

Discussion of
“Swap line arbitrage”
(author: P. Kloks)

Discussant: Petros Migiakis

2025 EBA Research Workshop
Hybrid, 18 November 2025

Outline of the paper: structure

- The paper investigates the transmission of USD liquidity provision to offshore private markets.
- To do so, the paper makes use of unique swap settlements data (from CLS) in order to track transactions between banks and non-banks internationally.
- Then, it examines empirically:
 - (a) The relationship of US banks balance sheets to the non-US USD demand and to the pricing of USD transactions.
 - (b) The role of non-US banks as arbitrageurs (vs. CIP conditions) in the USD FX market.

Data

- Data on cross-currency trades.
- Daily data for 2.1.2012 to 30.6.2022.
- The dataset identifies sectors (banks vs. non-banks), nationalities, maturity of the position etc.
- Includes 4,170 bank entities.

Empirical results

- US bank net positions with foreign banks are predicted by the non-bank demand in USD.
- US banks charge higher prices when selling USD than when they buy;
 - This spread declines with higher gross trading volumes.
 - When US banks' face balance sheet constraints the asymmetry doubles.
- During the COVID-19 turbulence (March to June 2020) arbitrageurs used BoJ swap lines to lent out USD at the cash leg.

Policy implications

A private bank network may act as an international lender of last resort:

- Foreign (non-US) banks channel dollar liquidity in the global financial system,
- through their transactions with US banks...
- and foreign central banks (swap lines).

Doing so they stabilize the system and function as error-correction (arbitrageurs) mechanisms that reinforce the CIP of the USD.

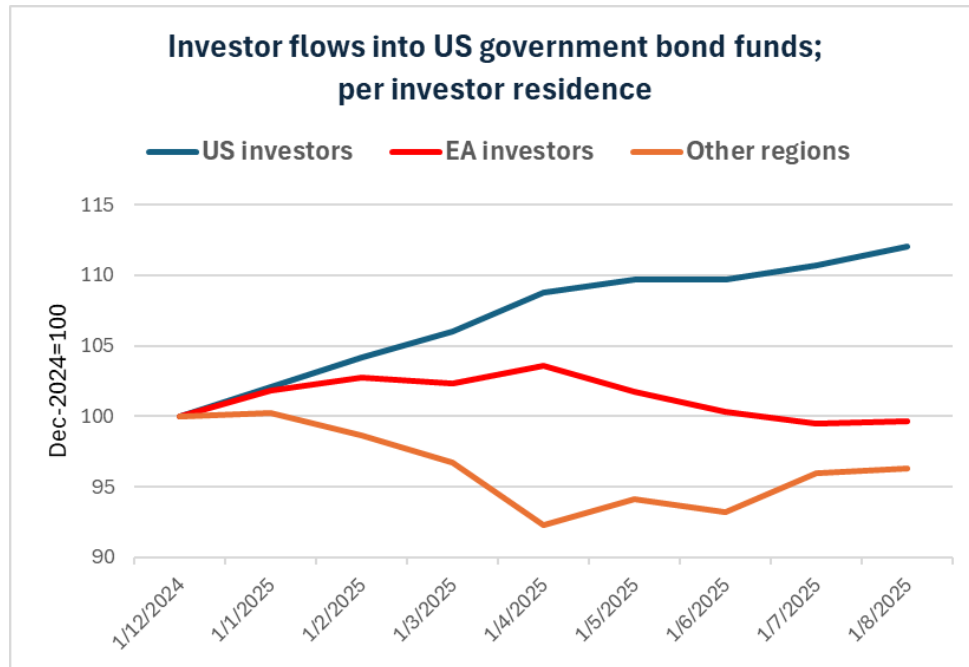
Comment 1: Who is an arbitrageur?

