

Comments on Cieslak, Morse, and Vissing-Jorgensen, “Stock Returns over the FOMC Cycle”

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Figure 1. Stock returns over the FOMC cycle, 1994-2013

Panel A. Average 5-day stock return minus bill return over the FOMC cycle, percent

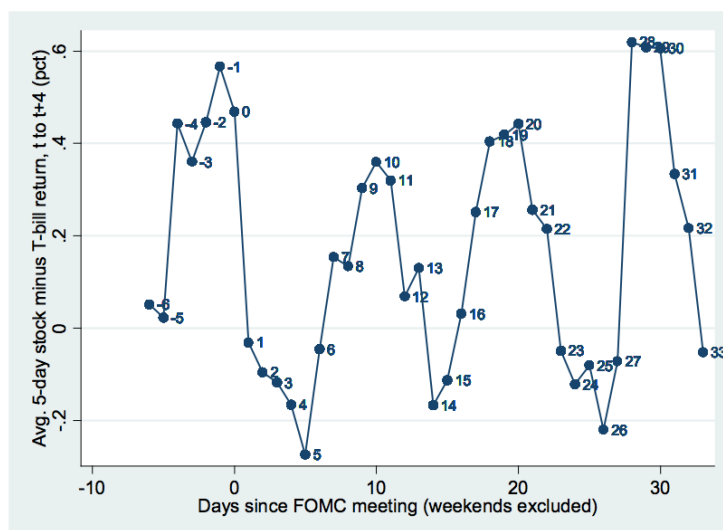
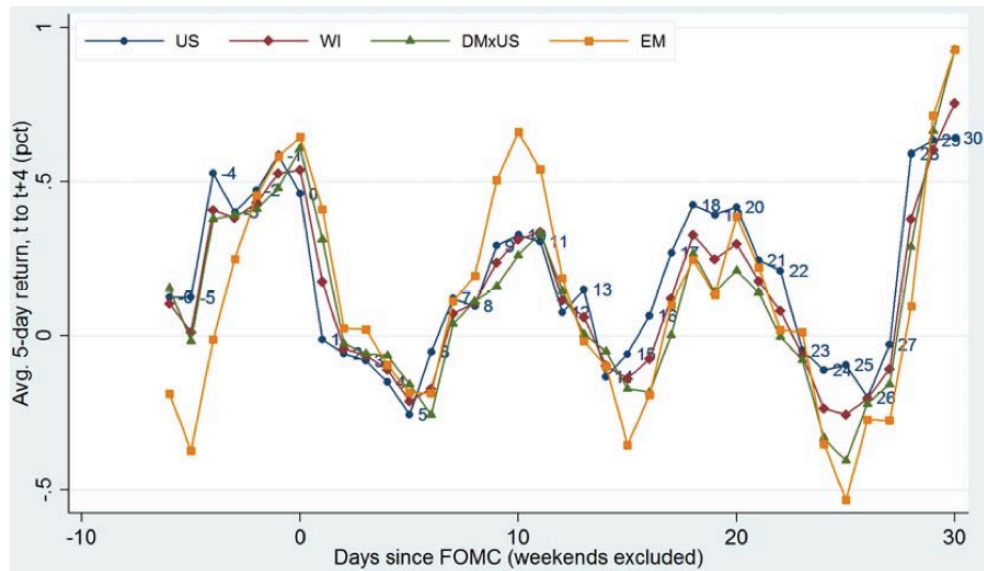


Figure 4. International stock returns over the FOMC cycle, percent, 1994-2013



A mystery novel

- Paper notes stock-returns pattern that is bi-weekly and synchronized with the FOMC cycle
- Eliminates a number of possible explanations
- Claims pattern due to news from FOMC about macro economy or monetary policy
- Pretty convincing

“Subtle” or unintended communication by the Fed?

