Some initial comments on “The Federal Reserve and Market Confidence”

Livio Stracca

European Central Bank

Very useful paper on an important topic

- I enjoyed reading it and learnt a lot
  - for example, the marked change in variance in announcement and non-announcement days was new to me
- Some comments and questions nevertheless

Some comments

- Relate to Jarocinski and Karadi (2018) – "Deconstructing monetary policy surprises: the role of information shocks"
  - They use sign restrictions to identify two separate shocks driving changes in interest rates on announcement
  - Traditional monetary policy shock (interest rates down, equity prices up) and central bank information shocks (interest rates down, equity prices down) (By the way, they find a similar decomposition for the ECB too.)
  - Are their shocks correlated to your factors?
- Placebo analysis: convince us that if you take one day before the announcement, none of this happens
- Monte Carlo exercise: you could compare the two approaches on simulated data

Questions

- How should we interpret the 2010-2016 results? How about QE1, QE2, QE3?
- Is it credible that almost 60% of the policy variance is explained by the confidence shock?
- Why does the confidence shock affect yields at very long maturity?
- Why does the Fed do this? Is it voluntary?
- If not voluntary, what can be done to improve communication?