

Swiss Unconventional Monetary Policy: Lessons for the Transmission of Quantitative Easing

Jens Christensen and Signe Krogstrup

Discussion by

Massimo Giuliodori

University of Amsterdam and Tinbergen Institute

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Summary

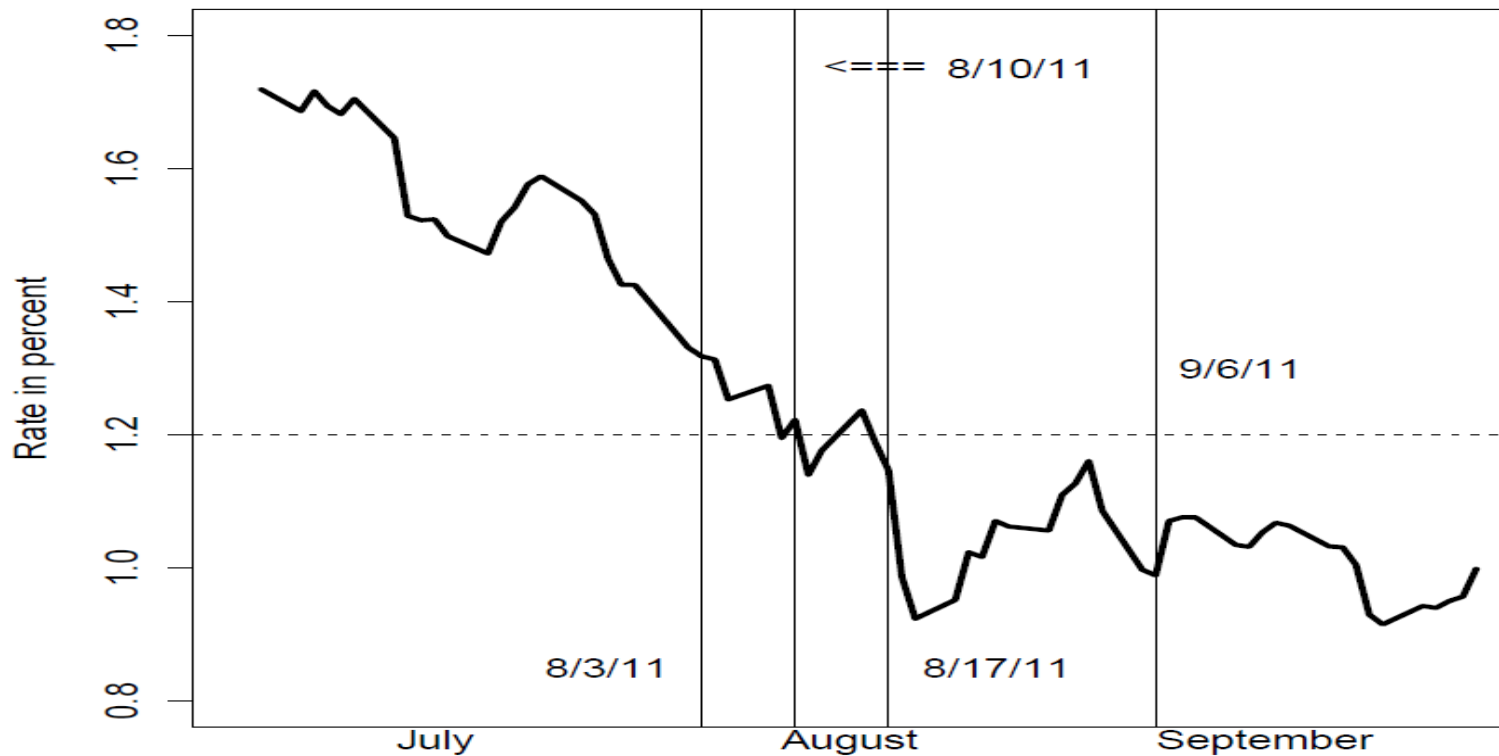
- Key question: What is the reaction of Swiss long-term government bond yields to SNB's announcements of unconventional monetary policy during the summer 2011?
- Method: Use dynamic term structure models and decompose Swiss government bond yields into:
 - (i) changes to expectations about future short term rates;
 - (ii) term premiums.
- Main conclusions: (i) yields *did* respond to announcements (with a cumulative drop of 28 bp); (ii) this drop was predominately in the term premium, a result consistent with “*portfolio balance*” effects.

