(By Rogers, Scotti and Wright)

Discussion by
Marco Lo Duca
European Central Bank

International Dimensions of Conventional and Unconventional Monetary Policy
ECB-IMF conference
Frankfurt, April 29-30, 2014
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
Other results

- Conventional vs unconventional MP
  - 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
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
- 1 December 2008 “Treasuries might be purchased”

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…”)

EUROPEAN CENTRAL BANK 8
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)