

DANMARKS NATIONALBANK

THE ECB'S UNCONVENTIONAL MONETARY POLICY AND THE ROLE OF EXCHANGE RATE REGIMES IN CROSS- COUNTRY SPILLOVERS

Jakob Roager Jensen, NØF årsmøde 13 Januar 2018



Agenda

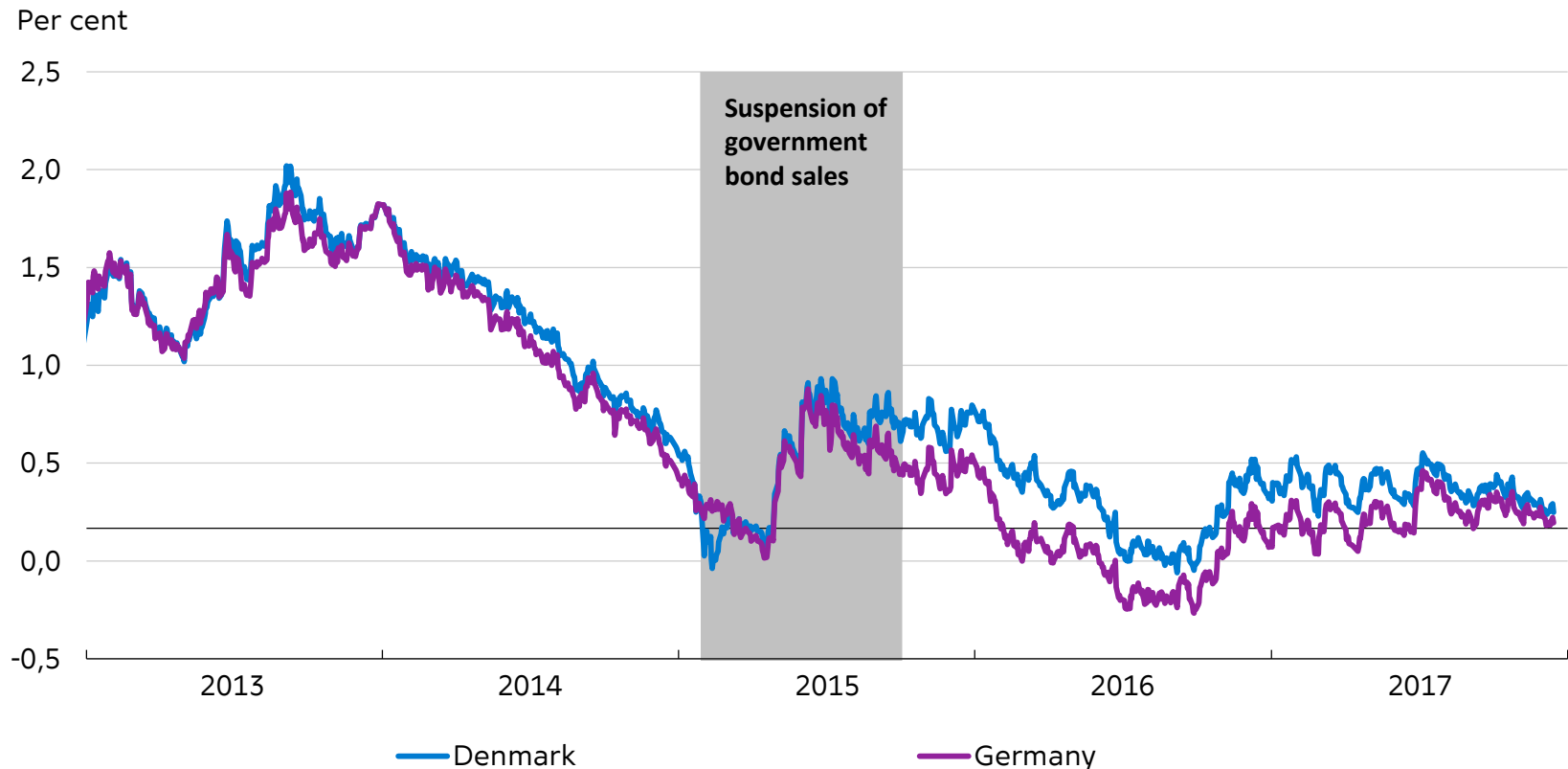
- The transmission mechanism of QE
- Results from an event study
 - Government bond yields, exchange rates
- Results from a VAR analysis
 - Government bond yields, exchange rates, FX interventions