General Comments

- Interesting, clear, empirically well implemented and nicely written paper.
- Excellent description of Swiss monetary policy over the recent years.
- Application of approach in CR (2012, EJ) to the Swiss unconventional monetary policy during the summer 2011.
- Interesting case: Swiss QE based on an expansion of central bank reserves (no direct purchase of long-term securities)
- Policy implications: also an expansion of reserves might have portfolio balance effects
- Very convincing paper with extensive robustness checks

Comments (1)

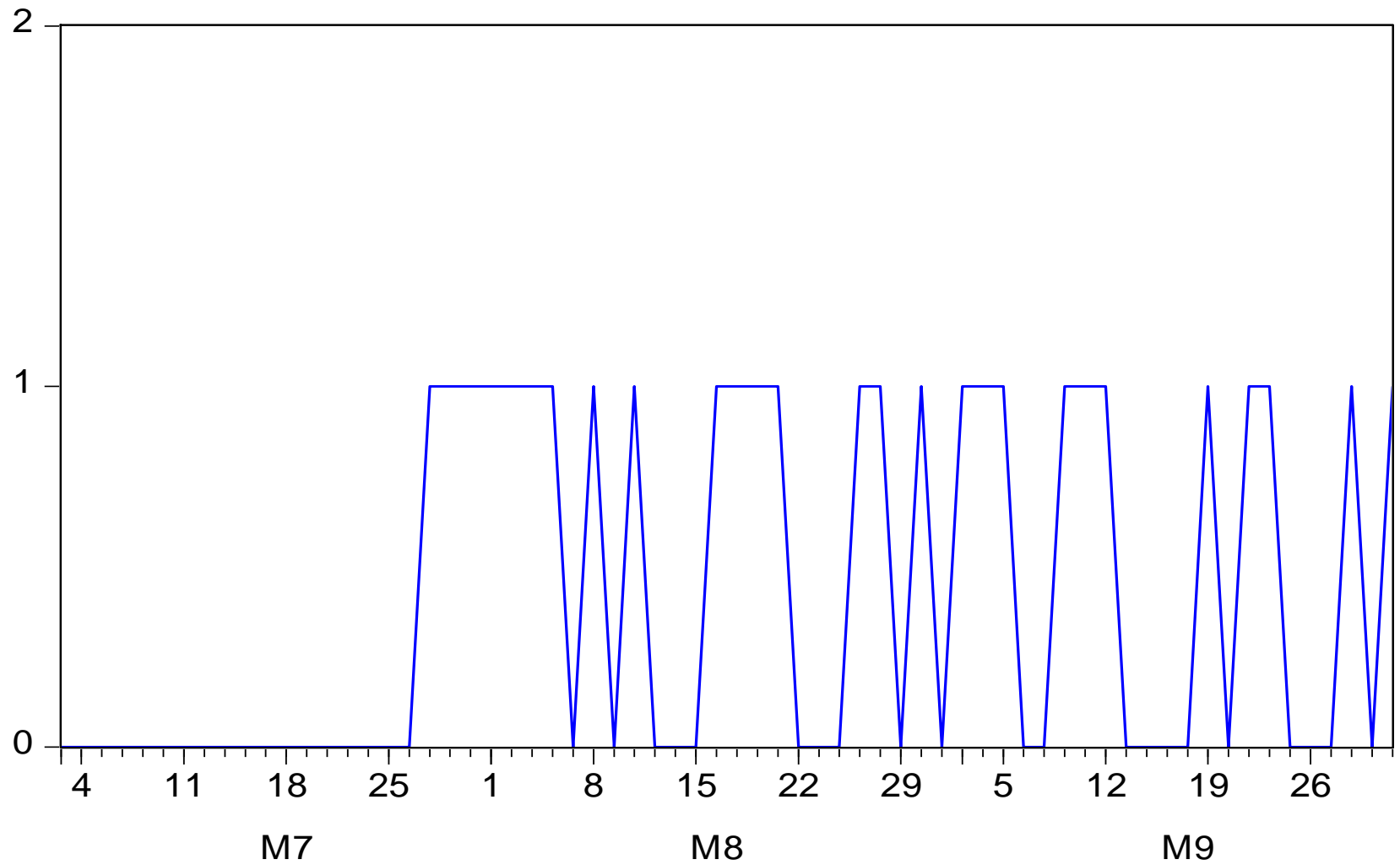
- Focus on three expansions of reserves announced in August 2011.
- Why excluding the September 6th SNB's announcement of "*willingness to buy foreign currency in unlimited quantities to defend*' the minimum exchange rate?



