

Summary of Central bank communication and the yield curve

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1) What are the research questions ?

- How central bank communication influences long-term interest rates?

2) Why are the research questions interesting?

- The role of central banks has garnered great attention after financial turmoil.
- Core and peripheral yields diverged after European debt crisis.

3) What is the paper's contribution?

- Literature on monetary policy affects assets and market variables.
 - Prior : long-term real and nominal interest rates, equity returns, volatility, and mortgage issuance...
 - Extend: monetary policy affects credit risk premia, and study central bank communication separately from policy action.
- Literature on the ECB's action during the European debt crisis.
 - Prior: ECB's unconventional policies eased financial conditions.
 - Extend: focus on the different dimensions of central bank communication.
- Literature on belief-driven equilibria around the European sovereign debt crisis.
 - Extend: risk premium channel of monetary policy.
- Literature on the signaling channel of monetary policy.
 - Extend: extract two distinct policy shocks, capture macroeconomic signals and unconventional policies information.

4) What hypotheses are tested in the paper?

- Hypotheses
 - IR communication shocks have a positive and uniform impact on all sovereign yields in normal times, but differently during the crisis.
 - In crisis times, U communication shocks have a negative impact on all sovereign yields, which is larger in absolute value for peripheral yields.
- The logic of hypotheses
 - During crises, particularly for peripheral countries, market participants' perceptions of credit risk are heightened.

5) Sample

- High-frequency data on sovereign bond yields from 2001 to 2014.

6) Dependent and independent variables

- Independent variables: IR: future path of interest rates; U: credit risk premia.

7) Regression/prediction model specification

- High-frequency event study methodology.

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

- Why this paper can separate the effects of ECB communication from other macroeconomic factors?
- 9) **Describe at least one publishable and feasible extension of this research.**
- How other central banks (in China?) communications influence yield curves.