Discussion of Swanson (2017) Measuring the Effects of Federal Reserve Forward Guidance and Asset Purchases on Financial Markets

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Objective and Identification Issues

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$\rightarrow$ Identifying the effects of forward guidance (FG) and LSAPs

Identification Issues

1) Anticipation / Surprise

$\rightarrow$ Changes in future prices and yields around policy announcements

2) Disentangling the different policies within statements

$\rightarrow$ Rotation of principal components of asset price responses

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Identification

$$X = F\Lambda + \epsilon$$

- X: 30-minute responses for different assets
  - 1st and 3rd Federal funds futures,
  - 2nd, 3rd, 4th Eurodollar futures,
  - 2-,5-,10-year Treasury yields
- F: Unobserved factors
- Λ: Matrix of loadings of asset price responses on factors

Primary Identification: Rotation of 3 Factors

1. LSAPs and FG have no effect on current federal funds rate
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Results

- FG and LSAPs had highly statistically significant effects on ...

    - ... medium-term Treasury yields,

        - short-term yields: FG>LSAPs
        - long-term yields: FG<LSAPs

    - ... stock prices,
    - ... exchange rates,
    - ... corporate yields (not FG during ZLB),
    - ... spreads (against theory)

- Effects of LSAPs persistent (sensitive to QE1; Wallace (1981)?!?), FG less so

- LSAPs more effective at reducing interest rate uncertainty

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Comments

Major Comment

Monetary Policy Surprises $\neq$ Monetary Policy Shocks

Release of Views and Information of the Central Bank
(Campbell et al., 2012; Nakamura and Steinsson, 2017; Paul, 2017)

Shows up in the response of spreads?

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Test for Information Release

$$\Delta \text{Output Forecast}_{k+\epsilon|k-\epsilon} = \alpha + \beta \cdot \text{Factor}_k + u_k$$

Private Sector Forecast Revisions
1991 M8−2015 M10

ΔGDP Forecast	FFR-Factor	FG-Factor	LSAP-Factor	
				Observations
Current quarter	0.067	0.084	−0.011	168
Next quarter	0.066***	0.029	−0.012	168
2 quarters ahead	0.028	0.019	0.003	168
3 quarters ahead	0.004	0.011	−0.003	168
4 quarters ahead	0.007	−0.006	−0.003	168
5 quarters ahead	0.001	−0.031	0.079	123
6 quarters ahead	0.008	0.015**	−0.012	77
7 quarters ahead	0.004	0.010	−0.003	38
over next year	0.034*	0.027	−0.005	168

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Private Sector Forecast Revisions
2009 M1−2015 M10

ΔGDP Forecast	FFR-Factor	FG-Factor	LSAP-Factor	
				Observations
Current quarter	0.079	0.044	0.037	50
Next quarter	−0.011	0.027	0.047	50
2 quarters ahead	−0.051	0.003	0.034*	50
3 quarters ahead	0.033	0.004	0.024*	50
4 quarters ahead	−0.013	0.002	0.005	50
5 quarters ahead	−0.016	−0.014	0.010	40
6 quarters ahead	−0.132	0.022	−0.005	27
7 quarters ahead	0.031	0.001	−0.002	14
over next year	0.007	0.016	0.029	50

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Minor Comments

- LSAPs heterogeneous (MBS, Long-term Treasuries)

- Effects of LSAPs state-dependent
  (Del Negro, Eggertsson, Ferrero, and Kiyotaki, 2017)

- Difference between scheduled and unscheduled meetings
  (Paul, 2017; Caldara and Herbst, 2016)

- Effects on the macroeconomy
  (Gertler and Karadi, 2015; Paul, 2017; Caldara and Herbst, 2016)

- Identification only works if effects of FG not time-varying

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References

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