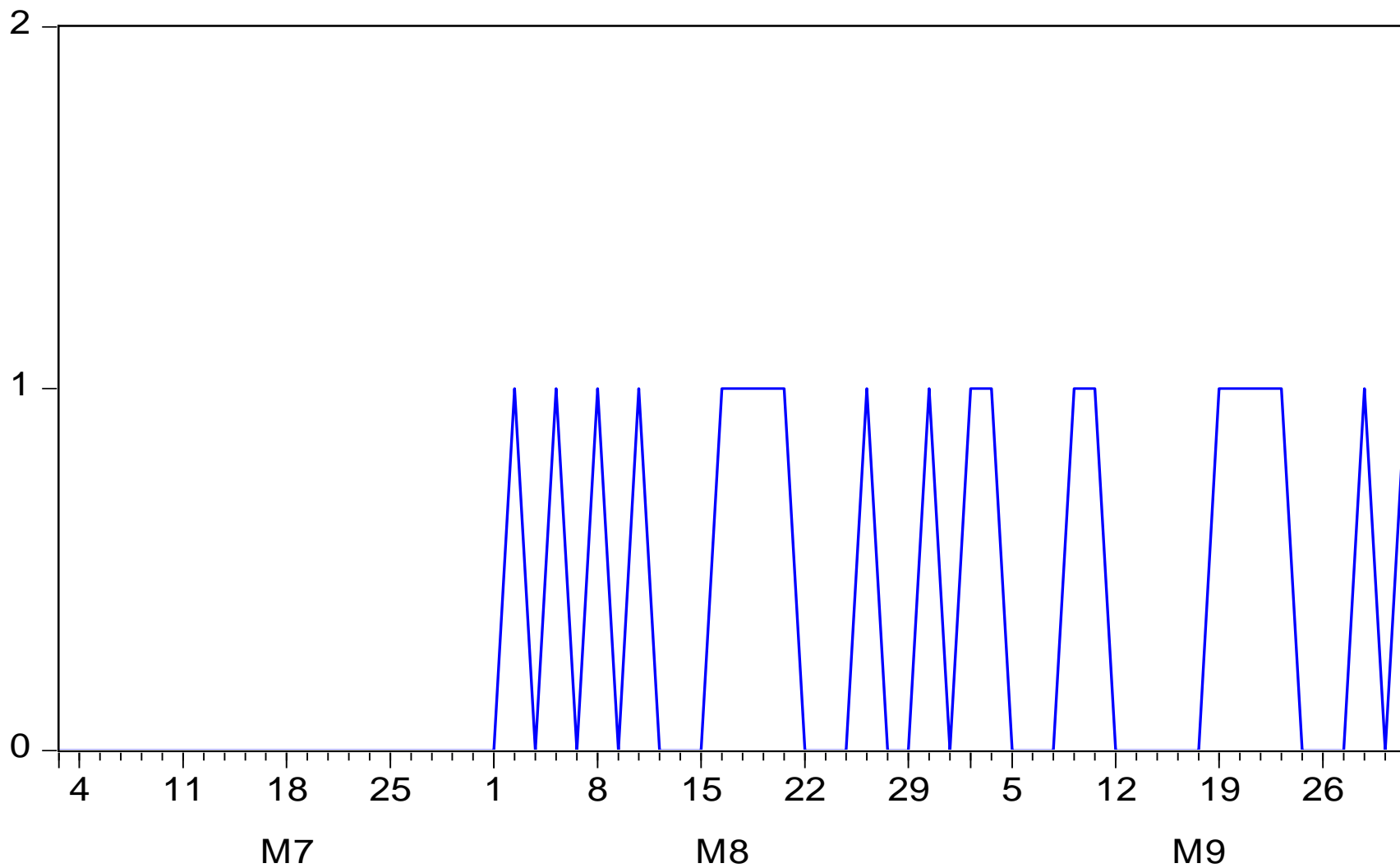
Comments (2)

- SNB policy announcements in August 2011 took place during a period of a continuous drop in the Swiss bond yields.
- Summer 2011 period characterized by high degree of flight-to-safety (FTS) (see FTS indices by Baele *et al.*, 2014).
- Swiss bond yields followed almost one-to-one German and US bond yields during this period.
- Also the Swiss and US term premiums were closely related.
- Controlling for foreign effects by using periods of high FTS.

