Discussion of:
"Effects of *Banco de la Republica*'s Communication on the Yield Curve"

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Recap: Central Bank Communications and Yields

What the paper does:

- Evaluates effects of public signals from
  1. Minutes of Monetary Committee meeting (**MMC**)
  2. Inflation Reports (**IR**)
- Include both *numeric* and *narrative* signals

Recap: Central Bank Communications and Yields

What the paper does:

- Evaluates effects of public signals from
    1. Minutes of Monetary Committee meeting (**MMC**)
    2. Inflation Reports (**IR**)
- Include both *numeric* and *narrative* signals

What the paper finds:

1. No effects from numerical signals (**IR** only)...
2. ...but significant effects from narrative signals (both **IR** and **MMC**)

Recap: Main Result

1. Narrative signals about domestic conditions and inflation affect yields at most maturities

2. No clear separation between signals that affect short- and long-term component of the yield curve

3. No evidence of 'uncertainty channel' (Hansen et al, 2019)

4. Little to no impact from **IR**: no new information?

Comments

1. Interpreting the results: which transmission channels are at work here?

2. Information content of signals: dig deeper on the 'news' components in they signals

Transmission channels

- Monetary policy reaction function
  1. short-term: response to deviations from long-run objectives
  2. long-term: objectives such inflation target or equilibrium interest rate

- Information effects
  1. Expectations: outlook (both short- and long-term)
  2. Term premium: uncertainty around the outlook (primarily long-term)

Transmission channels

Would like to see more discussion about signals in **IR** and **MMC**:

- Hansen et al. (2019): **IR** policy-free information: what about here?

- What about the minutes? information about policy beyond the press conference?

A Long-Shot: Un-anchored Expectations?

- Key difference with UK study (Hansen et al, 2019): no clear *separation* between signals affecting short-term and long-term. Why?

- Uncertainty about long-run policy goals: signals about inflation and business cycle affects the whole term structure

    - Agents trying to separate cyclical and trend components from signals.

    - Topic <u>inflation target and inflation expectations</u> suggests this might be an important channel

- Where to look: effects on the *expectations component* of the yield curve? Any information from forecast from surveys?

Are signals 'news'? No information in **IR**

Timing: **IR** <u>after</u> **MMC** <u>after</u> **Press Conference**:

- You control: num. vs. narrative signals within **IR** or **MMC**...

- ...but how much information in **IR** is <u>already contained</u> in **MMC**? Can we control for that?

Are signals 'news'? No information in **IR**

- Can narrative signals in **MMC** 'explain' numerical signals in **IR**? Are narrative signals <u>equally or more informative</u> relative to numerical signals?

- Can we find <u>other</u> factors that can predict *surprises* from **IR**?

    - past surprises

    - macroeconomic news (i.e. similar to labor report surprises in the US)

- What about <u>directional</u> interpretation of signals?

Conclusions

- Very nice and informative paper on the role of Central Bank Communication

- Expand discussion on the possible channels for information transmission

- Deeper analysis of the information content of signals: in particular, the Inflation Report relative to the Minutes