Discussion of "Transmission of Fed Announcements to Emerging Economies: What Determines Market Reactions?" Prachi Mishra, Papa N'Diaye and Lam Nguyen

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- Post GFC, Fed's unconventional monetary policy sent investors flocking into EMs.
- Trend disrupted in May 2013 with Fed signaling possible tapering of asset purchases.
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- EMs faced currency depreciations, increase in financing costs and capital flow reversals.
    - How did the EMs react to FOMC announcements?
    - What factors influenced these reactions?

- Employs event-study techniques around dates of FOMC meetings & release of minutes (Jan 1, 2013 -Jan 22, 2014)
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- Focuses on role played by depth of domestic financial markets.
- Controls for macro fundamentals, country fixed effects
- Series of robustness checks & additional analyses
  - Shorter time window, PCA model, trade linkages with China, macro prudential measures

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- Better fiscal positions, tighter macro prudential policies and strong trade linkages with China helped dampen market reactions.
- Markets do not treat EMs as a single asset class but differentiate on the basis of macro fundamentals & financial depth.

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- Or, is the objective to assess reactions to Fed’s ’QE tapering’ announcements in particular?
- Seems to be the case from analysis & results–exclusive focus on negative events.
  - If assessing reactions to volatile episodes, a longer sample period will enable investigating higher number of negative events

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    - If the preceding meeting's minutes are being released 3 weeks later, why opposite effect on bond yields?
    - What changed between May 1 and May 22, 2013?
    - Or was it entirely because of Bernanke's speech; nothing to do with FOMC minutes release?

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- June 18-19 FOMC meeting (Chairman's press conf.): Bond yields went up
- Minutes released on July 10: No effect (negative sign on yields)
  - Between May 22 & June end: EM currencies depreciated & spreads went up
  - What happened between end June & July 10?
  - If markets had priced in the risk, then what happened on Oct 29, 30 (8th meeting-yields went up again)?

III. Inferences from Results

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    - Results: Other than financial depth, fiscal balance is the only factor that is significant for negative events.
    - Role of fiscal balance: strong, robust and interesting but not delved into.

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- Paper: Markets differentiate across EMs based on country characteristics.
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  - Role of fiscal balance: strong, robust and interesting but not delved into.
- Are markets differentiating only during volatile episodes?
- Non-negative events: Real GDP growth rate consistently significant.

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- July 2013: negative event & bond yields went up but Sept 18 meeting (#6) Fed indicated 'loosening' & bond yields went down– did these affect the same countries?

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  - Any way to quantify the surprise in Fed's announcements? (increase in volatility of long-term U.S. interest rates: Nakamura & Steinsson, 2013)
  - What about duration impact of tapering announcements?

Thank You