Discussion:
ECB Communication and its impact on Financial Markets
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Central Bank Communications: Theory and Practice

FRB of Cleveland

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This Paper: European Central Bank Communication

- ► This paper studies the multiple types of ECB communication:
  - • Policy meeting communication:
    - ► ECB Governing Council policy meeting statement and press conference
  - • Inter-meeting communication:
    - ► ECB policy meeting *accounts* (4 weeks after)
    - ► ECB President, Exec. Board, National CB Governors speeches/interviews

- ► New data: timing and market response to ECB communication events

- ► Main finding: markets react to *all* ECB communication
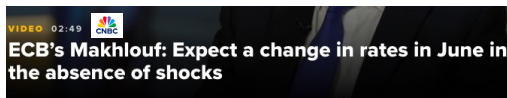 - • Inter-meeting communication important to study financial market and ECB

ECB Communication Events
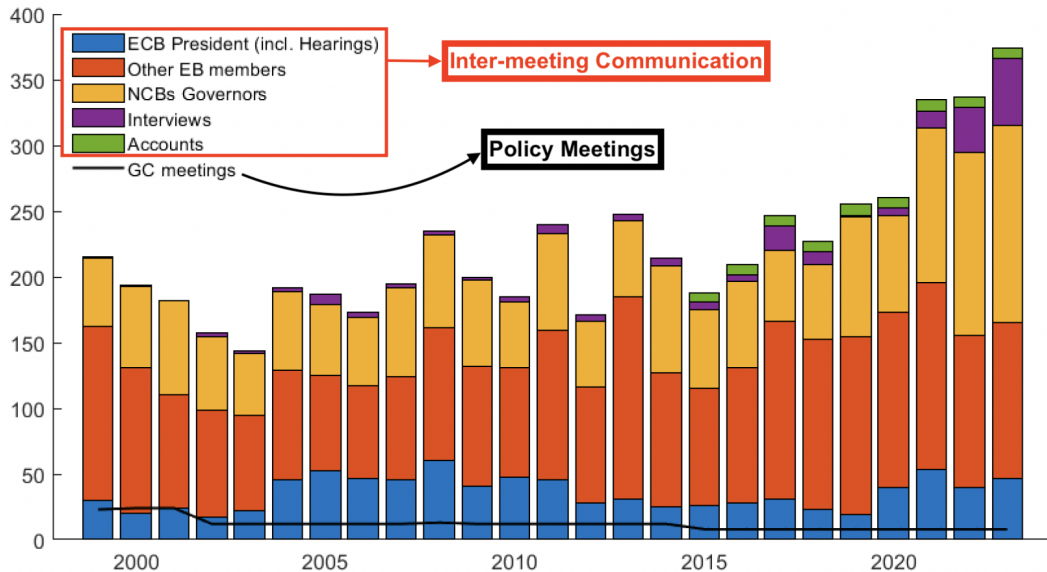
Investors Pay Attention to *All* Communication

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ECB set scene for June rate cut at last meeting, account shows REUTERS

ECB's Makhlouf: Expect a change in rates in June in the absence of shocks CNBC VIDEO 02:49

Christine Lagarde: ECB will cut rates soon, barring any major surprise

ECB June Rate Cut 'Most Likely' If Outlook Holds, Elderson Says
The European Central Bank will "most likely" lower borrowing costs when it meets in June — should the outlook for consumer prices be confirmed by fresh quarterly forecasts, Executive Board member Frank Elderson said. **Bloomberg**

ECB's June rate cut not necessarily followed by others, Nagel says REUTERS

ECB's Cipollone Sees Scope to Cut Swiftly Despite Wage Gains **Bloomberg**
- Executive Board member gives policy speech in Brussels
- Officials seem to be set to lower interest rates in June

Market Reaction to ECB Communication Event

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▶ Challenges:
   • Different dates/times for communication events

   • Different types of communication

   • Potential contamination from usual volatility in asset prices

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    - ✓ Estimate variance of prices in event window based on pre-period
    - ✓ Measure price changes *abnormal* given estimated variance

Comments to Explore

1. Communication At and Between Policy Meetings

2. Communication Across Governing Council Members

3. Newspapers to Measure Content of the Communication Events

1. Communication At and Between Policy Meetings

- ▶ Meeting communication → ECB beliefs, prefs, and current + future policy

- ▶ But, inter-meeting communication does not come with policy decision

- ▶ Different type of communication affect interpretation of the price response?
  - • Timing of the inter-meeting communication vs. prices for different maturities
  - • Effect of inter-meeting communication on the surprise at next meeting
  - • Anticipation effects for different communication types

- ▶ Extensive margin of inter-meeting communication?
  - • More ECB president speeches in uncertain times
  - • Other GC member patterns unclear

2. Communication Across Governing Council Members

▶ Individual speeches $\implies$ opportunity to share individual beliefs

▶ Opportunity to study council communication strategy:

- Coordination? $\implies$ stabilization of market forecasts of ECB decisions?
- Dissent? $\implies$ long vs short forward guidance?

▶ Does communication affect other communication?

- Potential for dynamic model to link communication events

3. Newspapers to Measure Content of the Communication Events

▶ Paper cites newspaper articles for select examples to discuss content

▶ Would it be possible to systematically extend to other events?

▶ Could help identify more about the signaling and information effects

Conclusion

- ▶ Overall, I enjoyed the paper!

- ▶ Shows communication effects at policy and non-policy events, alike

- ▶ Data is a clear contribution to literature
    - • Important for questions in central banking communication

Thank You!

Smaller Comments and Questions

1. How do anticipation effects interact with the "abnormal market reactions"?

   - Morning of meetings, delay trading $\implies$ underestimate volatility
   - Procedure to control for the underlying market uncertainty (non-ECB related)?

2. Is the large number of abnormal responses to ECBGC driven by the press conferences?

3. Unclear that Jarocinski and Karadi (2020) has same interpretation for IMC

4. Plot separate distributions rather than stacked bar charts to make comparison easier