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Dec 18, 2014
5th Emerging Markets Finance Conference, Mumbai, India
Motivation

- Post GFC, Fed’s unconventional monetary policy sent investors flocking into EMs.
- Trend disrupted in May 2013 with Fed signaling possible tapering of asset purchases.
- EMs faced currency depreciations, increase in financing costs and capital flow reversals.
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- Trend disrupted in May 2013 with Fed signaling possible tapering of asset purchases.
- EMs faced currency depreciations, increase in financing costs and capital flow reversals.
  - How did the EMs react to FOMC announcements?
  - What factors influenced these reactions?
• Employs event-study techniques around dates of FOMC meetings & release of minutes (Jan 1, 2013 - Jan 22, 2014)
  • A negative (positive) event: Bond yields went up (down) 2 days after an event.
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Series of robustness checks & additional analyses
  - Shorter time window, PCA model, trade linkages with China, macro prudential measures
Main Findings of Paper

- Countries with deeper financial markets experienced smaller increases in govt. bond yields around volatile episodes (‘negative events’)
- Better fiscal positions, tighter macro prudential policies and strong trade linkages with China helped dampen market reactions.
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Markets do not treat EMs as a single asset class but differentiate on the basis of macro fundamentals & financial depth.
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- Seems to be the case from analysis & results–exclusive focus on negative events.
  - If assessing reactions to volatile episodes, a longer sample period will enable investigating higher number of negative events
II. FOMC Announcements

- Some details of FOMC meetings & announcements to better understand impact on bond yields (classification of events)
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  - April 30-May 1, 2013: Preceding FOMC meeting - positive event.
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    - If the preceding meeting’s minutes are being released 3 weeks later, why opposite effect on bond yields?
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    - What changed between May 1 and May 22, 2013?
    - Or was it entirely because of Bernanke’s speech; nothing to do with FOMC minutes release?
II. FOMC Announcements contd..

- June 18-19 FOMC meeting (Chairman’s press conf.): Bond yields went up
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- Minutes released on July 10: No effect (negative sign on yields)
  - Between May 22 & June end: EM currencies depreciated & spreads went up
  - What happened between end June & July 10?
  - If markets had priced in the risk, then what happened on Oct 29, 30 (8th meeting-yields went up again)?
III. Inferences from Results

- Paper: Markets differentiate across EMs based on country characteristics.
  - Results: Other than financial depth, fiscal balance is the only factor that is significant for negative events.
  - Role of fiscal balance: strong, robust and interesting but not delved into.
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- Paper: Markets differentiate across EMs based on country characteristics.
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  - Role of fiscal balance: strong, robust and interesting but not delved into.
- Are markets differentiating only during volatile episodes?
- Non-negative events: Real GDP growth rate consistently significant.
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December 18, 2013, Fed began to taper bond purchases by $10 billion per month, to $75 billion— not included in analysis.
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July 2013: negative event & bond yields went up but Sept 18 meeting (#6) Fed indicated ‘loosening’ & bond yields went down– did these affect the same countries?
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Results contradict Eichengreen & Gupta (2013): those hit hardest had large, liquid financial markets & trade deficits; good macro fundamentals or capital controls did not help.

Aizenman, Binici & Hutchison (2014): countries with stronger fundamentals were more adversely affected by tapering news.

Event study approach: cleaner identification (Rai & Suchanek, 2014).

Detailed analysis & robustness checks.

Interesting: Macro prudential measures, role of fiscal balance, trade linkages with China.

Any way to quantify the surprise in Fed’s announcements? (increase in volatility of long-term U.S. interest rates: Nakamura & Steinsson, 2013)

What about duration impact of tapering announcements?
Interesting research area

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