The transmission mechanism of QE



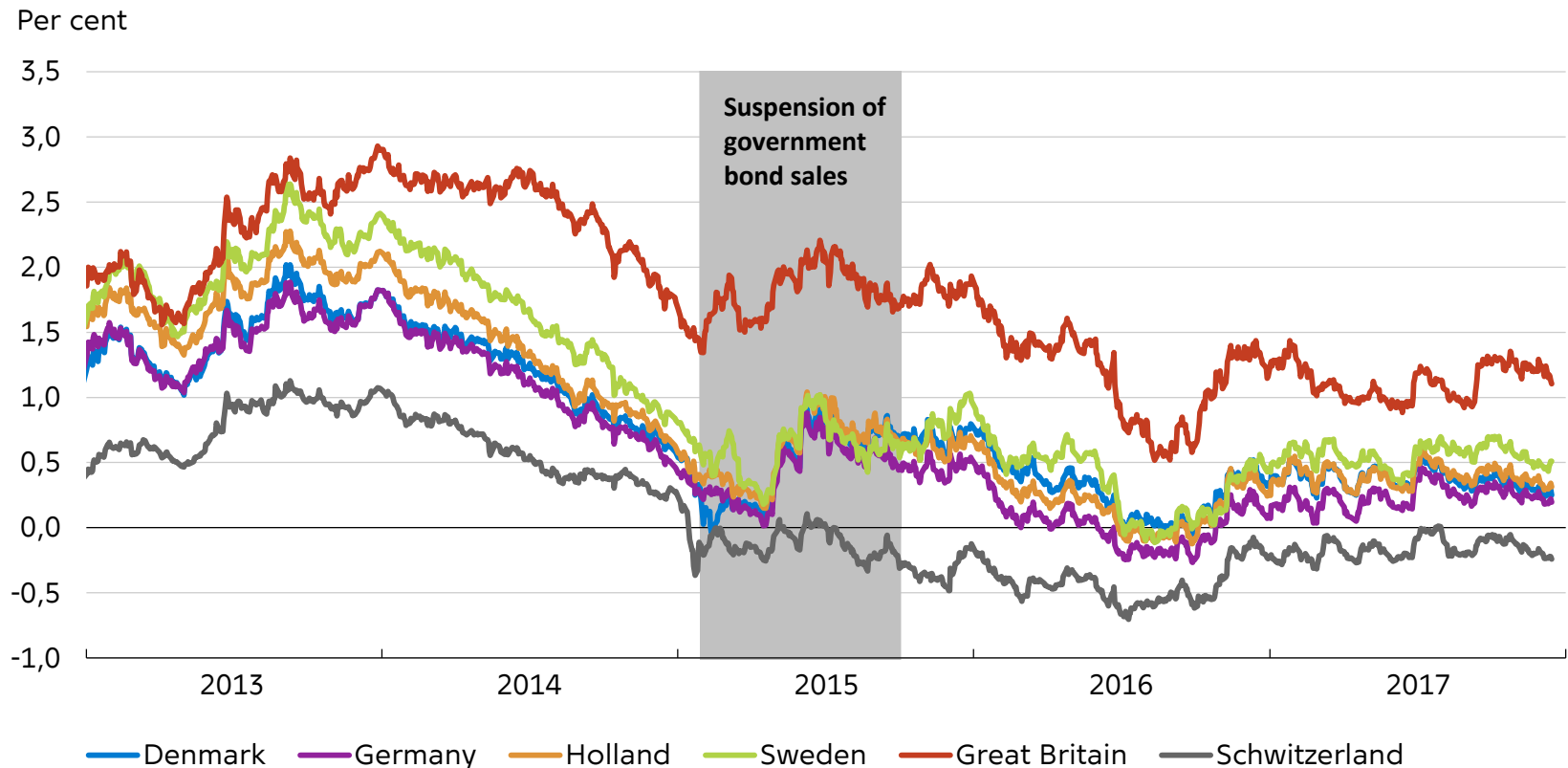
DANMARKS
NATIONALBANK

Danish government bond yields