

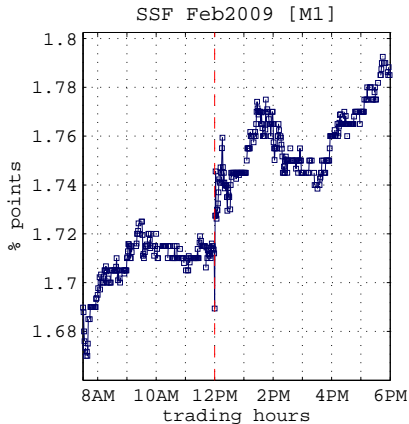
DISCUSSION OF
**A. Cieslak and A. Schrimpf ‘Non-Monetary
News in Central Bank Communication’**

GIOVANNI RICCO
University of Warwick

Bank of Canada Conference on Central Bank Communications
Ottawa, 13-14 September 2018

MP Surprises

An Announcement Day



event type: Rate Decision
date: 05/02/2009 12:00
new rate: 1 (old: 1.5)
forecast: 1

conflicts:
none

MP Surprises

An Announcement Day



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

5 February 2009

Bank of England Reduces Bank Rate by 0.5 Percentage Points to 1.0%

The Bank of England's Monetary Policy Committee today voted to reduce the official Bank Rate paid on commercial bank reserves by 0.5 percentage points to 1.0%.

The global economy is in the throes of a **severe and synchronised downturn**. **Output in the advanced economies fell sharply** in the fourth quarter of 2008, and growth in the emerging **market economies appears to have slowed markedly**. **Business and household sentiment in many countries has deteriorated**. The **weakness of the global banking and financial system** means that the supply of credit remains constrained.

In the **United Kingdom**, output dropped sharply in the fourth quarter of 2008 and **business surveys point to a similar rate of decline in the early part of this year**. **Credit conditions** faced by companies and households have **tightened further**. The underlying picture for consumer spending appears weak. Businesses have

Surprises vs Shocks

Open questions:

- ▶ Are MP surprises a direct measure of MP shocks?

Surprises vs Shocks

Open questions:

- ▶ Are MP surprises a direct measure of MP shocks?
- ▶ What is the **informational content** of market **surprises**?

This Paper – News in CB Communications

1. New **high-frequency database** of market ‘jumps’ around **communication events**

- (i) statements of monetary policy decisions
- (ii) minutes & press conferences
- (iii) other (inflation reports, speeches, ...)

by major central banks **Fed, ECB, BoE, BoJ**

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2. **Classification** of the (main) components in each event:

- high-frequency **comovement of stocks and interest rates**
- **monotonicity** restrictions across the **yield curve**

	Stock-yield cov > 0	Stock-yield cov < 0
$\text{Var}(y^{\text{Short}/\text{Mid}}) > \text{Var}(y^{\text{Long}})$	(1,1) Economic Growth	(1,2) Conventional Monetary Policy (via short-rate expectations)
$\text{Var}(y^{\text{Short}/\text{Mid}}) < \text{Var}(y^{\text{Long}})$	(2,1) Risk Premia (risk on/off)	(2,2) Unconventional Monetary Policy (via long rates/risk premia)

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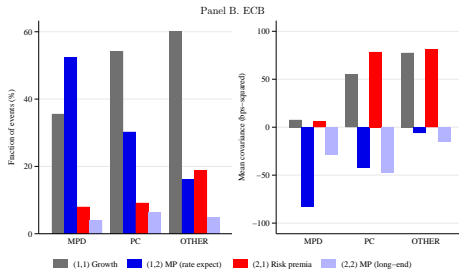
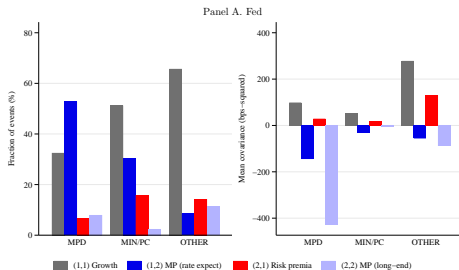
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Results – News in CB Communications



How to disentangle MP shocks and macro shocks?

Market-based: (this paper), Jarociński and Karadi (2017)

- ▶ Covariance between stock markets and interest rates
- ▶ Issues:
 - Focus only on the market 'perception' of shocks
 - Additional identification assumptions needed
 - ...

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Survey-based: Campbell et al. (2012a), (mine with S. M.-Agrippino)

- ▶ Agents' info set as represented by forecasts/surveys
- ▶ MPs orthogonal to information transfer
- ▶ Issues:
 - Forecasts public and/or policymakers well synchronised with events
 - Difficult to distinguish between risk premia and macro news shocks
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⇒ **Complementary approaches!**

Macro Shocks in CB communication?

