

Evaluating Asset-Market Effects of Unconventional Monetary Policy: A Cross-Country Comparison

(By Rogers, Scotti and Wright)

Discussion by
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Short overview of the paper I

Analysis of the impact on asset prices of UMP by 4 major central banks

- Emphasis on high frequency (intraday) data to identify MP shocks
- Use the same methodology to assess the impact of UMP by different central banks
- Analysis of the international spillovers
- Persistence of the effects

Identification of unconventional monetary policy shocks

- Change in government bond yields in a narrow intraday window around a set of UMP announcements

Short overview of the paper II

Results

- Stock prices
 - ✓ (+) in EA and US; not significant in JP and UK
- Exchange rates
 - ✓ Depreciation of the domestic currency in the US, UK and JP.
 - ✓ Appreciation of the euro in response to ECB's actions.
- Corporate bonds
 - ✓ (-) in the US but (+) for spreads in the US; (+) in the euro area
- Spillovers
 - ✓ US UMP affects foreign yields, little evidence of effects in the opposite direction

Short overview of the paper III

Other results

- Conventional vs unconventional MP
 - ✓ Conventional MP shock (-25 b.p.): -10 b.p. in 10y and +2% equity prices. Corporate bond spreads decrease.
 - ✓ Unconventional MP shock: -25 b.p. in 10y lead to +0.7% in stocks. Corporate bond spreads increase.
- Persistence: VAR analysis (UMP shocks exogenous) – effects disappear quite slowly

Robustness checks

- Look at different type of announcements (LSAP vs others)
- Two dimensions of MP (forward guidance shock vs LSAP shock)
- Asymmetry
- Crisis non-crisis periods
- Identification through heteroskedasticity

General comments

Empirical paper on the impact of UMP policy announcements on financial markets

- Very nice paper – state of the art
- Relevant literature is quoted

Contributions

- Emphasis on high frequency identification of UMP shocks
- Same methodology for 4 major central banks
- Analysis of spill-overs (could be extended...)
- Analysis of the persistence of the effects (could receive more emphasis)

General comments

Analysis of the spill-overs can be potentially extended

- To other domestic variables (bank equities, CDSs, money market spreads)
- To other international variables (following the international debate on the global spill-overs)
- To the features that affect the transmission of UMP to other markets

General caveat on event studies with UMP

- Market are able to price in the full impact of UMP in a few minutes...

Intraday data: much ado about nothing?

- Neely: “intraday returns around announcements display 0.8 correlation with daily returns”

Transmission channels of UMP...

Similar movements in the US 10 y but different impact on asset prices

- 25 November 2008 - initial LSAP announcement
 - ✓ US 10y -25 b.p. ; S&P500 +0.7%; VIX -3.8 p.p.
- 1 December 2008 “Treasuries might be purchased”
 - ✓ US 10y -25 b.p. ; S&P500 -9%; VIX +13 p.p.

Different underlying channels imply different impact on asset prices

- Large number of channels at play Krishnamurthy and Vissing-Jorgensen, 2011
- Probably it is worth focusing on three of them (expected path, term premia, risk aversion/uncertainty)

Transmission channels of UMP...

Suggestion

- Decompose the 10y yield in expected path and term premia
- Look at the impact of UMP announcements on different components of the 10y yield
- Look at how different components are transmitted to asset prices (and across countries)
 - ✓ (partially done in the section “two dimensions of monetary policy...”)

Other (minor) comments...

Crisis non crisis

- The paper uses dummies to test whether the transmission of UMP is different in 2008 and 2009
- Suggestion: test whether the transmission depends on specific market frictions (interact the UMP with indicators of market frictions)

ECB's UMP

- The set of studied announcements is very heterogeneous (and so the channels of transmission)
- The paper does not look at SMP purchases (authors' choice)

Review of the policies of major central banks

- Just refer to Fawley and Neely (2013)