continued to closely track German yields



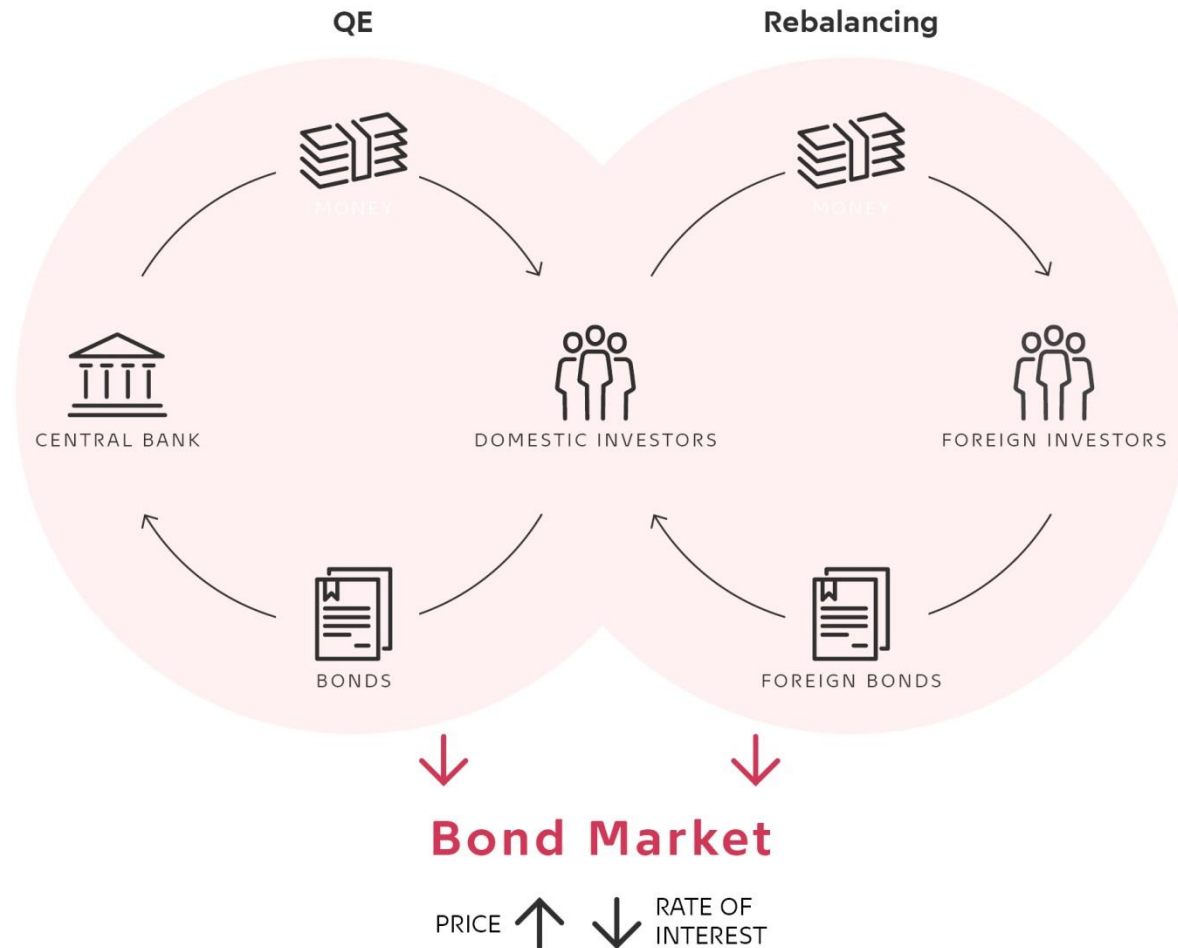
Note: 9-year par rates.
Source: Nordea Analytics.

