

Foreign exchange intervention: A comparative analysis of announcements versus trades

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Resumen:

We investigate the impact of foreign exchange intervention (FXI) distinguishing between announcements and settlement trades. Specifically, we exploit a rule-based policy enacted in Colombia that triggered the issuance of foreign currency options under specific and publicly known conditions, which we classify as announced FXI. Following the auction, traders secretly determined whether to exercise these options, provided the same rule conditions were met, thereby providing a basis for comparison. Our results indicate that, unconditionally, both intervention announcements and settlement trades yield similar effects. However, our conditional analysis reveals significant amplification of announcement effects in scenarios characterized by: leaning with the wind policies, heightened central bank credibility, and increased foreign exchange volatility. This research enhances our understanding of the nuanced exchange rate effects associated with different types of FXI and underscores the pivotal roles of central bank credibility and market volatility in shaping these effects.

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