

Discussion of
Voting right rotation, behavior of committee
members and financial market reactions:
Evidence from the U.S. Federal Open Market
Committee

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Disclaimer: The views expressed in this discussion are those of the authors and do not necessarily represent those of the Bank of Canada.

Summary

- ▶ This paper provides a fresh angle to study how the **voting right rotation** at FOMC impact
 - ▶ FRB presidents' speech behaviors between and during FOMC meetings
 - ▶ financial market - Treasury yields
- ▶ It proposes two sound hypotheses to measure FRB presidents' speech behaviors
 - ▶ **Loss compensation**: Voting right loss is **compensated** by
 - ▶ **Motivation**: Voting right gain is **complemented** by
 - ▶ more speeches between FOMC meetings
 - ▶ more contributions during FOMC meetings
 - ▶ more effort to match speech tones to economic situations

Main findings

Motivation hypothesis:

- ▶ Voting members deliver more speeches btw FOMC meetings
- ▶ Voting members contribute more during FOMC meetings
- ▶ Voting members' speech tone are more responsive to regional economic conditions

Vote discounts:

- ▶ voting members' speeches impact market less than their speeches during non-voting years

Robustness

- ▶ **Comprehensive** robustness checking:
 - ▶ Diff threshold used for MP-related speeches classification
 - ▶ Dissent from previous FOMC meeting
 - ▶ Pre/Post-Beige book release
 - ▶ Extend data till 2018
 - ▶ Add regional inflation and financial sector return on assets
- ▶ **Additional** interesting findings:
 - ▶ Voting members tend to target Pre-Beige book release period to adjust their speech behavior

1. Monetary policy related speeches classification

Since it is the key dataset for the analysis - 875 in total

- ▶ More info on the manually labeled **300 training data**, e.g.
 - ▶ Speeches more from board members or FRB presidents?
→Diff groups use diff words
 - ▶ Num of MP related speeches vs. non-MP related?
→Imbalanced data: weights to apply for diff classes
 - ▶ How wide the coverage of non-MP related topics in training data →The important features selected may be different
- ▶ List of most distinctive 200 phrases for monetary policy topic?
- ▶ Evaluate the classification performance?
 - ▶ Testing data set

For robustness:

- ▶ Use other classification methods - e.g. SVM, Naive Bayes with the derived important features
- ▶ Use alternative training data - e.g. manual label another 300

2. Surprising result - Vote Discounts

- ▶ FRB presidents' speeches in their voting years impact financial market **less** than their non-voting years' speeches.
- ▶ Reason: speeches in voting years more about regional info...

This result is surprising ...

- ▶ Use Topic model for speeches contents
- ▶ Test for speeches clarity btw voting and non-voting periods
 - ▶ More complex sentences used during voting period?
 - ▶ More conservative words used during voting period?
- ▶ Underline MP related speech data improvement
 - ▶ refer to discussion 1

3. Clarification questions

Pre-scheduled speeches

- ▶ How advance FRB presidents schedule their speeches?

Speech timestamps

- ▶ The use of "FOMC speak" timestamps on MP related speeches?
- ▶ Other sources - e.g. Bloomberg Economic-calendar, published speech official time, etc.

Speech tone

- ▶ Consider negations in each sentence?

Num of obs match

- ▶ 1570 obs (Table 2) vs. 1735 total obs (Table 1)