Also the case for other countries



Note: 9-year par rates.
Source: Nordea Analytics

Direct effect of QE and rebalancing



Spill-over from ECB's QE to Denmark

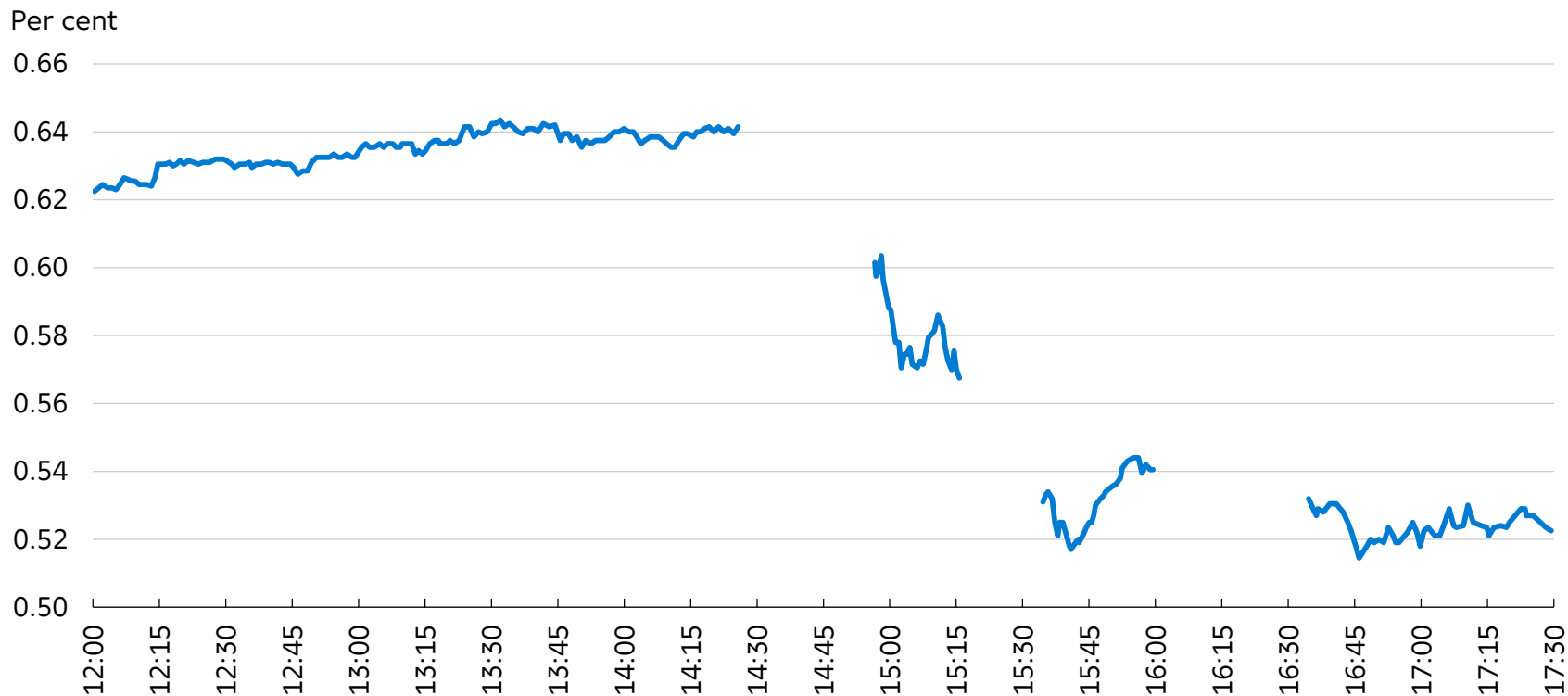


Event study



DANMARKS
NATIONALBANK

