

# The Importance of Fed Chair Speeches as a Monetary Policy Tool

Eric T. Swanson

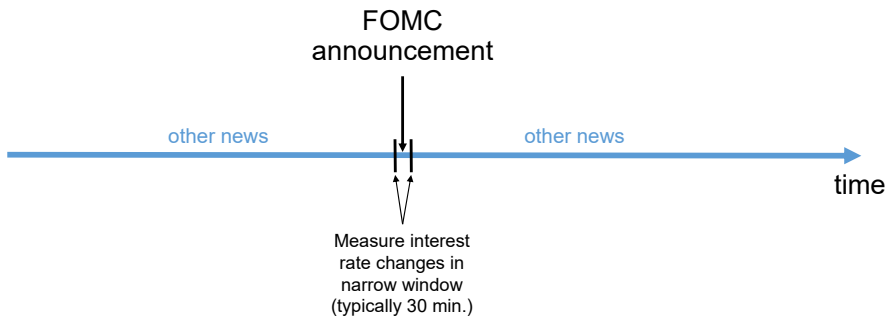
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# High-Frequency Monetary Policy Surprises



High-frequency monetary policy surprises are an important tool for estimating effects of monetary policy on asset prices and macroeconomic variables:

- asset prices: high-frequency OLS regressions
- macro variables: monetary policy surprises used as external instrument in structural VAR or LP

# Problems with Monetary Policy Surprises

- Surprises around FOMC announcements have become much smaller over time, are typically only 2–3bp
- Fed has become more transparent, tends to communicate decisions before FOMC meeting
- This trend accelerated after 2008, due to ZLB
- Many authors focus on changes in futures rates a few months or quarters ahead to better capture changes in overall stance of monetary policy around FOMC announcements  
Gürkaynak, Sack, Swanson (2005), Gertler-Karadi (2015), Nakamura-Steinsson (2018), Swanson (2021), Bauer-Swanson (2022)

# Contributions of This Paper

- I show that speeches and testimony by the Fed Chair are more important than FOMC announcements for stocks, bonds, and all but the very shortest-maturity interest rate futures
- Post-FOMC press conferences have also become increasingly important over time
- Thus, previous studies' focus on FOMC announcements alone has ignored the most important source of changes in U.S. monetary policy
- More comprehensive sample: 1988–2019  
all FOMC announcements, press conferences, speeches and testimony by Fed Chair
- Systematically compare these different types of announcements and how their importance has changed over time

# Examples in 2022

## Dow Falls More Than 1,000 Points After Powell Speech

Markets decline in broad selloff led by tech as hawkish remarks by Fed chief disappoint investors

Index performance

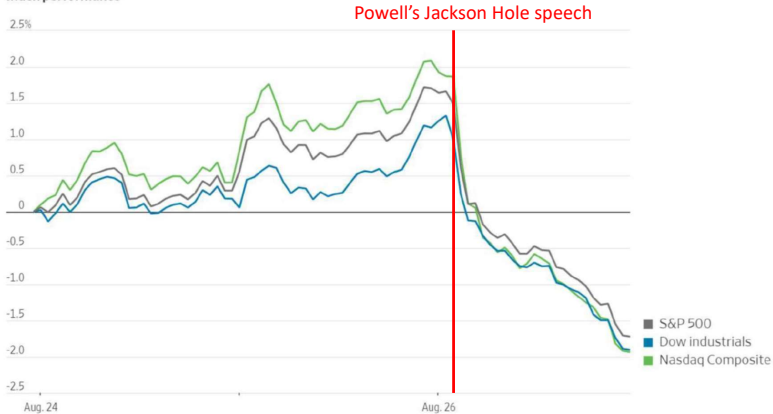


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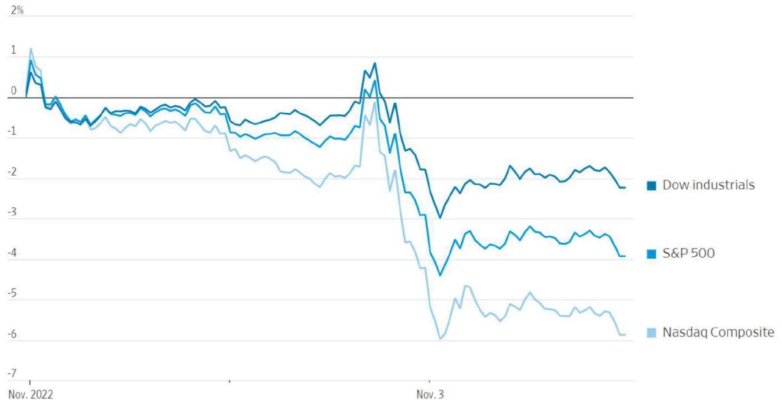


