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

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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

  – 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?