Clear effect of PSPP announcement on Danish sovereign bond yields

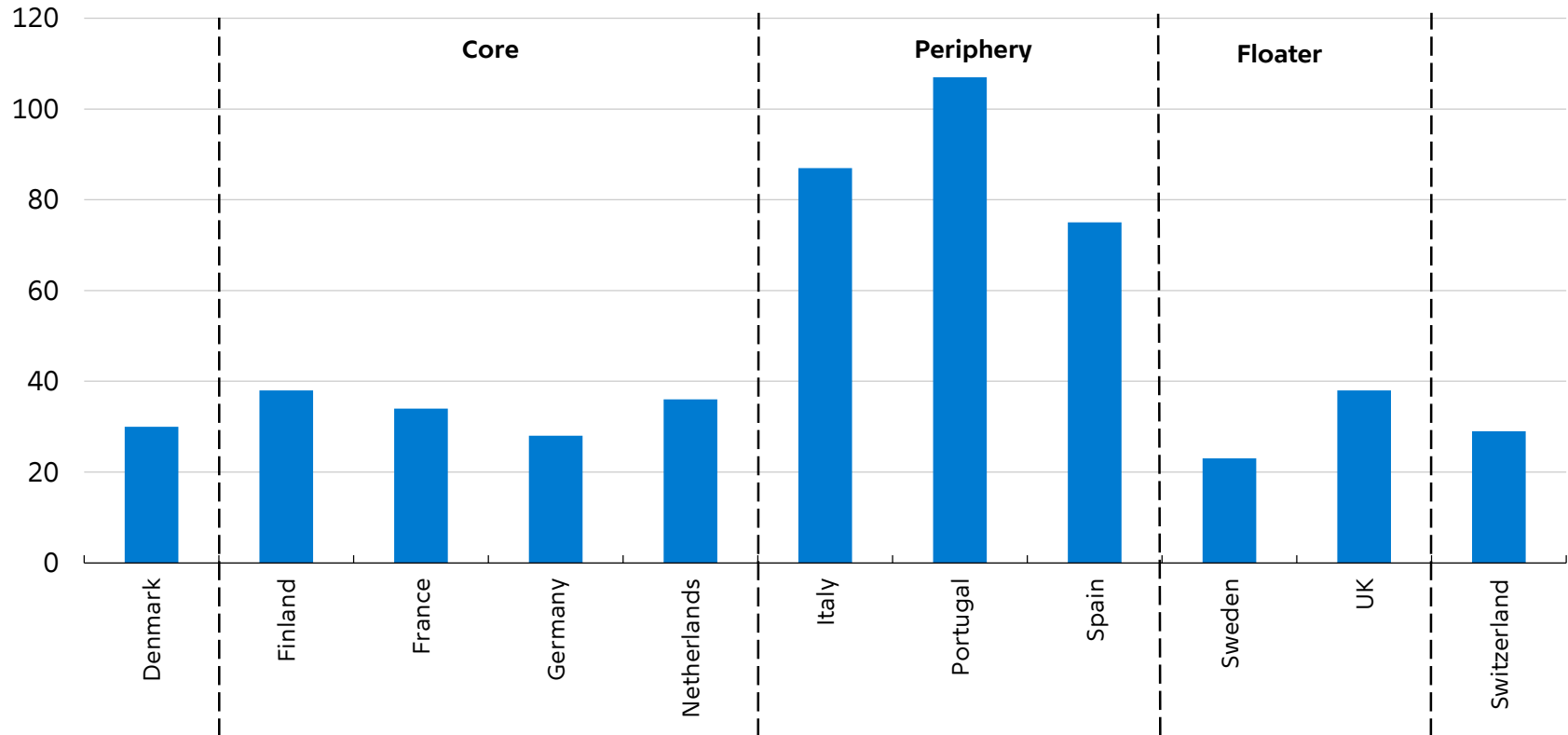


Note: Yield on a Danish 10-year government bond, 22 January 2015. Breaks in the blue line indicate periods where no prices were quoted

Source: MTS.

