# Discussion of **“Speeches, Press Conferences and Minutes: The International Transmission of Federal Reserve Communications”**

by Rodrigo Sekkel and Xu Zhang

Prepared for Women in International Economics Conference

**STEPHANIE E. CURCURU**

FEDERAL RESERVE BOARD

DIVISION OF INTERNATIONAL FINANCE

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# Summary

**Question:**

- Which has a larger effect on Canadian financial markets – Bank of Canada or FOMC events?

**Approach:**

- High frequency event study on the relative effects of speeches, press conferences, minute releases, policy rate announcements on Canadian financial markets.
- Evaluate transmission through exchange rates and interest rates, policy expectations and risk premia.

# Summary (cont.)

**Key results:**

- Spillover from communications often higher than that of policy rate announcements
  - FOMC press conferences have become the most impactful fed event
- BoC policy rate announcements have the biggest effect on Canadian short-term yields
- Fed spillovers dominate at longer maturities, because of bond risk premia.
- Both central banks affect the exchange rate, and depart from the moves implied by CIP

**Contribution**:

- Excluding the speeches you miss most of the transmission
  - Cumulative move from spillovers from the press conference and speeches larger than from FOMC statement

# Outline

Outline of discussion:

- Fed approach
- Minor comments
- Two bigger questions
- Policy implications

# Fed approach

**Related papers by Board IF staff:**

Yield spillovers:

- "Measuring Monetary Policy Spillovers between U.S. and German Bond Yields" Curcuru, De Pooter, and Eckerd, IFDP 2018

Exchange rate effects of yield moves:

- "The Sensitivity of the U.S. Dollar Exchange Rate to Changes in Monetary Policy Expectations" Curcuru, IFDP 2017

Yield spillovers and exchange rate effects:

- "International Spillovers of Monetary Policy: Conventional Policy vs. Quantitative Easing" Curcuru, Kamin, Li, and Rodriguez, IJCB 2023

Information content of U.S. monetary policy events and resulting spillovers:

- "Are higher U.S. interest rates always bad news for emerging markets?" Hoek, Kamin, and Yoldas JIE, 2022

# Minor comments

Benefits of their approach:

- Both central banks are in the same time zone
- Key dates in futures markets are aligned
- Filter events for economic significance using news reports

Comments:

1. Does this approach miss important events?

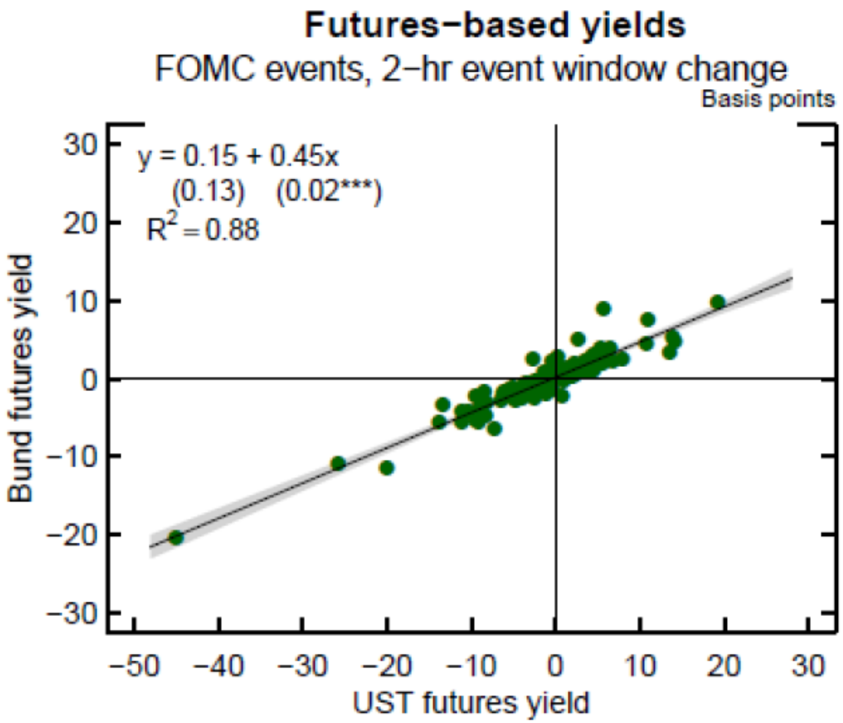
**Yield Changes during 13 Evening/Weekend Events (bps)**

| | Min | Mean | Max |
|---|---|---|---|
| US 10-year | -15.1 | 0.3 | 7.6 |
| CA 10-year | -22.8 | -0.9 | 6.6 |

