

Appendix Figures for Online Publication

FOR

WILL THE SECULAR DECLINE IN EXCHANGE RATE AND INFLATION VOLATILITY SURVIVE COVID-19?

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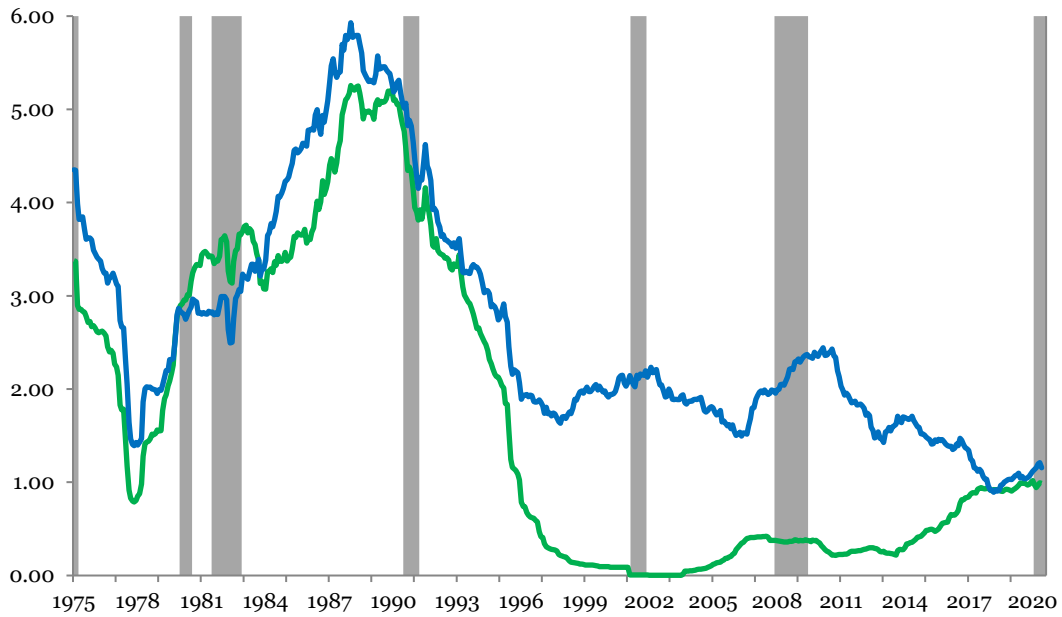
Abstract

Over the 21st century, and especially since 2014, global exchange rate volatility has been trending downwards, notably among the core G3 currencies (dollar, euro and the yen), and to some extent the G4 (including China). This stability continued through the Covid-19 recession to date: unusual, as exchange volatility generally rises in US recessions. Compared to measures of stock price volatility, exchange rate volatility rivals the lows reached in the heyday of Bretton Woods I. This paper argues that the core driver is convergence in monetary policy, reflected in a sharp-reduction of inflation and short- and especially long-term interest rate differentials. This unprecedented stability, which partially extends to emerging markets, is strongly reinforced by expectations that the zero bound will be significantly binding for advanced economies for years to come. We consider various hypotheses and suggest that the shutdown of monetary volatility is the leading explanation. The concluding part of the paper cautions that systemic economic crises often produce major turning points, so a collapse of the Extended Bretton Woods II regime cannot be ruled out.