Decline in long-term Danish yields in line with core euro area countries

Basis points decline in 9-year government bond yields

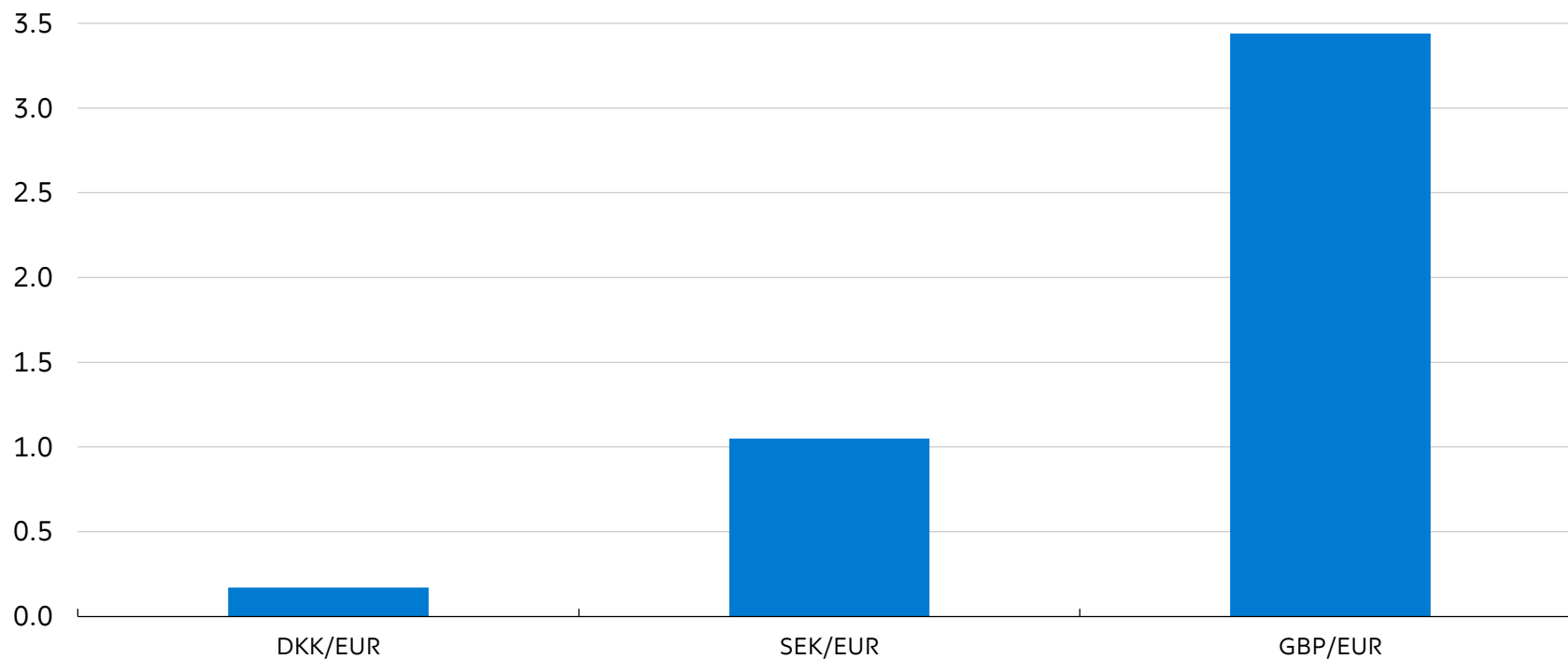


Note: Aggregate decline in sovereign bond yields in two-day windows following 17 pieces of ECB communication.

