"Channels of US Monetary Policy Spillovers into International Bond Markets" by Albagli, Ceballos, Claro and Romero

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[1] DISCLAIMER: The views expressed are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Atlanta Federal Reserve Bank or of anyone else associated with the Federal Reserve System.

Motivation

- Understand the spillover effects of U.S. monetary policy
- U.S. monetary policy shocks have international effect due to increased financial integration.
- Spillovers effects under low-interest policy environment after the global financial crisis
- Open question regarding the spillover channels

Motivation

- Why does U.S. monetary policy affect international asset prices?
  - Unobserved common shocks and common reaction functions.
  - Real and financial spillovers from idiosyncratic shocks.
  - Desire for FX stability.
- Are developed countries and emerging economies are different?

This Paper's Findings

- US MP spillovers to international long-term rates have increased after GFC.
- Changes in risk neutral rates is the main channel of spillovers to AFEs.
- Spillovers concentrated on term premia for EMEs.
- Exchange rate channel and risk-taking channels are supported.

Methodology

- Event study that identifies MP shocks as changes in 2-year US treasury yields around FOMC meetings.
- Decompose international long-term bond yields into a risk neutral and a term premium component using affine term-structure models.
- Examine changes in other activities, exchange rates, and portfolio flows.

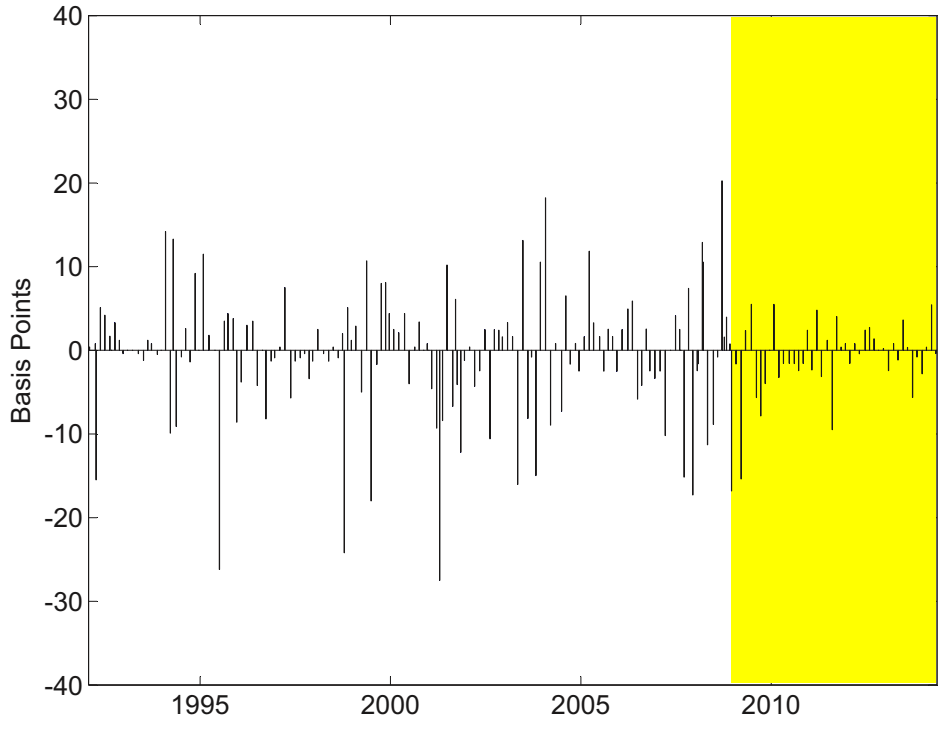
Comment: Measuring of MP shocks and Identification

- Need to measure MP surprises that applies to pre-ZLB and ZLB eras.
- Need to ensure the measure only reflects the MP shocks.
- Wright (2012), Hanson and Stein (2012), Gertler and Karadi (2013), Rogers et al (2014), Gilchrist et al (2014)
- Here, MP is measured as 2-day change in two-year yields around FOMC announcement

$$\hat{\Delta} y_{j,t}^{h} = \beta^{h} \hat{\Delta} y_{us,t} + \cdots + \varepsilon_{j,t}^{h}$$

Comment: Measuring of MP shocks and Identification

- 30-minute change in U.S. 2-year treasury yields bracketing FOMC announcement



$$\hat{\Delta} y_{j,t}^{h} = \beta^{h} \tilde{\Delta} y_{us,t} + \cdots + \varepsilon_{j,t}^{h}$$

Comment: Difference or no difference?