2. Futures stop trading before expiration, trading moves to the next contract

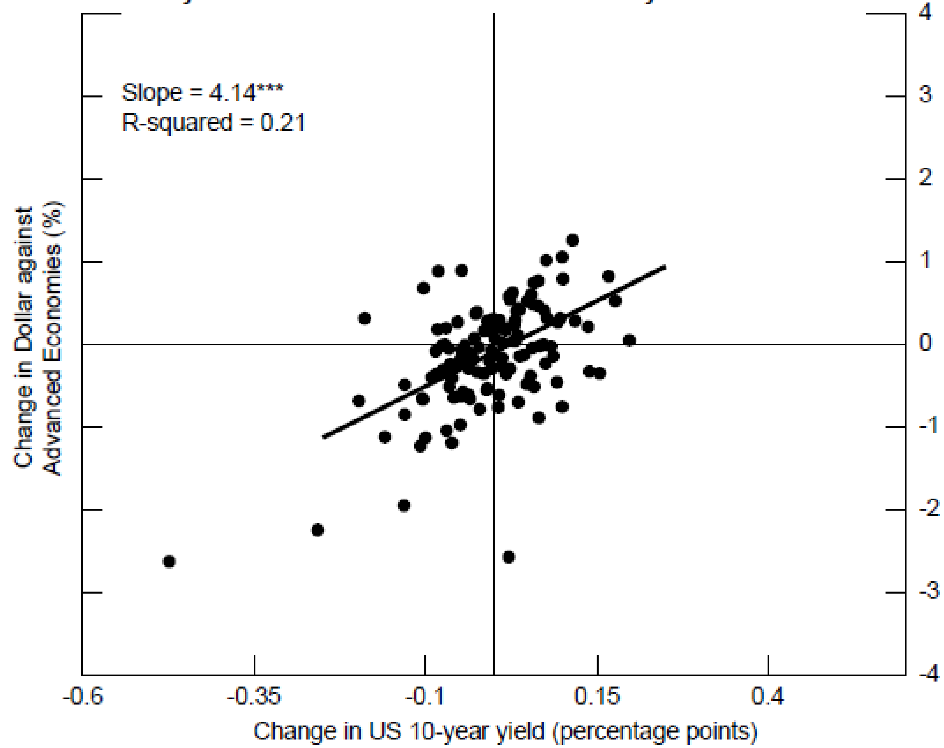
# Bigger question 1: Levels vs. Share

- Are histograms vs. scatter plots and slope better for this question?




Curcuru, Eckerd, De Pooter (2018)

