Online Appendix for 'Shorting the Dollar When Global Stock Markets Roar: The Equity Hedging Channel of Exchange Rate Determination'

currency units).[1] It is effectively assumed here that the actual payment of this purchase will be made in period $t + 1$ (i.e., the import deal is made with trade credit). The local IM's imported intermediate inputs are in turn used to produce and sell output quantity $M(Q_{t,IM})$ at.

where the assumed concavity of M was used to establish the negative relation between

GA's Profit Maximization. We are now in position to write GA's profit from its arbitrage activity as

$$Q_{t,GA} \qquad S_t$$

Moreover, Since FOC ($A.6$) implies a positive and proportional relation between S_t and $F_{t,t+1}$ which is not dependent on A_t, the equilibrium prediction just noted for $F_{t,t+1}$ must also carry over to S_t (and in a one-to-one relation in percentage terms). Hence, in sum, we can deduce that a shock

Notwithstanding the irrelevance of FX swaps to the mechanism of our equity hedging channel, Appendix D exploits the transaction-level FX swap and forward data available to us to establish that IIs tend to unconditionally roll over their foreign asset positions by having the bulk of their forward dollar selling funded by their buying of FX swap-linked spot dollars. Such FX swap buying is a substitute for selling foreign asset positions as a way to fund maturing forward contracts' payments and thus its dominant role in funding the latter payments serves as meaningful support

Second Step Estimation.

C.1 Alternative Lag Specifications

The lags for the constituent-level regressions from the text (Equation (1)) were chosen optimally as the average of the chosen lag specifications from the AIC, corrected AIC, BIC, and HQIC lag length criteria tests for each constituent-level regression. An alterative approach to this standard lag choice approach is to additionally check for each regression if the associated residuals pass the Ljung–Box auto-correlation test and then increase the lag for the regressions that do not pass this test until they do. Note that this extended lag choice approach is more stringent than our baseline one because optimal lag criteria tests already have embedded in them the residual white noise assumption. Nevertheless, using a threshold p-value of 10%, we have found th8(egr)-32 whit401s1(of)-29 those regressions we increased the number of lags until the test was passed for the 10% p-value threshold.

The results are very similar to themb-w(nseline)-335(ones)--564(The)-334(significance)-335(of)-334(them)335((02n

units of forward selling, and implying that the GIV value shock is a sufficiently strong instrument

version of each non-USD/ILS forward transaction to dollar value terms.

The first and second panels of Table C.4 show the results from using USD/ILS- and non-USD/ILS-only forward flows and rates as our outcome variables, respectively, keeping the same

Table C.1: **GIV Value Shock Estimation Results: Alternative Lag Specifications.**

Table C.3: **GIV Value Shock Estimation Results: Aggregate Approach.**

Table C.4: **GIV Value Shock Estimation Results: Breakdown by USD/ILS- and non-**

directly at foreign equity holdings of IIs. However, we lack this data and hence turn to what we consider is a second-best way of accomplishing this goal.)

First, we emphasize the relatively long maturities typically characterizing IIs' forward contracts. Second, this section turns to inform us about whether IIs - when faced with the imminent need to obtain dollars to fund their maturing forward contracts - tend to roll over their foreign

debt' (Borio et al. (2022)), our results about IIs' tendency to fund the settlement of their forward contracts with FX swaps may potentially have implications for such stability issues.

Figure D.1: **The Relation between FX Forwards and FX Swaps.**

meaningful equity hedging channel of exchange rate determination in this respective economy.[12]

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