Source: Thomson Reuters Datastream, ECB and own calculations.

Modest impact on exchange rates

Cumulative decline in exchange rates, per cent



Note: Cumulative changes in exchange rates around the first 17 event days, September 2014-March 2015 (percent)

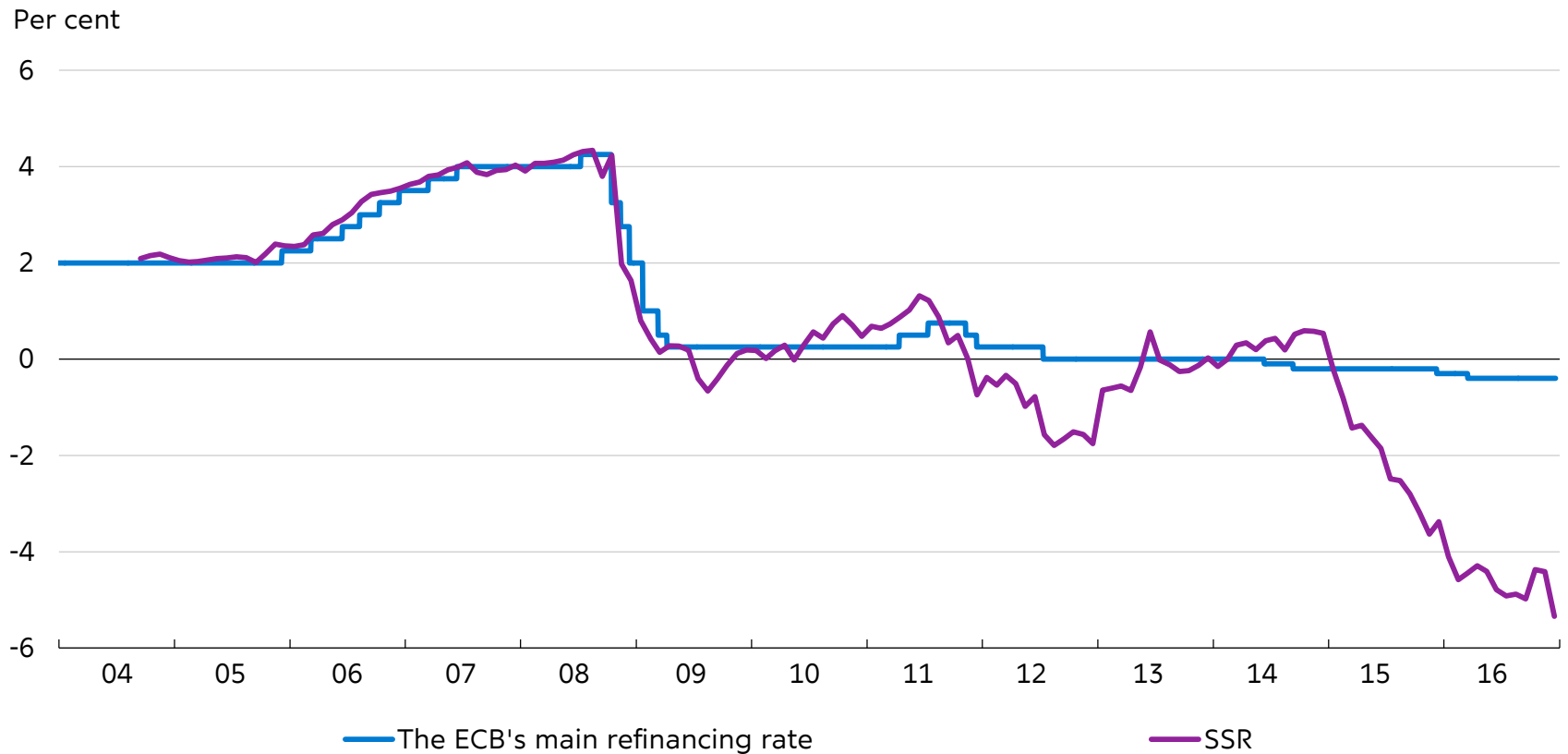
Source: Thomson Reuters Datastream and own calculations.

