Stanford Big-Data Initiative in International Macro-Finance

Firms, Investors, and Global Capital Allocation

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Key Patterns in Cross-Border Investment

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Currency Bias and Foreign Capital Allocation

- Investors buy bonds in their own currency or in USD

- How does this affect the allocation of capital to firms within and across countries?
Currency Bias and Foreign Capital Allocation

Figure: Share of Foreign Borrowing and Share of FC Debt

(a) CAN  
(b) EMU  
(c) GBR  
(d) USA
Selection into FC Issuance

Figure: Number of Currencies and Firm Size

(a) CAN

(b) EMU

(c) GBR

(d) USA
Foreigners Avoid Local Currency Issuers

Canada

All Issuers

Only Local Currency Issuers

- Share of domestic portfolio
- Share of foreign portfolio

Issuer's Rank by Domestic Borrowing

Share of Portfolio

- Domestic
- Foreign
Local Currency Only Issuers

CAN

EMU

GBR

USA

- Domestic
- Foreign
US LC Issuers Place Debt Similarly at Home and Abroad

- Red: LC-only Share in Domestic Portfolios (Sum of Red Dots)
- Blue: LC-only Share in Foreign Portfolios (Sum of Blue Diamonds)
Little Difference Observed in Equities

LC–only Share in Domestic Equity Portfolios
LC–only Share in Foreign Equity Portfolios
International Currencies

- International currency issuance affects capital allocation
- Novel benefits of issuing an international currency: akin to opening capital account for LC-only borrowers
- How has this status changed over time?
Changes in International Use of Currency

Corporate Bonds, Cross-Border Positions

Share of Global Total

USD EUR
Composition and FX Changes

- Could in principle be caused by compositional shifts in data coverage having little to do with currency

- Control for entry/exit by plotting time FE from regressions

\[
\left( \frac{\text{Investment of } j \text{ in } i \text{ in currency } x}{\text{Investment of } j \text{ in } i} \right) = \phi^t_x + \alpha^{t, i, j} + \epsilon^{t, i, j, x}
\]

- Control for FX changes by using constant 2005 exchange rates

- Following slide plots $\phi^t_{EUR}$ and $\phi^t_{USD}$
Changes in International Use of Currency

Corporate Bonds, Cross-Border, Fixed Effects, Constant FX

Share of Global Total (Index, 2008q3=1)

-2  -1.5  -1  -0.5  0  0.5  1  1.5  2

2005q3  2008q3  2011q3  2014q3  2017q3

USD  EUR

USD  EUR
Dollar and Euro Use in Syndicated Loan Issuance

Data Source: SDC Platinum
Many Open Questions

- What frictions prevent firms from borrowing in foreign currency?
- What determines investor currency preferences?
- What are the real effects of changes in international currency use?