necessarily those of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Great paper that checks all the boxes!

- ✓ Addresses an interesting question
- ✓ Derives novel analytical results
- ✓ Provides a quantitative assessment of the mechanism
- ✓ Has important policy implications

A GE framework of the global financial cycle

- Introduce global intermediaries in NK open economy model
- Global intermediaries (GIs) facilitate international capital flows
- US policy impacts intermediaries' net wealth and ability to bear risk
 - Changes in risk pricing of international assets → foreign spillovers

GIs are the model's essential actors

- GIs allocate their wealth to holdings of US and international bonds

$$\sum_{j=1}^n E_{j,t}^{-1} (B_{mj,t} + B_{mj,t}^{\delta}) = W_{m,t}$$

- GIs care about profits in US dollars

$$\Pi_{m,t+1} = \sum_{j=1}^n \frac{(1 + i_{j,t}) B_{mj,t}}{E_{j,t+1}}$$

- Choose portfolio allocation to maximize mean-variance preferences

$$E_t \Pi_{m,t+1} - \frac{a}{W_{m,t}} \text{Var}_t \Pi_{m,t+1}$$



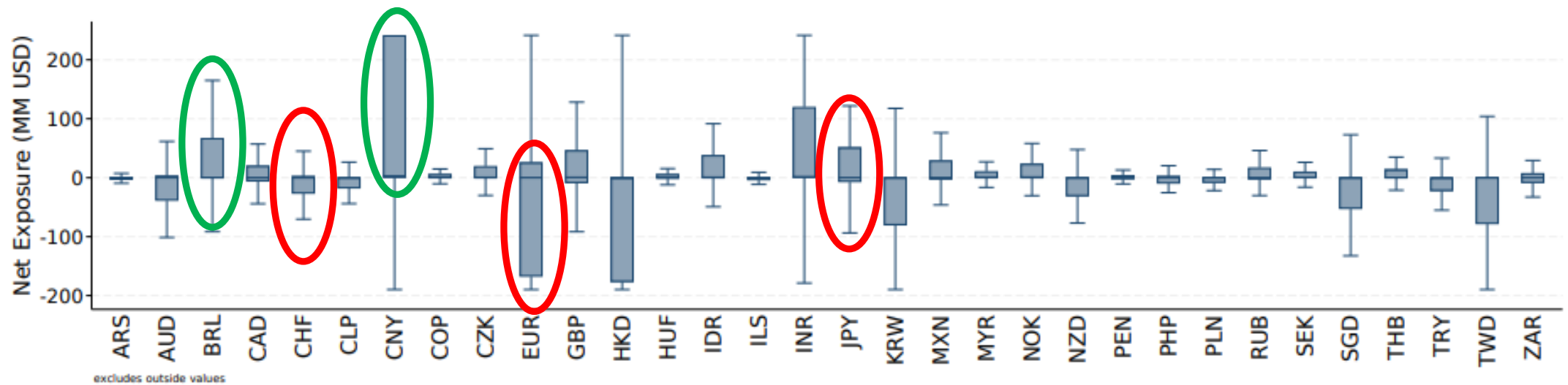
Provide more direct info on GIs

Dodd-Frank: A treasure trove of information

- Largest US banks must provide detailed information on portfolio holdings (Y14 data)
- Largest US banks must provide daily internal risk limits to the Federal Reserve (Volcker rule)
 - Information provided at the trading desk level