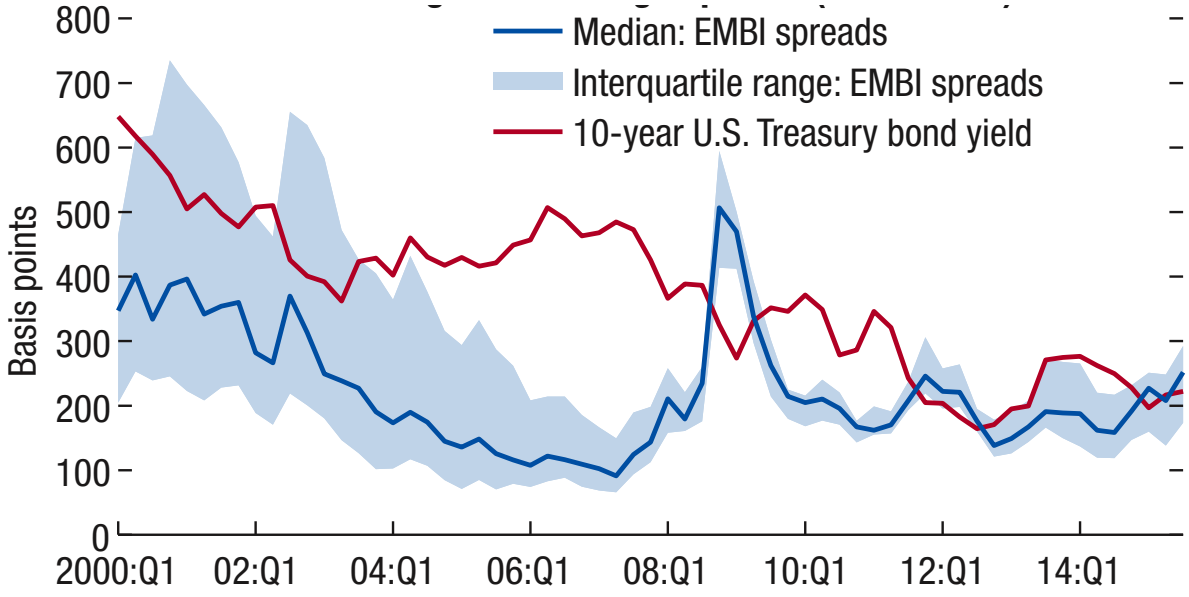
- Decomposing the bond yields: a risk neutral and a term premium component
- MP shocks significantly affect the risk neutral rates component for the AFEs.
- MP shocks significantly affect the term premia component for the EMEs.
- Different channels?
  - Exchange rate responds for both groups.
  - Portfolio flows respond for both groups

Comment: Term-premium channel

- Cross-country effects need explanation from term premium
- Foreign central-banks cannot commit to accommodative policy for ten-years.
- Portfolio flows respond for both groups

