The Fed - Market Effects of Central Bank Credit Markets Support Programs in Europe

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Using responses of credit default swap indexes to ECB monetary policy announcements, we isolate a novel credit policy component of monetary policy surprises. We examine how such unconventional monetary policy surprises affect investor perceptions of credit risk and the functioning of primary corporate debt markets. Favorable credit surprises cause declines in uncertainty about credit risk and suggest a more stable outlook on its dynamics over the following months. Both net and gross corporate bond issuance increase as a result of favorable credit surprises, with the largest response in investment grade issuance. We argue that this provides evidence for the efficacy of a local channel of unconventional monetary policy.