Policy rate/communication as a **signal** for many macro shocks

$$i_t = \alpha i_{t-1} + \phi_{\pi_0} \mathbb{E}_t \pi_t + \phi_{\pi_1} \mathbb{E}_t \pi_{t+1} + \dots + \phi_{y_0} \mathbb{E}_t \tilde{y}_t + \phi_{y_1} \mathbb{E}_t \tilde{y}_{t+1} + \dots + \varepsilon_t^{mp}$$

market revisions may blend **current** and **past shocks** of **several types**

Response of markets/yields to macro shocks **depends** on

- ▶ **Timing** of shocks (backcast, nowcast, or forecast revisions)
- ▶ **Persistence** of shocks
- ▶ **Type** of macro shocks
 - Pro-cyclicality of inflation?
 - Tech shocks? ($\pi \downarrow$ and $y \uparrow \Rightarrow$ stock markets \uparrow)
 - Oil shocks? ($\pi \uparrow$ and $y \downarrow \Rightarrow$ stock markets?)

Question:

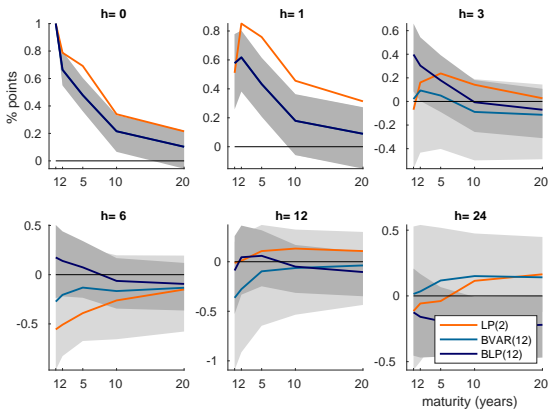
- ▶ Several macro shocks... are restrictions sufficient for all of them?
- ▶ This paper – mainly **growth shocks**

MP Shocks vs Information

$$\begin{aligned} mps_t = & \alpha_0 + \sum_{i=1}^p \alpha_i mps_{t-i} \\ & + \underbrace{\varrho F_t^{cb} u_{q+0} + \sum_{j=-1}^3 \rho_j F_t^{cb} x_{q+j} + \sum_{j=-1}^2 \theta_j [F_t^{cb} x_{q+j} - F_{t-1}^{cb} x_{q+j}]}_{\text{Information}} + MPI_t \end{aligned}$$

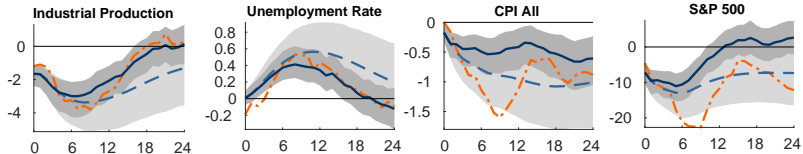
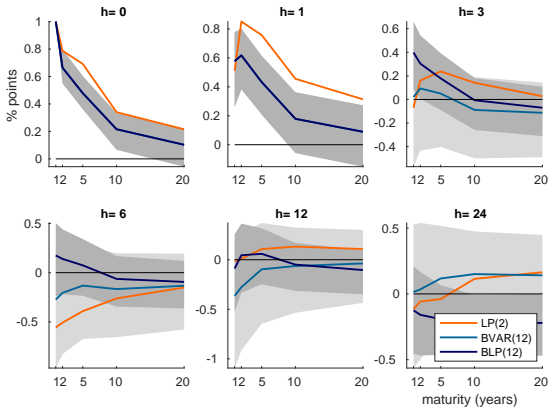
MP Shocks vs Information