- Intentional or unintentional leaks?
- “External communication” in FOMC meetings of January and June 2011
- FOMC Policy on External Communications of Committee Participants/Federal Reserve System Staff

FOMC meeting, Jan 25-26, 2011

Next, the Committee turned to a discussion of its external communications, specifically the importance of communicating both broadly and effectively. FOMC participants noted the importance of fair and equal access by the public to information that could be informative about future policy decisions, and they considered approaches to address this issue. Several participants noted that increased clarity of communications was a key objective, and some referred to the central role of communications in the monetary policy transmission process. A focus of the discussion was on how to encourage dialogue with the public in an appropriate and transparent manner. The subcommittee on communications agreed to consider whether further guidance in this area would be useful.

FOMC meeting, June 21-22, 2011

The Committee will monitor the economic outlook and financial developments and will act as needed to best foster maximum employment and price stability.”

Voting for this action: Ben Bernanke, William C. Dudley, Elizabeth Duke, Charles L. Evans, Richard W. Fisher, Narayana Kocherlakota, Charles I. Plosser, Sarah Bloom Raskin, Daniel K. Tarullo, and Janet L. Yellen.

Voting against this action: None.

External Communications

In follow-up to discussions at the January meeting, the Committee turned to consideration of policies aimed at supporting effective communication with the public regarding the outlook for the economy and monetary policy. The subcommittee on communication, chaired by Governor Yellen and composed of Governor Duke and Presidents Fisher and Rosengren, proposed policies for Committee participants and for Federal Reserve System staff to follow in their communications with the public in order to reinforce the public’s con-

fidence in the transparency and integrity of the monetary policy process. By unanimous vote, the Committee approved the policies.² Participants all supported the policies, but several of them emphasized that the policy for staff, in particular, should be applied with judgment and common sense so as to avoid interfering with legitimate research.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 9, 2011. The meeting adjourned at 12:10 p.m. on June 22, 2011.

Notation Vote

By notation vote completed on May 17, 2011, the Committee unanimously approved the minutes of the FOMC meeting held on April 26–27, 2011.

William B. English
Secretary

of Finance 7

FOMC Policy on External Communications of Federal Reserve System Staff

FOMC’s actions, thereby promoting the effectiveness of monetary policy. In all communications with the public regarding monetary policy issues, members of the staff should refrain from publicly expressing their own personal opinions or predictions regarding prospective monetary policy decisions. In explaining the rationale for announced FOMC decisions, staff should draw on Committee communications, the Chairman’s press conference remarks, and other published materials as appropriate. Whenever staff make public comments on monetary policy, they should clearly indicate that those comments are solely their own responsibility and should not be interpreted as necessarily representing the views of the FOMC, its principals, or any other person associated with the Federal Reserve System.

2. To foster the ongoing frank exchange of views at FOMC meetings, staff will refrain from characterizing such discussions—apart from what has been published in the minutes of each FOMC meeting—in any contact with an individual, firm, or organization outside of the Federal Reserve System.

FOMC Policy on External Communications of Federal Reserve System Staff

confidential FOMC information.³ No confidential information may be released except pursuant to Committee instructions or with written authorization from the Chairman and prompt notification to the Committee.

5. Unless the information has been made widely available to the public, Federal Reserve staff members will refrain from disseminating information outside the Federal Reserve System, such as information about economic and financial conditions or about the methods and tools that are currently being used to assess those conditions, that might allow an individual, firm, or organization to profit financially.

6. Staff will strive to ensure that their contacts with members of the public do not provide any profit-making person, firm, or organization with a prestige advantage over its competitors. They will consider this principle carefully and rigorously in considering invitations to speak at meetings sponsored by profit-making organizations and in scheduling meetings with anyone who might benefit financially from apparently-exclusive contacts with Federal Reserve staff.

7. To facilitate the effectiveness of the Committee's policy deliberations and the clarity of its communications, staff will observe the blackout period on monetary policy communications in conjunction with each regularly scheduled FOMC meeting. The blackout

FOMC Policy on External Communications of Federal Reserve System Staff: Practical Examples

non-profit entity and does not involve fundraising. Such a meeting might be sponsored by an academic institution, non-profit organization, or civic or trade association (such as a chamber of commerce or a state or national bankers' association).

2. A private meeting with members of the public—such as bankers, community representatives, industry representatives, or labor representatives—to collect information about current economic and financial conditions, without disseminating any information that is not widely available to the public. Whenever practical, at least two Federal Reserve staff should be present at such a meeting.