JEL: E5, F3, F4, N2

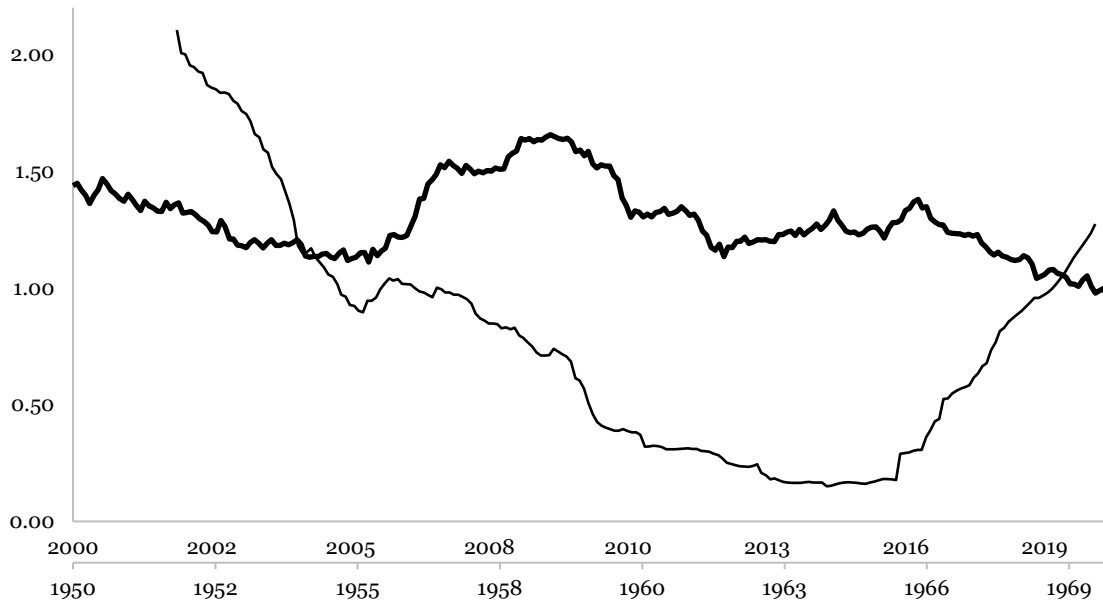
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FIGURE A1: RMB/USD AND RMB/EUR VOLATILITY



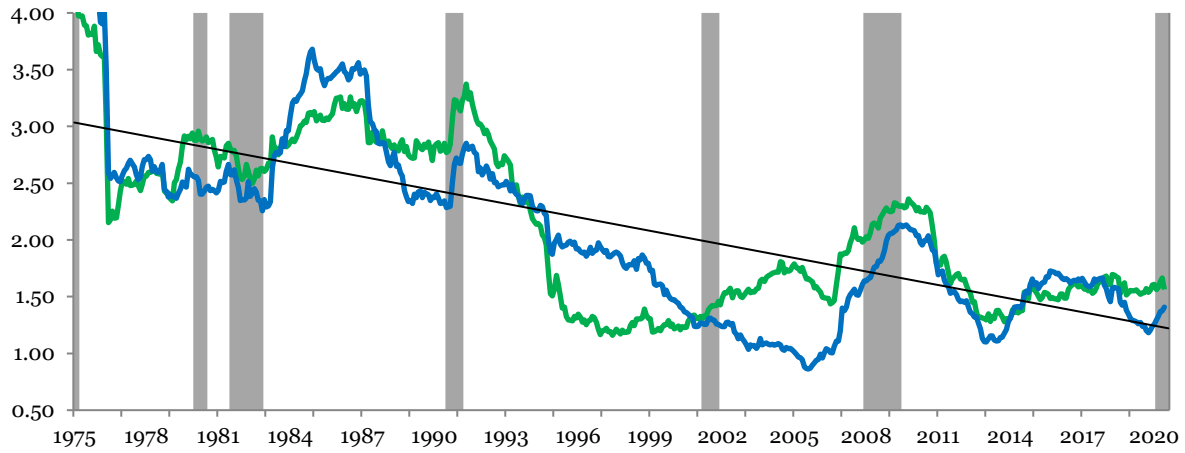
The figure shows the four-year moving average of the absolute value of month on month exchange rate change. Top blue line: RMB-euro. Bottom green line: RMB-dollar. Source: International Finance Statistics and the authors.