**Figure 1: Changes in the Advanced Dollar Index and U.S. 10-year Treasury Yields on FOMC Announcment Days**

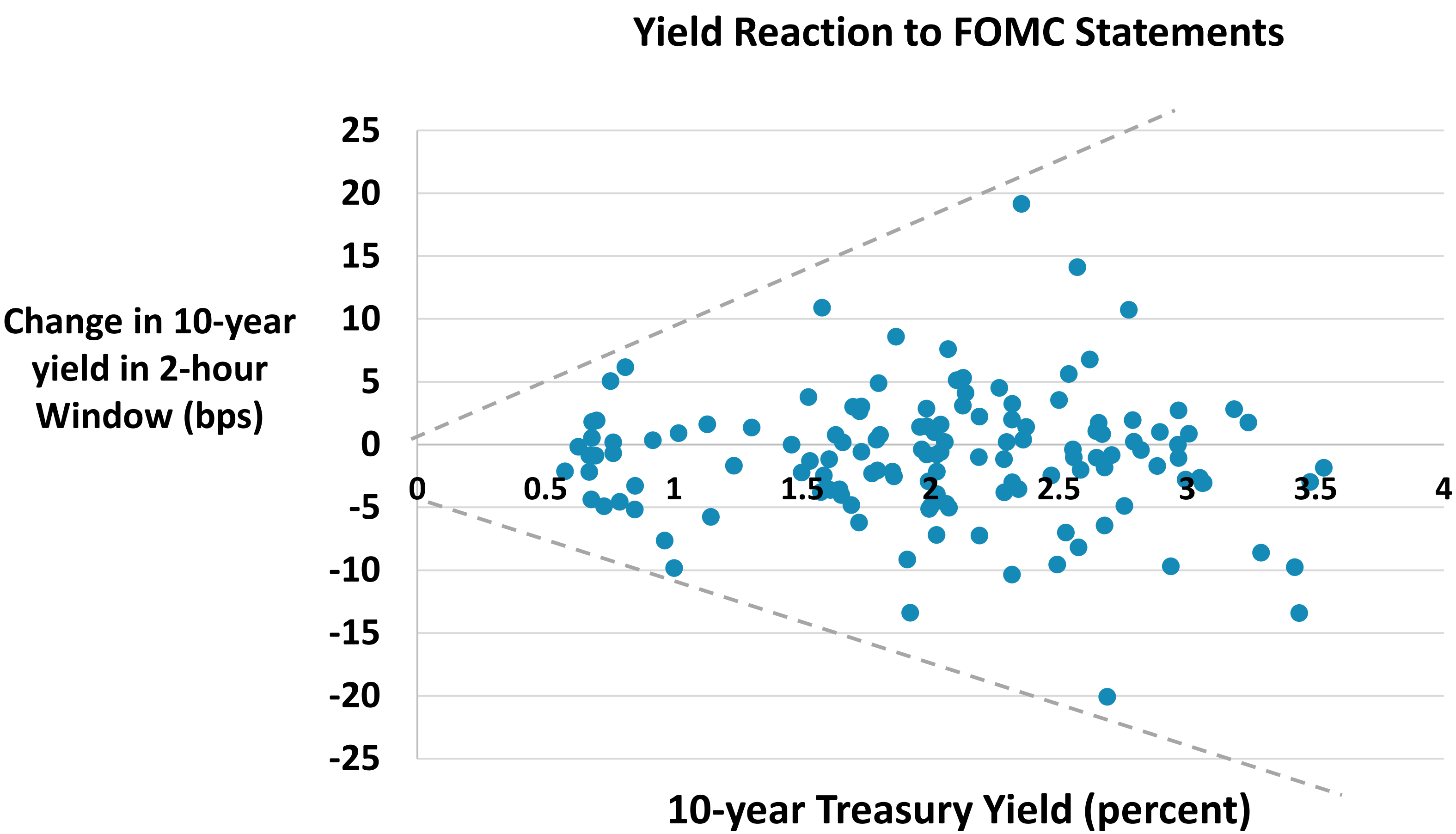



The data are changes in a one-day window around FOMC announcement dates. The full sample is from 2002-2017. The US 10-year yield is the generic government bond yield from Bloomberg. ***, **, and * denote significance at the 1, 5, and 10 percent levels, respectively.

Curcuru, Kamin, Li, Rodriguez (2023)

# Bigger question 1: Levels vs. Share (cont.)

- In favor of shares: Magnitude of interest rate reactions increase as yields increase



# Bigger question 1: Other work

- Other papers also estimate spillovers using the moves in domestic yields to assess the “quantity” of information, and then regression betas to assess the spillovers:
    - Bowman, Londono, and Sapriza (2015)
    - Rogers, Scotti, and Wright (2016)
    - Ferrari, Kearns, and Schrimpf (2017)
    - Gilchrist, Yue, and Zakrajsek (2018)

# Bigger question 2: Why?

- Why more reaction to verbal communication vs statement releases? FOMC communications vs BOC communications?
- Hypothesis – type of information content.