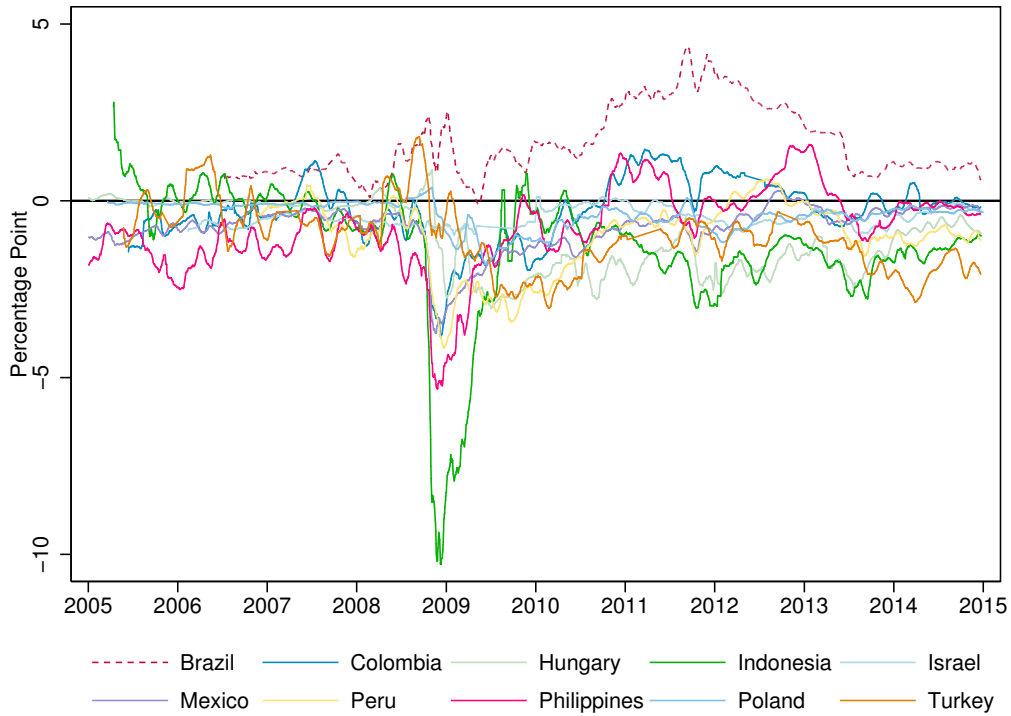
Comment: Sovereign Default Risk Premium

- Sovereign default risk premium for dollar-denominated sovereign debt.



Comment: Sovereign Default Risk Premium

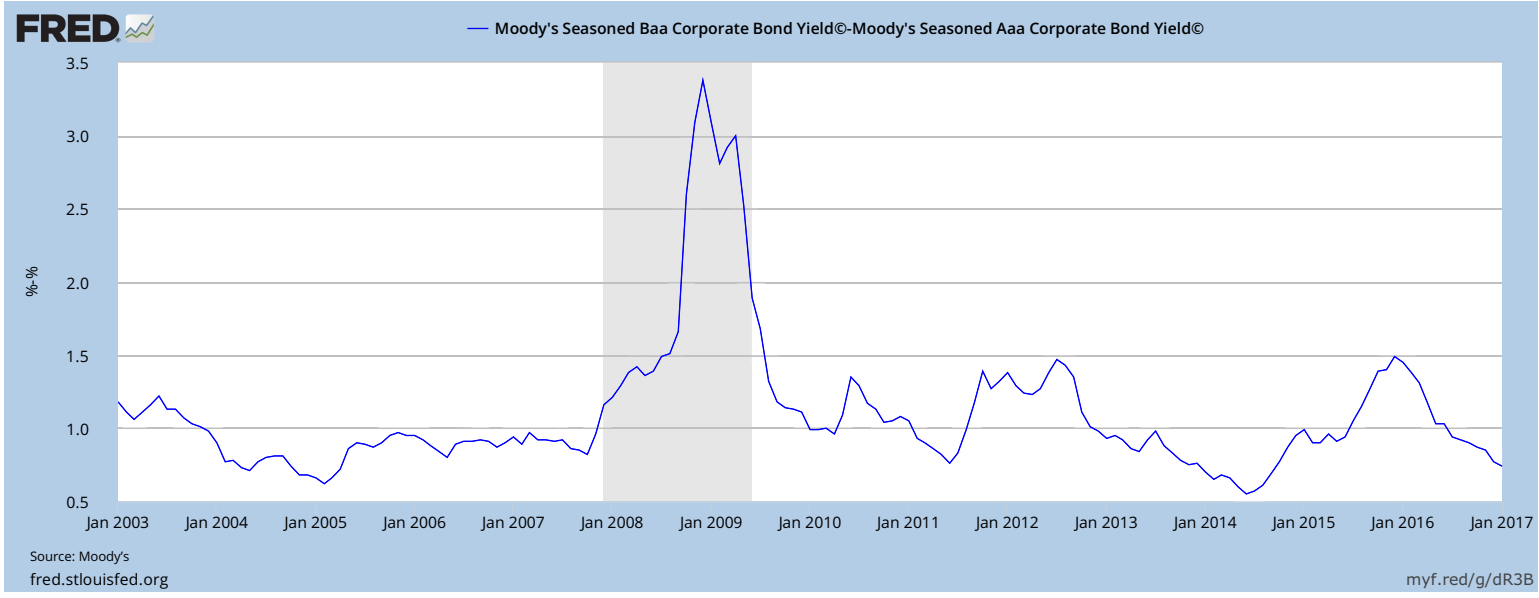
- Du and Schreger (2014) calculates the mean LC spread (1.45 per cent) and FC spread (2.01 per cent).



Five-year zero-coupon LC over FC credit spread differential for 10 emerging countries.

Comment: Risk-taking Channels

- MP shocks influence the global risk appetite or risk aversion
- Cross-country spillovers through risk-taking channels for EMEs.



Conclusion

- An important piece of work.
- I applaud the choice to tackle the channel question.