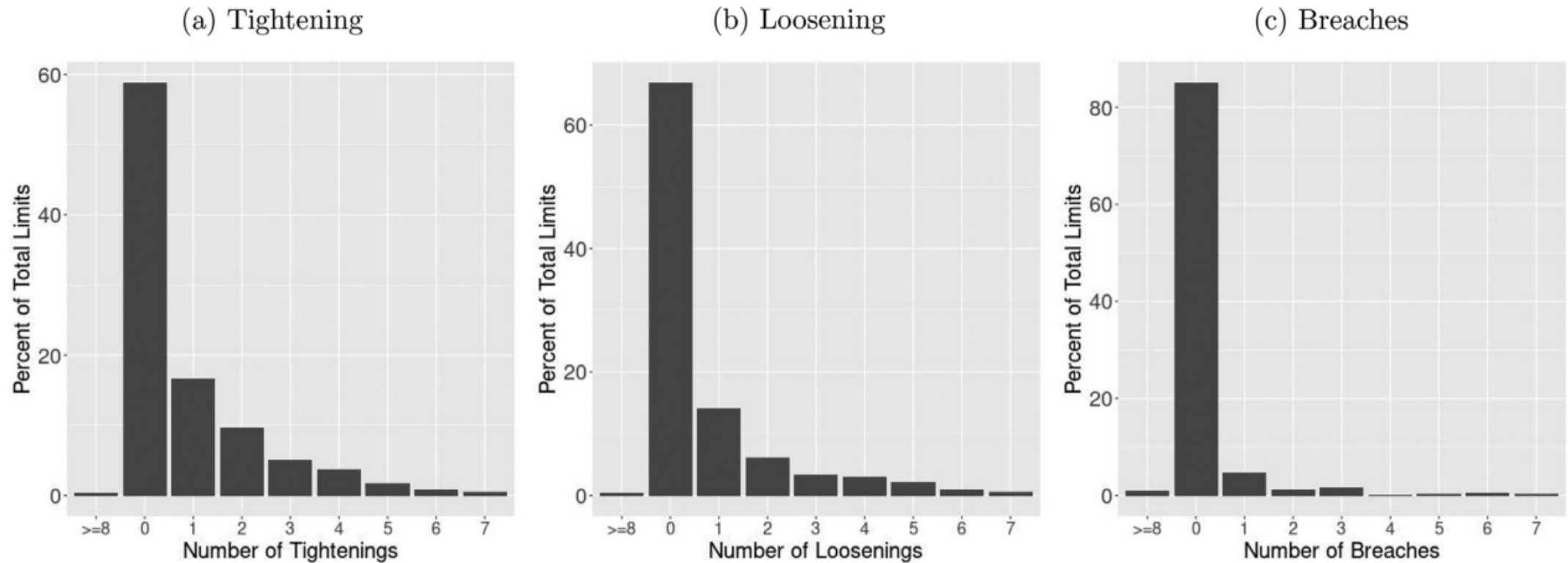
Banks' net currency exposures

US banks' net exposures by currency (Barbiero et al. 2024)



Banks' internal risk limits are changing often

Anderson et al. (2023)





Global financial cycle and risk factors

Covariances as parameters: reasonable?

- Excess returns on one-period bond in currency j

$$ex_{j,t+1} = \frac{E_{j,t}}{E_{j,t+1}} (1 + i_{j,t}) - (1 + i_{1,t})$$

- Under approximation method, excess returns compensate for risk

$$ex_{j,t} = \frac{\bar{a}}{\omega_m} \left[\sum_{k=2}^n Cov (ex_{j,t+1}, ex_{k,t+1}) \frac{b_{mk}}{q_k} \right]$$

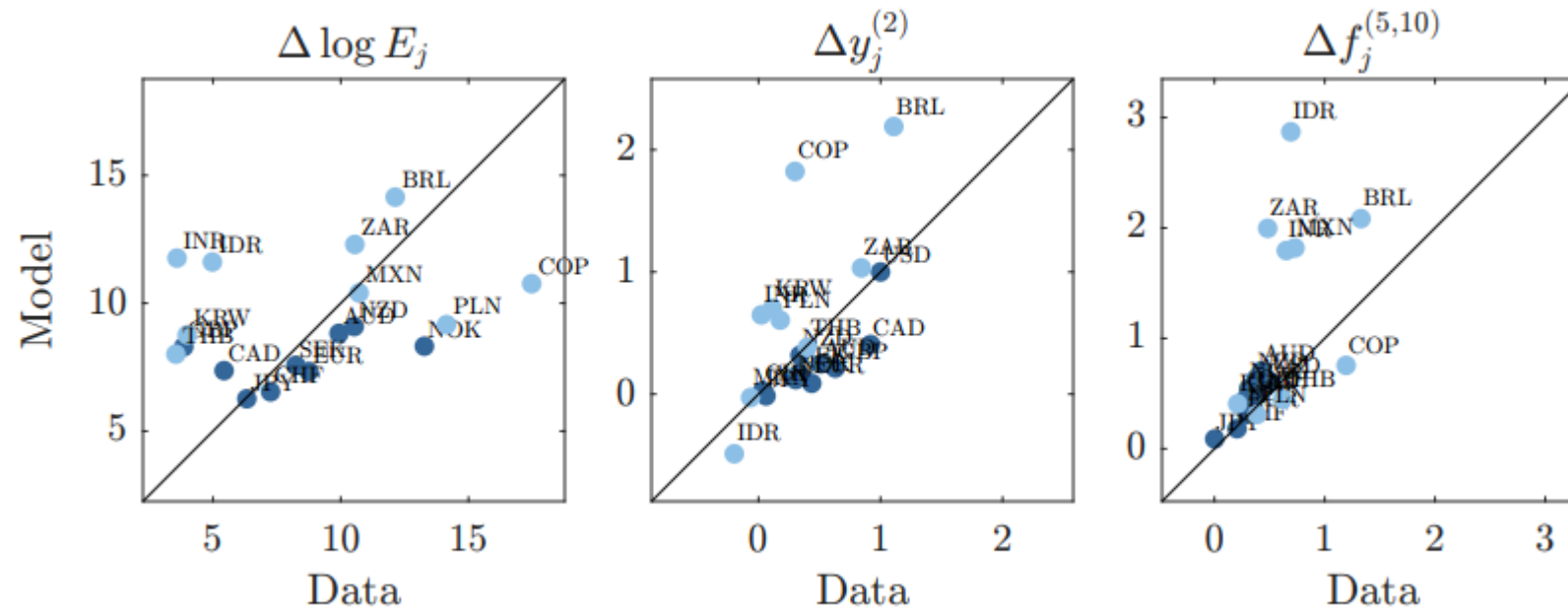
- Risk reflects the covariances with all trades and GIs' bond holdings
- If US policy is a central driving force, taking covariances as parameters is a strong assumption