Reason for yields to move higher:

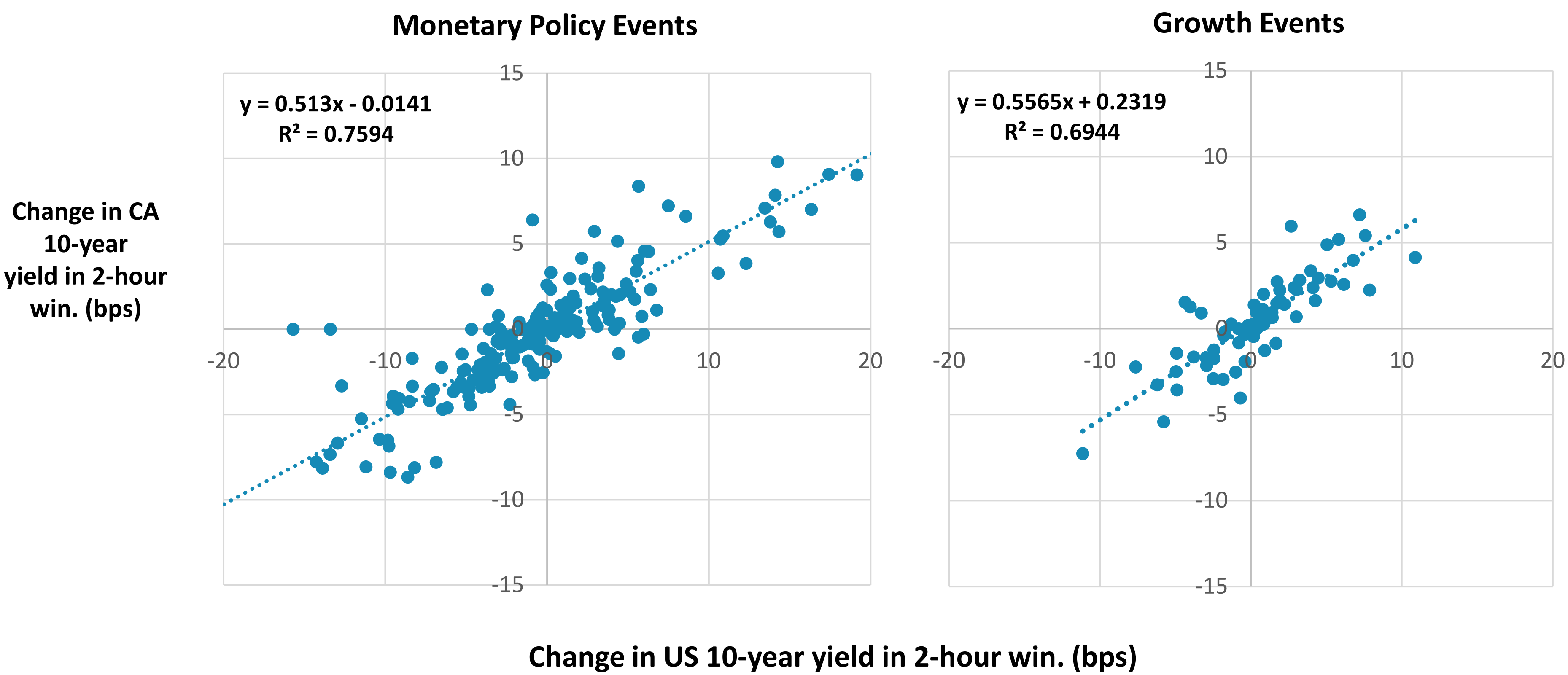
1. Change in reaction function
2. Higher expected inflation
3. Better growth prospects

- Hoek et. al (2022) split FOMC events into "growth" vs "monetary policy", find spillovers to EMs differ
- Many communications related to LSAPs, thus reaction could be portfolio balance effects (Neely JBF, 2015)

- Is the reaction to news about Canadian economy vs. US economy vs. portfolio balance effects from moves in US yields?