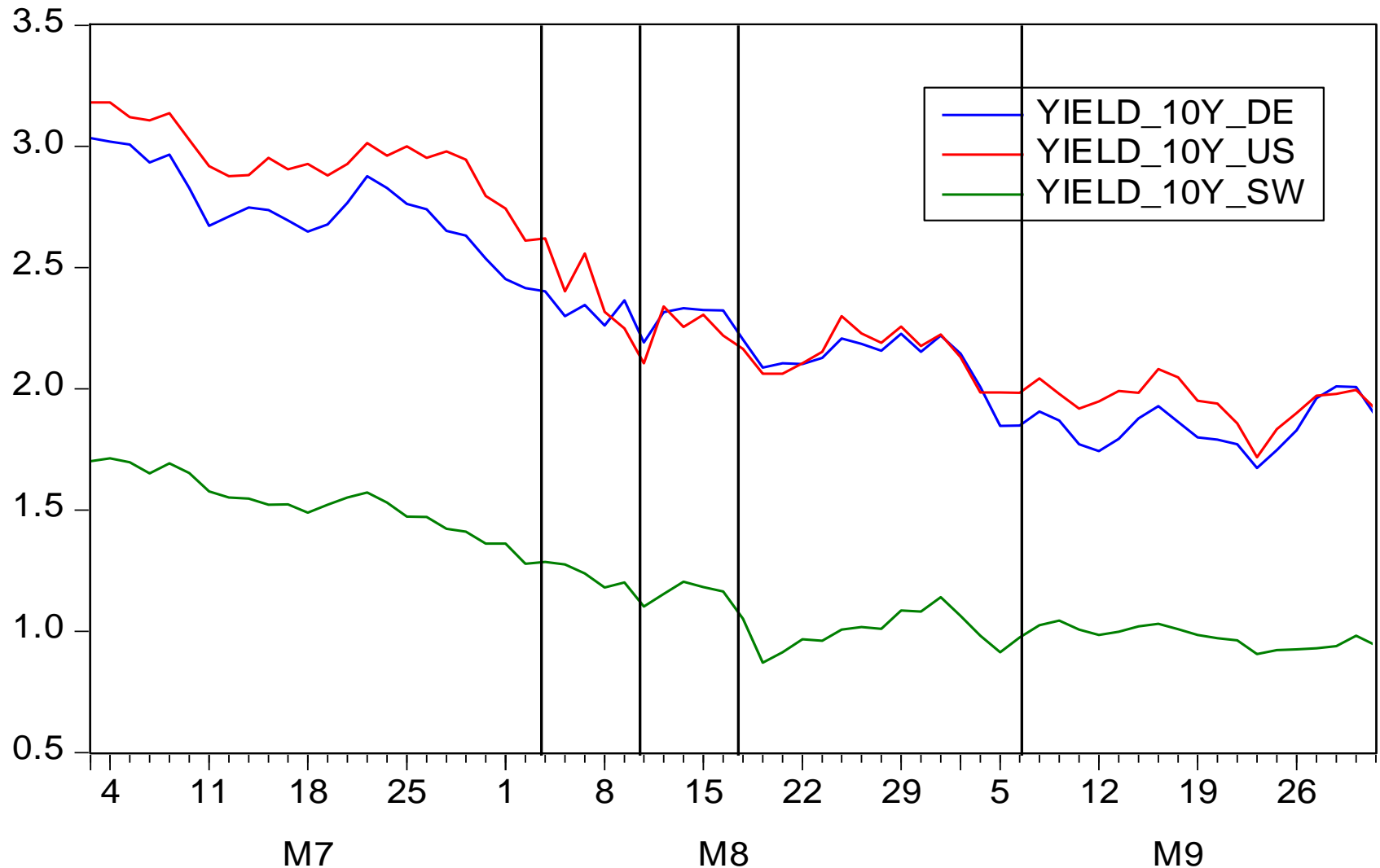
FTS Index in Germany in Summer 2011



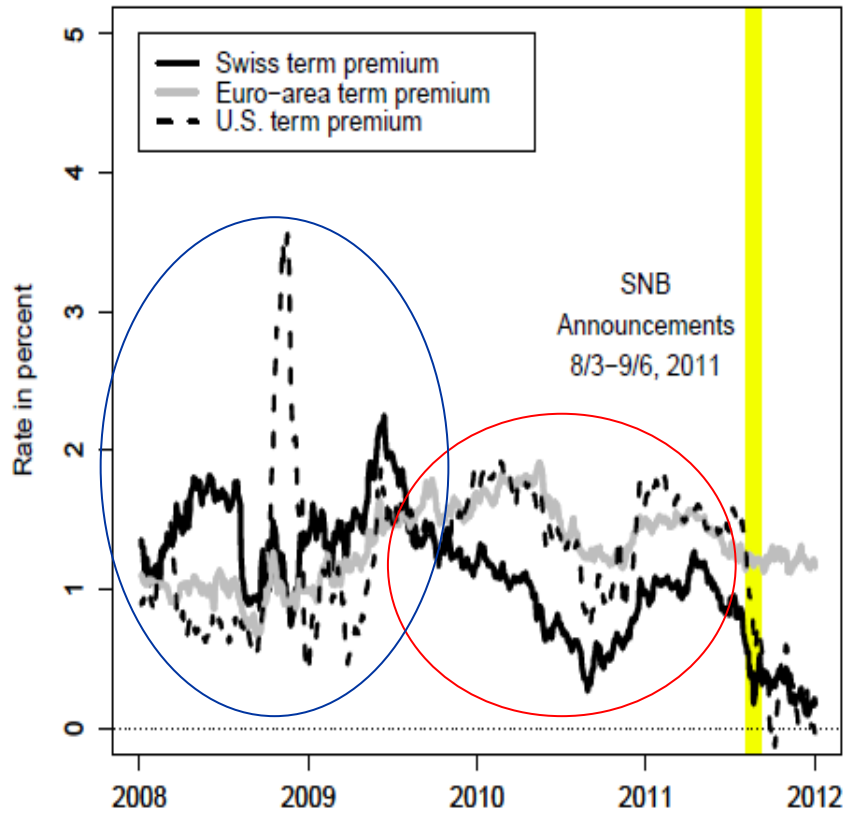
FTS Index in the US in Summer 2011