- The paper is not clear about the definition it uses on who is an arbitrageur and who is a fundamentalist.
 - Conceptually the arbitrage opportunities are gauged vis-à-vis CIP dictations.
 - But then the paper assumes all non-US that tapped the BoJ USD swap line, during COVID-19, as arbitrageurs.
 - What about the actual CIP FX rate? Could this be brought to the (very rich) dataset?
- *E.g. since there are prices in the data, how about first classifying as arbitrageurs those that price USD according to the CIP and exploit CIP-violations in their bids?*

Comment 2: Determinants of demand for USD

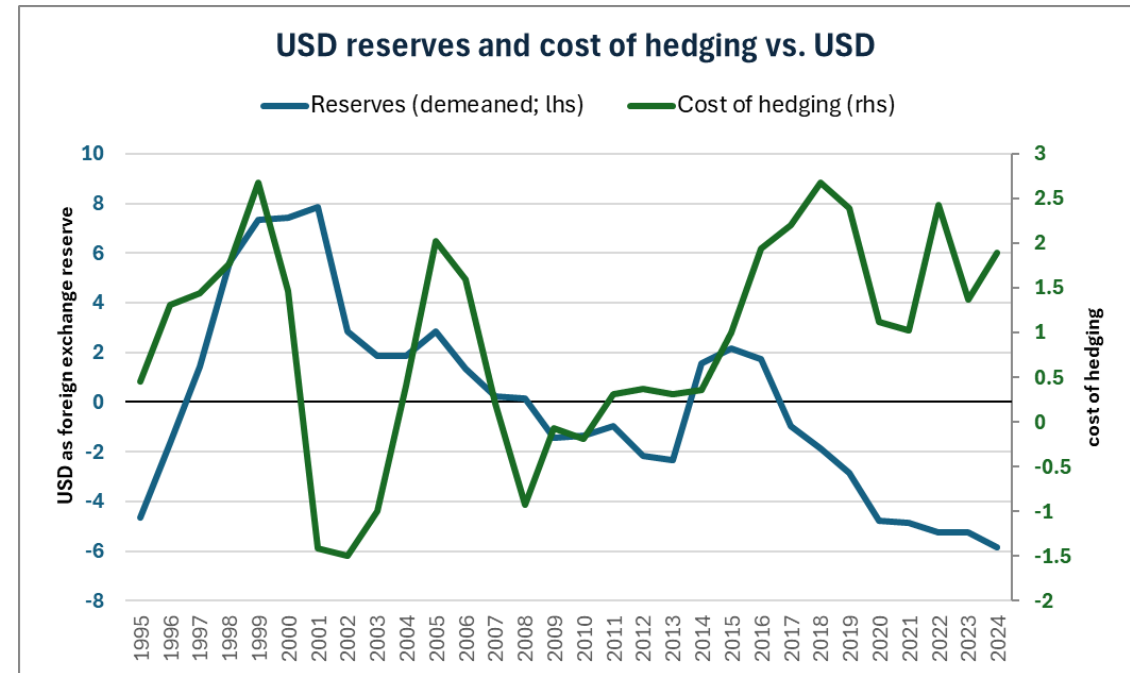
- The paper conceptually is based on permanent (e.g. trade) factors that affect the demand for the USD.
- What about the USD reflecting the *safe asset* status of the US Treasuries?
- According to the [Fed](#) “There is widespread confidence in the U.S. dollar as a store of value” (see, ‘*The international role of the U.S. dollar-2025 edition*’), which drives the usage of the USD as foreign exchange reserve.

Comment 2: Determinants of demand for USD



Source: LSEG Lipper.

Note: The chart shows the cumulative flows of investor portfolios into US Treasury bonds. The series are rebased to provide a comparison to 2024 (Dec 2024=100). 'Other regions' reflects mainly investor flows from Asia.



Source: FRB and LSEG Workspace

Note: The cost of hedging is the percentage difference between the forward and spot USD exchange rate.

Comment 3: Policy implications

- The Fed has acted as the LOLR for the global financial system.
- At present the Fed officials assesses whether to begin asset purchases to keep reserves from falling further and maintain an ample supply of reserves (see, [FRBNY Williams](#) and [FRB-Dallas Logan](#)).
- At the same time S. Bessent has criticized the LSAPs ('Gain of function', [here](#)), which made some commentators cite the Kindleberger trap ([VoxEU](#)).
- Is the private network of US and non-US banks an adequate alternative to the Fed, as providers of USD internationally?
- What are the conditions for adequacy? Abundant reserves?

Overall

- The paper is an excellent species of a highly technical empirical work with very important policy implications.
- Looking forward I would suggest that the paper has a lot of material and concepts meriting a deep focus on their own.