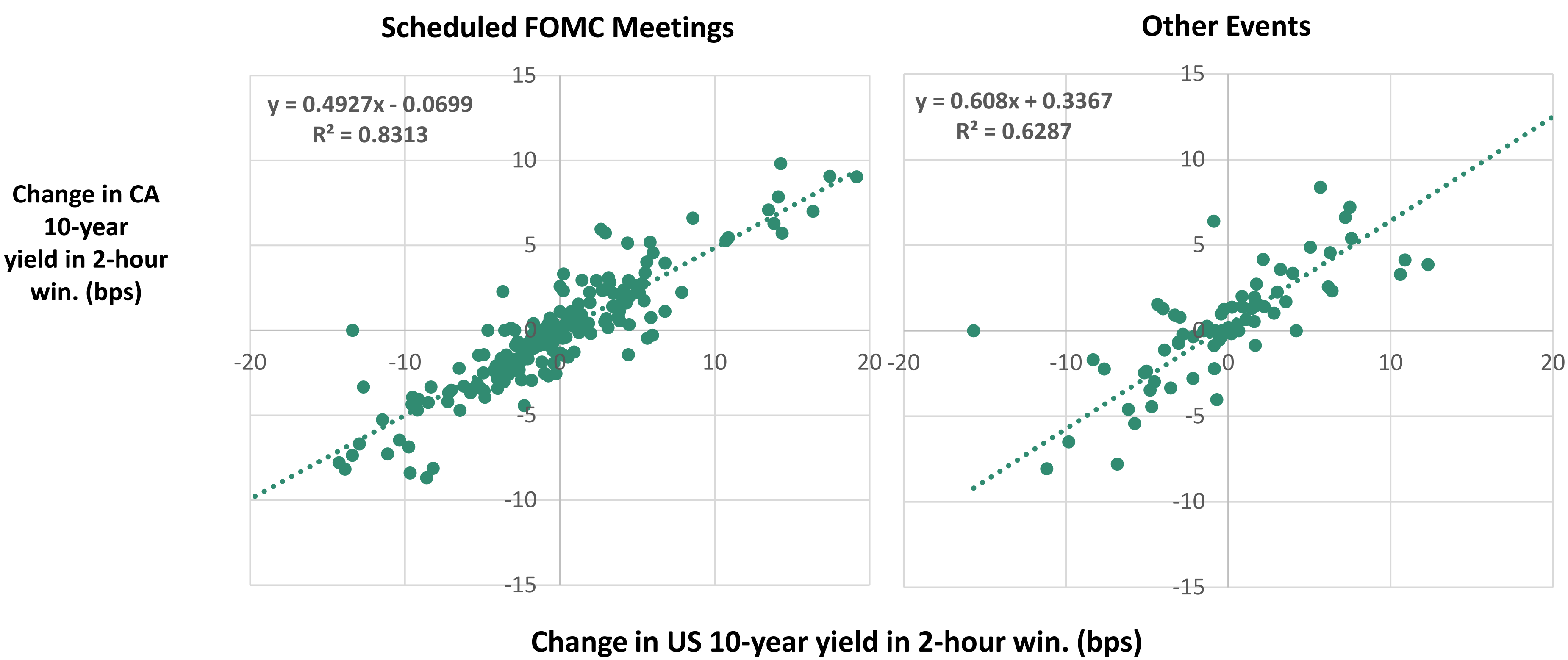
# Bigger question 2: Why? (cont.)

- Hoek et all: Spillovers from “growth” vs “monetary policy” FOMC events
- Coefficients similar to Curcuru, Eckerd, De Pooter (2018) for German yields



# Bigger question 2: Why? (cont.)

- Spillovers from FOMC statements are lower
- 41% of FOMC statements tagged as "growth" vs. 55% of other events



# Conclusion and Policy Implications

- Wither the Bank of Canada?
- Implications likely depend on the role of information content of the communications
  - Recalibrate spillovers from the US in BoC economic models?
  - Increase growth signals in BoC speeches?