

Central bank communication and the yield curve

总结：赵伟皓

09.25.2024

1 Research questions

How does CB communication affects IR by changing risk premiums when there are differences in yield?

2 Why are the research questions interesting?

- After the European debt crisis, there has been increasing debate about how CBs control long-term i .
- Traditional monetary policy tools may not fully explain the differences in sovereign bond yields.
 - CB communication is considered a key mechanism influences market expectations and risk premiums.
- ECB communication affects sovereign yields through i expectations, and by altering the perceived risk of.

3 What is the paper's contribution?

(1) Literature in macro-finance

Previous: Effects of the US Federal Reserve's monetary policy on cross section of assets and market variables.

This: The crucial role of monetary policy to influence markets and credit risk premia instead of term premia.

- Studying central bank communication separately from policy action.

(2) Literature on the ECB's action during the European debt crisis.

Previous: Unconventional policies of ECB successfully eased financial conditions in peripheral countries.

This: Study regular monetary policy days, focus on the different dimensions of central bank communication.

(3) Literature on exploring belief-driven equilibria around the European sovereign debt crisis

Previous: Policy-makers' actions reveal private knowledge to markets, which have real economic effects.

This: Getting distinct policy shocks that differentiate between standard i shocks and additional policies.

- Additional policy shocks capture macro variables signals and implementation of unconventional policies' info.

(4) Literature on ECB's Monetary Policy Communication and its Impact on Financial Markets

Previous: Studying the effect of monetary policy on eurozone money market rates.

This: Incorporating money market rates and equity returns to reveal: credit risk premia explain sovereign yields.

4 What hypotheses are tested in the paper?

H1: Communication affects yields via risk premia, with the impact varying across different regions.

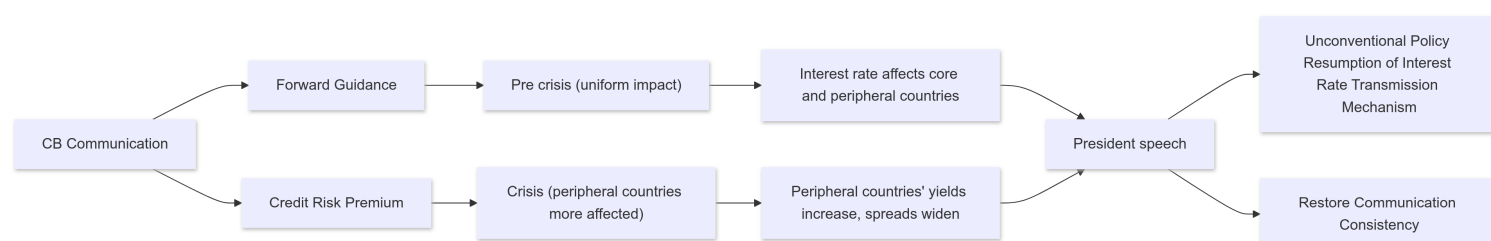
H2: Risk premium shocks as a key mechanism through which CB communication shapes sovereign bond yields.

a) Do these hypotheses follow from and answer the research questions?

- Hypos are expanded upon through focus on CB communication and risk premia, making them well-developed.

Do these hypotheses follow from theory or are they otherwise adequately developed?

- Grounded in economic theory related to i expectations, considering the additional factor of credit risk premia.
- Linking CB communication to shifts in risk perception, which drives the divergence in yields between countries.



5 Sample: comment on the appropriateness of sample selection procedures.

The inclusion of a variety of events and use of high-frequency data are well-suited for the study's objectives.

6 Dependent and independent variables: comment on the appropriateness.

A solid foundation for analyzing the effects of CB communication on the yield curve and sovereign bond markets.

7 Regression model specification: comment on the appropriateness.

The model uses appropriate statistical methods to ensure the reliability and validity of the findings.

8 What difficulties arise in drawing inferences from the empirical work?

All models are based on certain assumptions that may not fully conform to the complexity of the real world.

9 Describe at least one publishable and feasible extension of this research.

Exploring the global spillover effects of such communication on emerging markets, which are often more sensitive to global financial conditions and may exhibit different responses due to varying levels of economic development, financial market structure, and policy frameworks.

References

- [1] Carlo Altavilla, Luca Brugnolini, Refet S. Gürkaynak, Roberto Motto, Giuseppe Ragusa, Measuring euro area monetary policy, *Journal of Monetary Economics*, Volume 108, 2019, Pages 162-179.