

Financial Market Effects of FOMC Communication: Evidence from a New Event-Study Database*

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Abstract

High-frequency market movements around central bank announcements can help identify the effects of changes in monetary policy on interest rates, asset prices and macroeconomic outcomes. Despite the widespread use of monetary policy surprises in monetary economics and macro-finance, no common empirical benchmark is available for Federal Open Market Committee (FOMC) announcements and official communication, which has led to a profusion of datasets and surprise measures. This paper aims to establish this benchmark by providing a new, publicly available U.S. Monetary Policy Event-Study Database (USMPD) with changes in interest rates and asset prices around FOMC announcements, Chair press conferences, and Minutes releases. We document several new empirical findings. Policy surprises have a significantly negative impact on market-based inflation expectations, consistent with the inflation effects in monetary VARs. Financial markets, including bond yields and risky asset prices, respond very strongly to news conveyed during the Fed Chair's press conference. The effects of FOMC surprises on risk assets—including stock prices, exchange rates, and dividend derivatives—are generally consistent with the transmission of monetary policy shocks. Based on term structure data for Treasury and dividend markets, we estimate significant expected lags in the monetary transmission to inflation and real activity.

Keywords: Federal Reserve, monetary policy surprises, high-frequency event studies JEL

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