3. A working paper, presentation, or publication that evaluates the effectiveness of monetary policy actions taken in the past.

4. A discussion between Federal Reserve and Treasury staff (including during the blackout period) regarding recent economic and financial developments in a foreign economy, how to interpret them, and their implications for future developments.

In contrast, the following contacts would not be consistent with the principles set out above:

1. Disclosure of confidential FOMC in-

formation.

2. Disclosure or characterization of the views expressed at an FOMC meeting.

3. Disclosure of an FOMC participant's personal views on monetary policy that have not previously been communicated to the public.

4. Public communications in which a Federal Reserve staff member expresses personal opinions about prospective monetary policy decisions.

5. A prediction to members of the public about Committee action prior to the Committee's announcement of such decisions.

6. A private meeting with selected clients of a regulated entity or financial firm to discuss monetary policy.

Of course, the foregoing examples are not intended to serve as an exhaustive list, and hence good judgment will be essential in applying these principles. Moreover, whenever staff are unsure about whether specific contacts with the public would be appropriate, they should consult in advance with the appropriate staff person or with the head of their respective institution—namely, the Chairman in the case of staff at the Board of Governors, and the president in the case of staff at a Federal Reserve Bank.

FOMC Policy on External Communications of Committee Participants: Practical Examples

FOMC Policy on External Communications of Committee Participants

6. Committee participants will strive to ensure that their contacts with members of the public do not provide any profit-making person or organization with a prestige advantage over its competitors. They will consider this principle carefully and rigorously in scheduling meetings with anyone who might benefit financially from apparently exclusive contacts with Federal Reserve officials and in considering invitations to speak at meetings that are sponsored by profit-making organizations or that are closed to the public and the media.

7. To facilitate the effectiveness of the Committee's policy deliberations and the clarity of its communications, participants will observe a blackout period on monetary policy communications in conjunction with each regularly scheduled FOMC meeting. The blackout period will begin at midnight Eastern Time seven days before the beginning of the meeting—for example, if the FOMC meeting is scheduled to begin on a Tuesday, the blackout period will begin at the start of the preceding Tuesday—and will end at midnight Eastern Time on the next day after the meeting—for example, if the FOMC meeting ends on a Wednesday, the blackout period will end at the end of Thursday. During each blackout period, participants refrain from expressing their views about macroeconomic developments or monetary policy issues in meetings or conversations with members of the public.

PRACTICAL EXAMPLES

To assist FOMC participants in understanding the application of these principles, the Committee has considered how the principles should be applied to some common requests for public contact. For example, the following contacts would generally be consistent with the Committee's policy on external communi-

1. A speech on a monetary policy topic at a widely-attended event with press in attendance, where the event is organized by a non-profit entity and does not involve fundraising. Such a speech might be given at an academic institution, a conference sponsored by a non-profit organization, or a meeting sponsored by a civic or trade association (such as a chamber of commerce or a state or national bankers' association).

2. An interview with the press regarding the participant's personal views on monetary policy issues.

3. A private meeting with members of the public—such as bankers, community representatives, industry representatives, or labor representatives—to collect information about the economy without disseminating any information about the participant's personal views on monetary policy unless those views have already been expressed in their public communications. Whenever practical, a public information officer or other Federal Reserve staff should be present at such a meeting.

In contrast, the following contacts would not be consistent with the principles set out above:

1. Disclosure in any setting of confidential FOMC information.

2. Disclosure or characterization in any setting of the views that others expressed at an FOMC meeting.

3. A prediction about Committee action in advance of the Committee announcement of its decision.

4. A private meeting with selected clients of a regulated entity or financial firm to discuss monetary policy.

Of course, the foregoing examples are not intended to serve as an exhaustive list, and hence good judgment will be essential in applying these principles.

“Subtle” or unintended communication by the Fed?

- Intentional or unintentional leaks?
- “External communication” in FOMC meetings of January and June 2011
- FOMC Policy on External Communications of Federal Reserve System Staff
- Apparently considered a problem
- Attempt to reduce leaks?
- Any change in the stock-returns pattern?