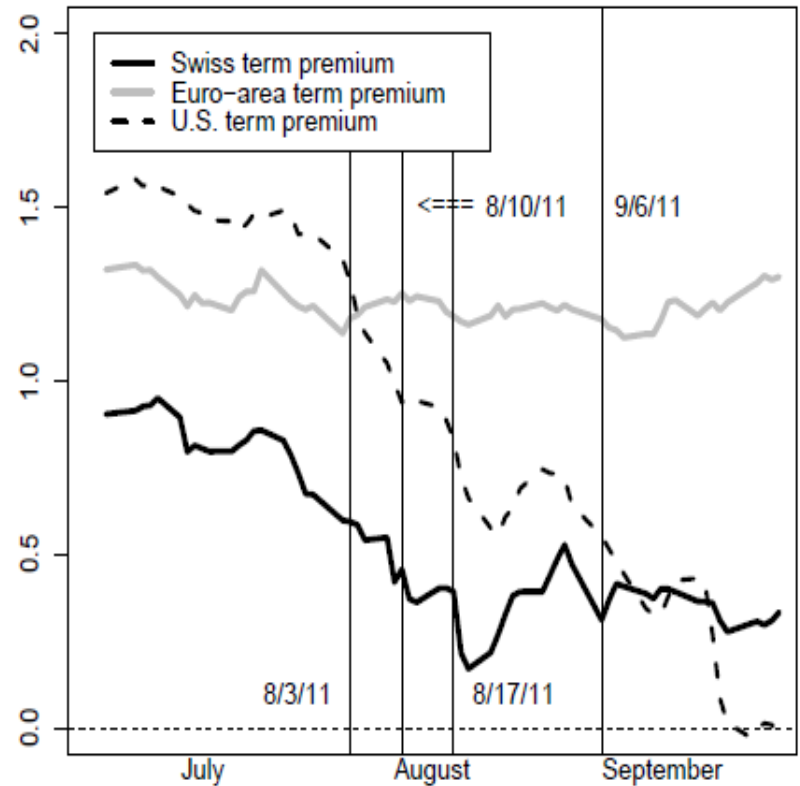
Swiss, German and US Government Bond Yields



Foreign Term Premiums



(a) 2008-2011.