MP Shock – Yield Curve Response



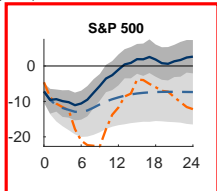
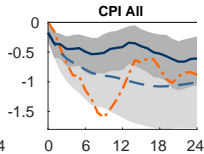
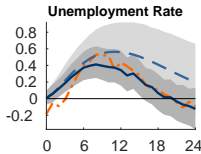
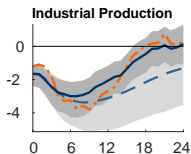
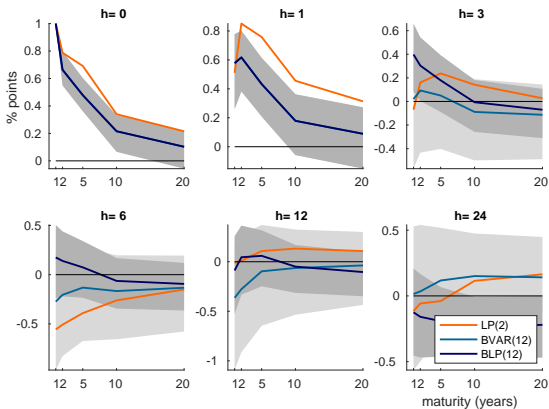
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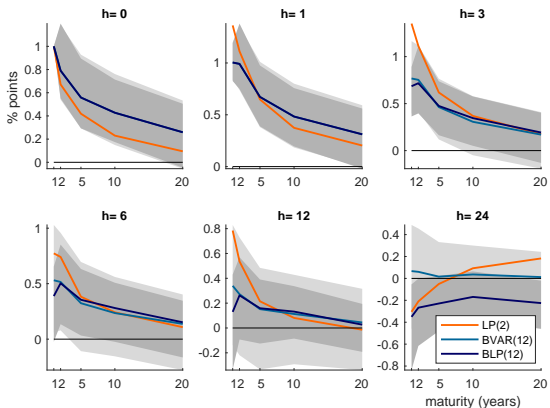
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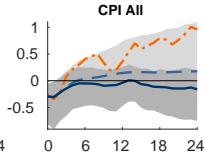
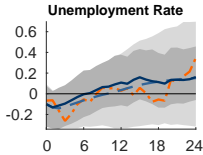
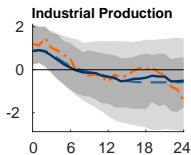
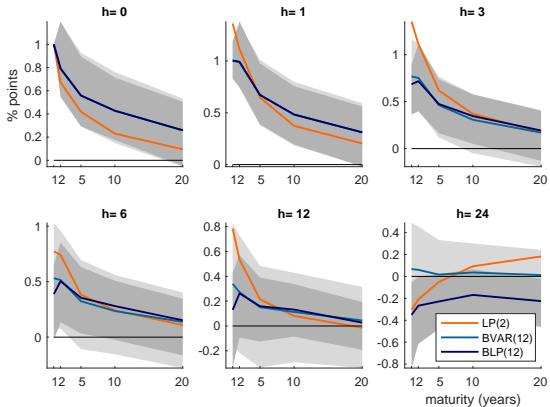
MP Shocks vs Information

Information Released – Yield Curve Response



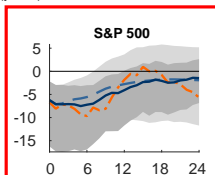
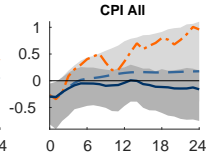
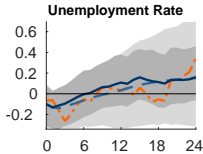
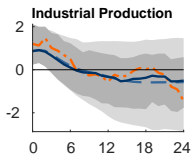
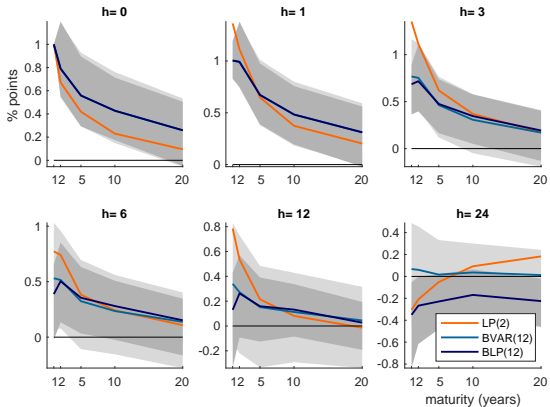
MP Shocks vs Information

Information Released – Yield Curve Response



MP Shocks vs Information

Information Released – Yield Curve Response



Risk premia shocks in CB communication?

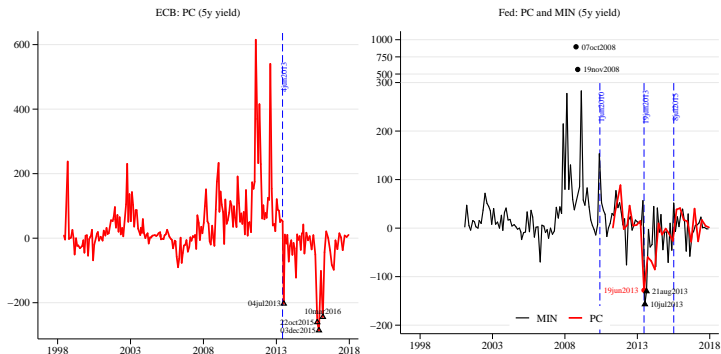
- ▶ How should we think of **price of risk shocks** as **orthogonal** to **macro conditions**?
- ▶ How can **CB communication** be the **source** of shifts to risk appetite?

Other comments

- ▶ Difference between **macro medium-run impacts** and **markets' short run responses**
- ▶ How to think of the effects of **changes to MP rules?**

News in CB Communications

Realised stock-yield covariances around communication events



Break in the composition of central bank announcements:

- ▶ non-monetary news drives communication in the period from 2008 through mid-2013
- ▶ monetary news dominate from mid-2013 to 2017

Conclusions

This Paper:

- ▶ Novel HF dataset of CB events
- ▶ 'Asset prices' approach to classify (main) info content of MP surprise
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Very important question...
Careful data work...

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Very important question...
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Important reference in the field!