# Examples in 2022

## Stocks Finish Lower After Fed Signals Higher Rates

‘The market is starting to come to terms with the fact that Powell said no dessert’

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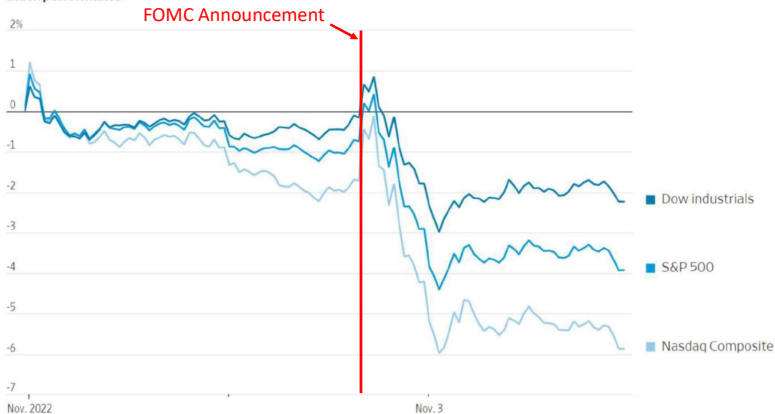


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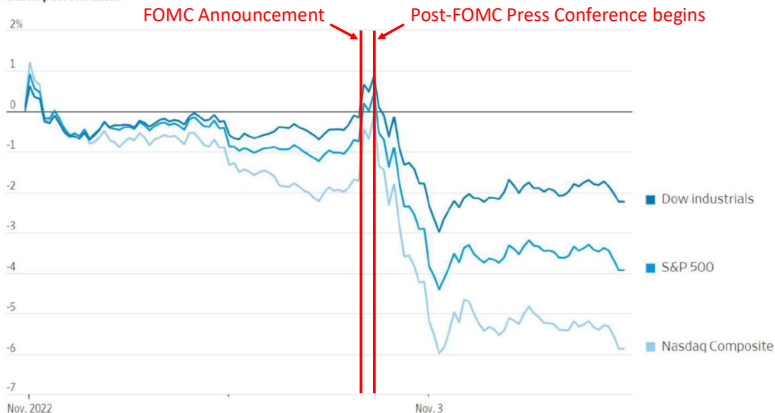


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# Three Types of Monetary Policy Announcements

From 1988 to 2019, I look at all:

- **FOMC Announcements**

8 regularly scheduled meetings per year, plus unscheduled intermeeting changes (322 total)

- **Post-FOMC Press Conferences**

4 per year from 2011–18, 8 per year beginning in 2019 (40 total)

- **Speeches and Congressional Testimony by the Fed Chair**

843 total (not including press conferences)

However, many Fed Chair speeches, testimony on other topics (ceremonial, bank regulation, fiscal policy, stock market, etc.)

According to market commentary in *Wall Street Journal*, *New York Times*, 362 speeches and testimony had possible implications for interest rates; restrict attention to these

# Financial Market Responses

## FOMC Announcements

- beginning in 1994, made via press release
- pre-1994, typically made via size and type of open market operation the following morning
- Use 30-minute window around each FOMC announcement, as in Gürkaynak, Sack, and Swanson (2005)

## Post-FOMC Press Conferences

- Start times of press conferences are on Fed Board's website
- Use 90-minute window around each press conference

## Fed Chair Speeches (non-testimony)

- Start times from several sources
- Use 2-hour window

## Fed Chair Congressional testimony

- Start times from several sources
- Use 3.5-hour window

# Financial Market Responses

Intradaily financial market data from TickData

In some cases, need to adjust event windows to avoid major macroeconomic data releases or other news

Compute changes in:

- current-quarter and 1-, 2-, 3-quarter-ahead Eurodollar futures rates (ED1, ED2, ED3, ED4)
- 2-, 5-, 10-, and 30-year Treasury yields
- log of S&P 500 index

# Importance of Fed Chair Speeches

	ED1	ED2	ED3	ED4	2yr	5yr	10yr	30yr	S&P500
(A) Sum of Absolute Changes (in pp)									
FOMC Announce	9.60	11.18	12.08	12.81	8.91	9.63	7.35	6.19	113.23
Chair Speeches	6.41	10.44	13.38	15.00	10.59	12.13	9.84	9.45	162.53
Press Conf	0.33	0.55	0.75	0.91	0.91	1.14	0.91	0.76	17.21

- First measure: sum of absolute changes in financial market responses to all announcements of each type from 1988–2019

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- Fed Chair speeches and testimony are the most important for all assets except the very shortest-maturity interest rate futures

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- Fed Chair speeches and testimony are the most important for all assets except the very shortest-maturity interest rate futures
- Post-FOMC press conferences are by far the least important, because there are so few of them (40 vs. 322 and 362)

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(B) Mean Absolute Change per Announcement (in bp)									
FOMC Announce	2.98	3.47	3.75	3.98	2.77	2.99	2.28	1.92	35.16
Chair Speeches	1.77	2.88	3.69	4.14	2.93	3.35	2.72	2.61	44.90
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- Post-FOMC press conferences are more comparable to FOMC announcements and Fed Chair speeches by this measure
- Suggests press conferences are almost as important as FOMC announcements going forward
- Even on a per-announcement basis, Fed Chair speeches are the most important for all assets except short-maturity interest rate futures

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(C) Explanatory $R^2$ for Monthly Changes									
FOMC Announce	.123	.096	.066	.046	.016	.022	.022	.020	.038
Chair Speeches	.037	.071	.078	.081	.064	.066	.051	.051	.073
Press Conf	.002	.001	.000	.000	.001	.005	.003	.001	.009

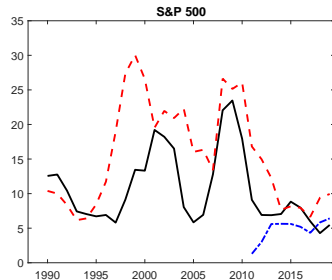
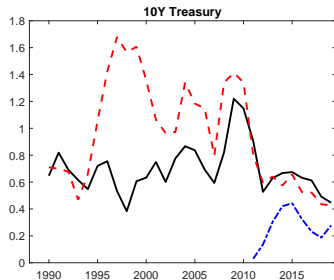
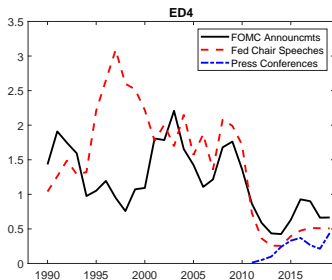
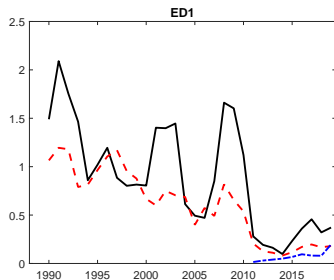
- Third measure: for each announcement type and each asset, compute percentage of monthly variation in that asset that is due to that announcement type

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- Again, Fed Chair speeches are the most important for all assets except very shortest-maturity interest rate futures
- Importance of Fed Chair speeches is even larger by this measure

# Importance of Fed Chair Speeches over Time



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- Fed Chair speeches were particularly important in late 1990s

# Importance of Fed Chair Speeches for SVARs, LPs

- High-frequency monetary policy surprises are often used as an “external instrument” to identify effects of monetary policy in SVARs, LPs

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MPS measure	first-stage $F$ -statistic
FOMC announcements only	8.19
FOMC + Chair Speeches	30.44

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- FOMC announcements alone are a weak instrument
- But including Fed Chair speeches strengthens the instrument greatly

# Summary

- I show that speeches and testimony by the Fed Chair are more important than FOMC announcements for stocks, bonds, and all but the very shortest-maturity interest rate futures
- Post-FOMC press conferences have also become increasingly important over time
- Thus, previous studies' focus on FOMC announcements alone has ignored the most important source of changes in U.S. monetary policy
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