(b) Summer of 2011.

Foreign Term Premiums

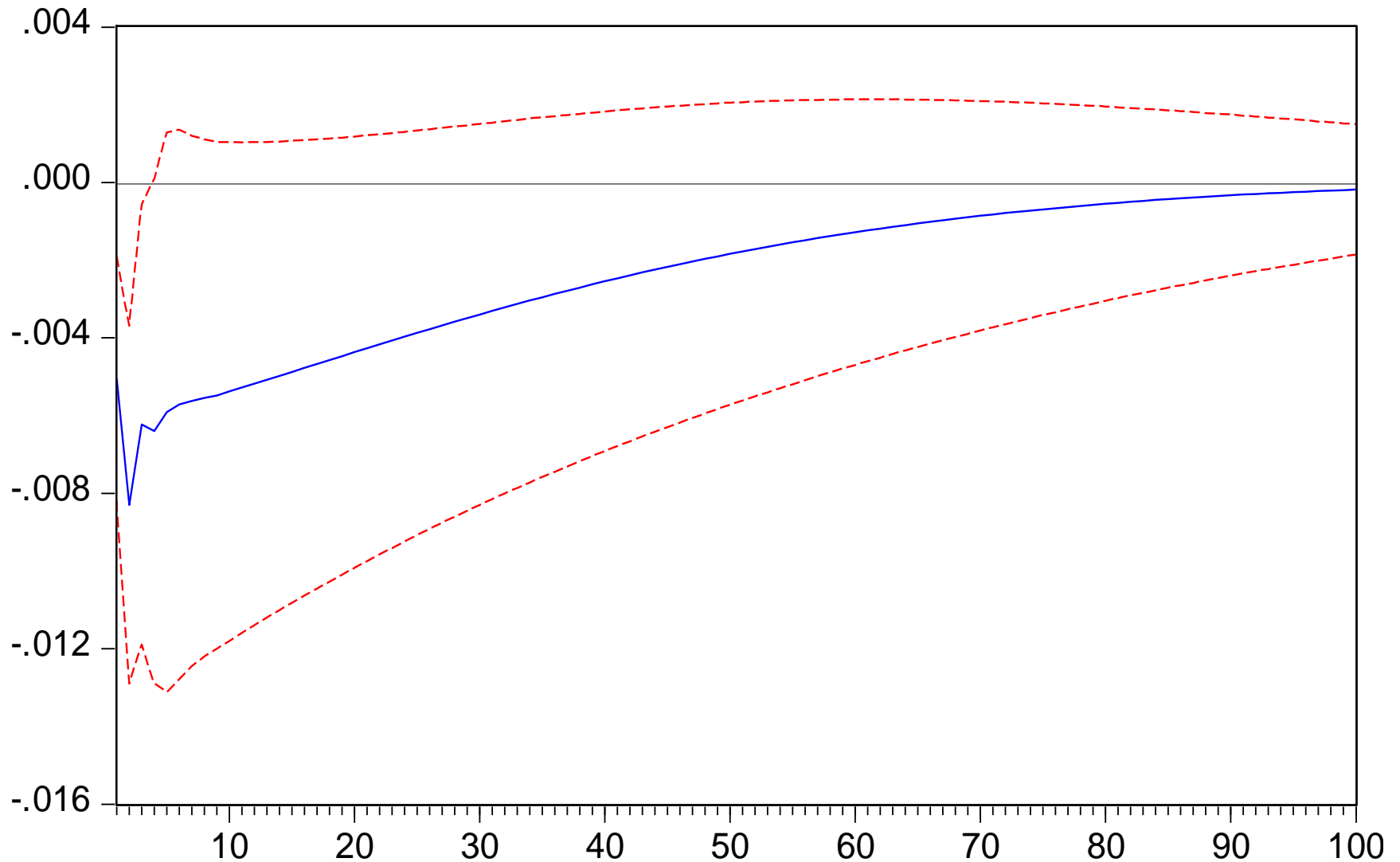
Explanatory variables	Ten-year Swiss term premium						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Constant	0.0138** (22.51)	0.0130** (35.53)	0.0089** (33.93)	0.0107** (32.85)	0.0140** (22.65)	0.0023* (2.383)	0.0029** (3.062)
Euro-area term premium	-0.1516** (-3.336)				-0.1026* (-2.024)	0.5347** (8.657)	0.4901** (7.878)
U.S. term premium		-0.0882** (-3.425)			-0.0622* (-2.166)	-0.1636** (-6.197)	-0.1084** (-3.669)
Bid-ask spread			0.6470** (12.39)			1.0419** (15.08)	1.2185** (14.99)
VIX				0.0040** (3.63)			-0.0058** (-4.029)
Adjusted R^2	0.01	0.01	0.15	0.01	0.02	0.22	0.24