Model validation

Bring more evidence to validate the model

- Model partly estimated to match G10 exchange rate and yields data



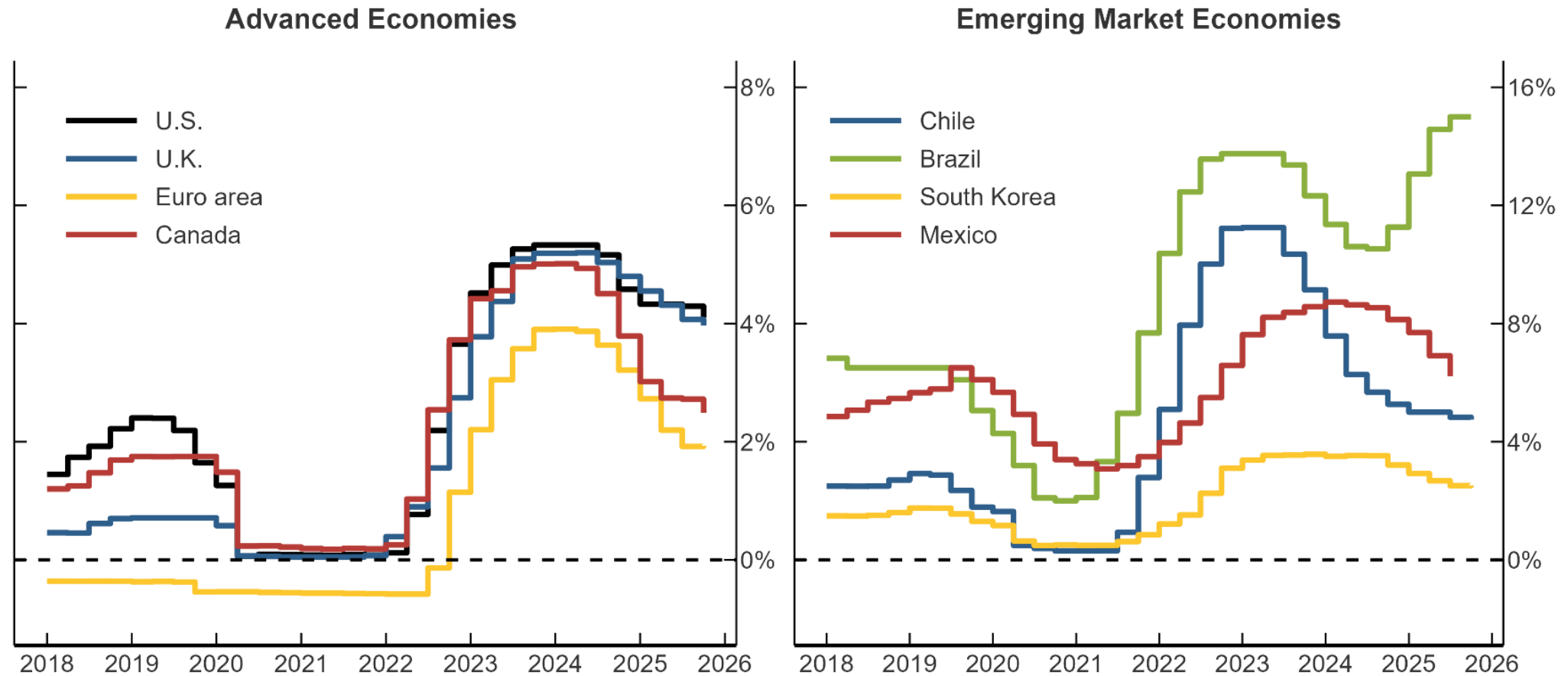
- Critical parameters are unobserved, so difficult to assess estimation
- Examine responses of real variables to gauge model performance further



Examine post-pandemic policy responses

Policy spillovers or correlated/global shocks?

Policy rates by country



Note: Monthly series of overnight interbank rates.

Source: OECD via Haver Analytics

Have a look at the paper!

- Analytically sound approach
- Intuitive channel
- Will be useful for policy analysis

The background of the slide features a large, faint, circular seal of the Federal Reserve Bank of San Francisco. The seal includes an eagle with spread wings at the top, a shield with stars and the text '12-L' in the center, and a laurel wreath at the bottom. The outer ring of the seal contains the text 'FEDERAL RESERVE BANK OF SAN FRANCISCO' and 'INC. MAY 20, 1914'.

**FEDERAL RESERVE BANK
OF SAN FRANCISCO**

Thank you!