FIGURE A2: G4 CURRENCY VOLATILITY: 1950-1970 AND 2000-2020

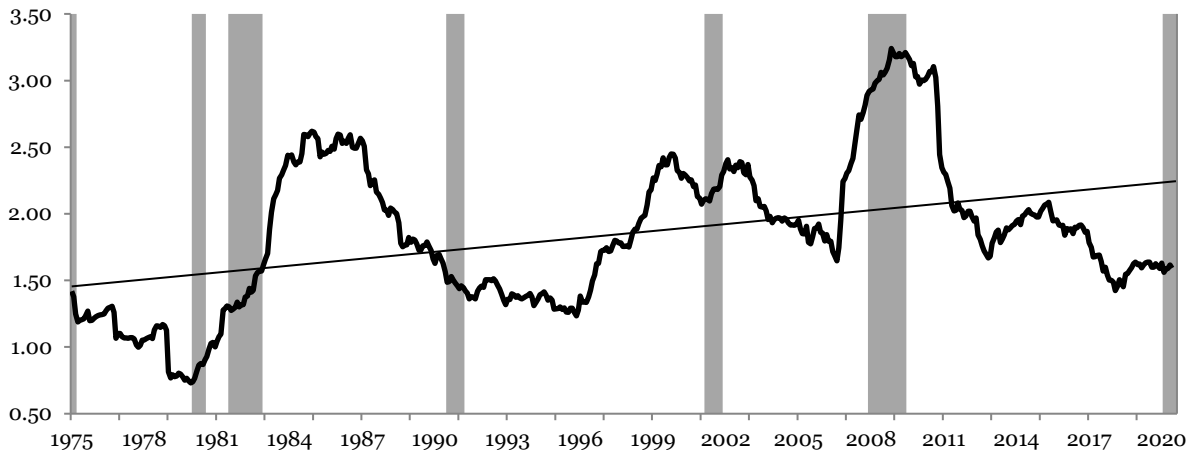


The figure shows the four-year moving average of the average absolute value of month on month exchange rate change of 3 top currencies against the US dollar. Thick line: 2000-2020, euro, yen, and renminbi. Thin line: 1950-1970, Deutschmark, UK pound and French franc. Source: International Finance Statistics and the authors.

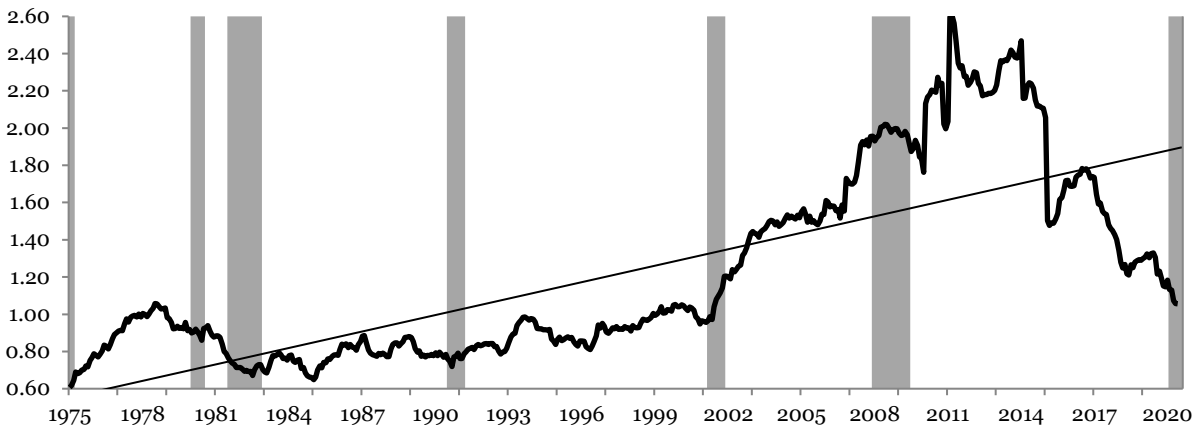
FIGURE A3: CURRENCY VOLATILITY OF REMAINING G10 CURRENCIES
 Panel A: UK Pound



Panel B: Australian Dollar



Panel C: Canadian Dollar



The figure shows the four-year moving average of the average absolute value of month on month exchange rate change of various currencies against the dollar (unless otherwise specified below). Panel A: UK pound. Blue line: against the euro, green line: against the US dollar. Panel B: Australian dollar. Panel C: Canadian dollar. Source: International Finance Statistics and the authors.

FIGURE A4: US INFLATION AND EXPECTATIONS



The top panel shows annual inflation expectations for the following 5-years, based on the difference between yields on 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities. The bottom panel shows inflation of food prices (thick red line) and the consumer price index (thin black line) for US urban consumer. Sources: Federal Reserve Bank of St. Louis and the Bureau of Labor Statistics.