- Are foreign developments (in particular US effects) fully accounted during high FTS periods as in the summer 2011?

Comments (3)

- How *persistent* are the effects of Swiss QE on government bonds?
- I set up a three-variable VAR including: (1) QE announcement 0-1 dummy, (2) 10-year Swiss bond yield (3) 10-year German bond yield.
- Add *lagged* US bond yields as pre-determined variables.
- 4 lags and Cholesky identification.
- Estimate the model over the period January 2010 and December 2011.

Response of Swiss yield to QE announcement

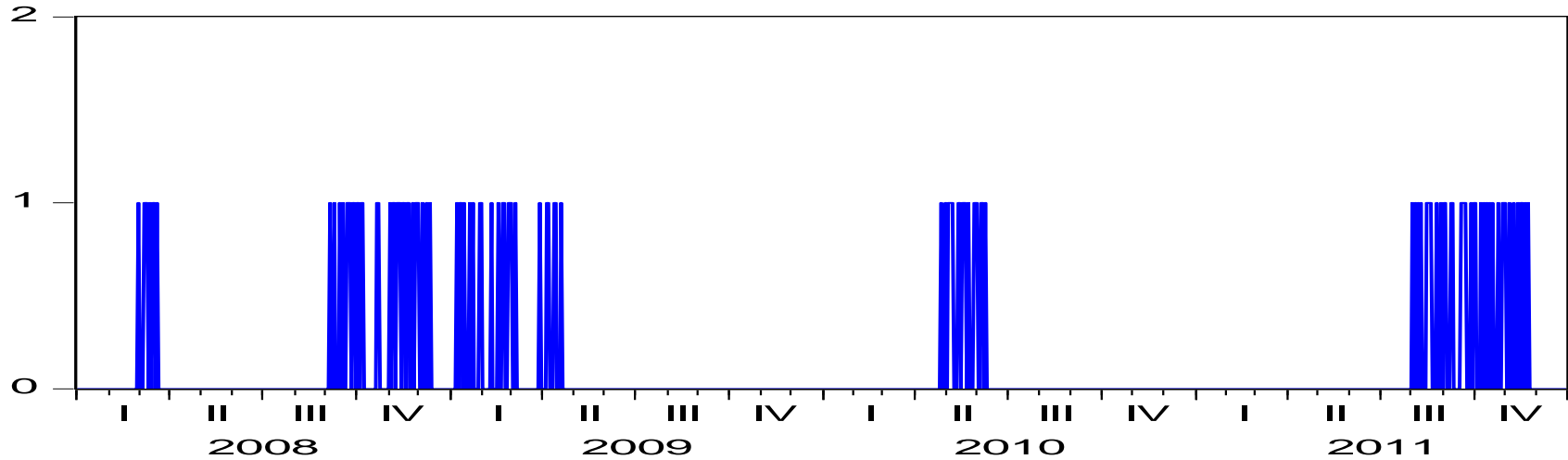


Summary

- Great paper
- Only minor comments to sharpen the message
- Further investigation on the role of foreign factors (in particular German and US term premiums) during periods of high FTS
- More on the persistence of QE effects on Swiss bond yields

FTS Index in Germany and US (Jan 2008 – Dec 2011)

FTS_US



FTS_DE