VAR study



DANMARKS
NATIONALBANK

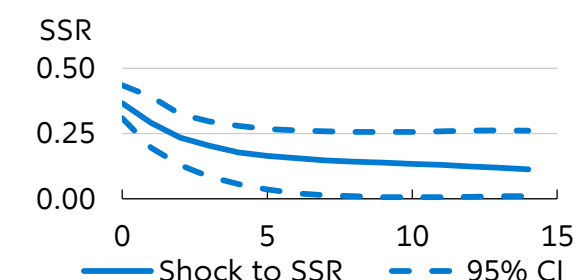
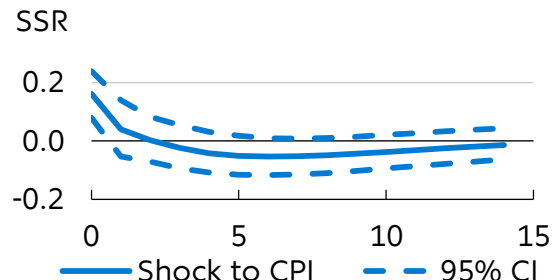
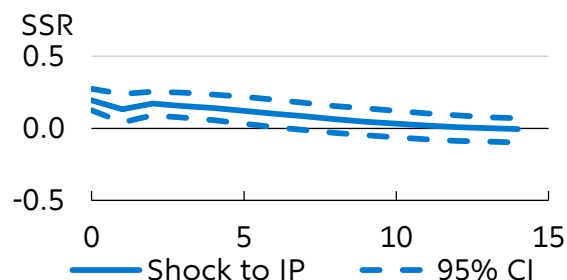
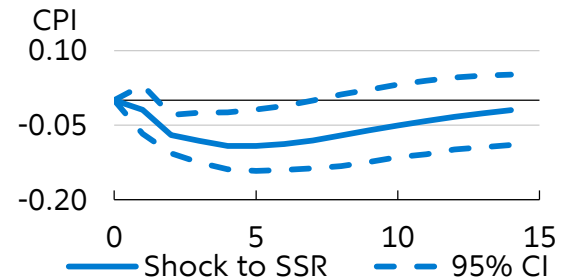
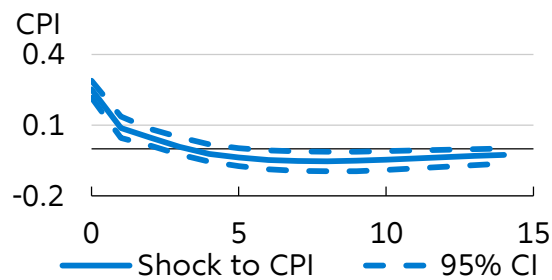
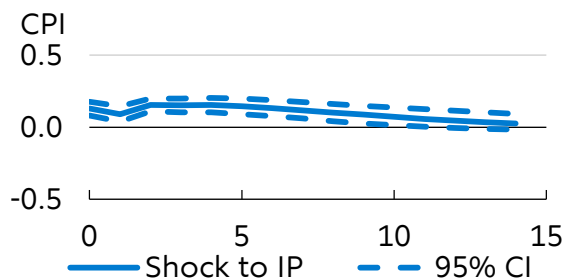
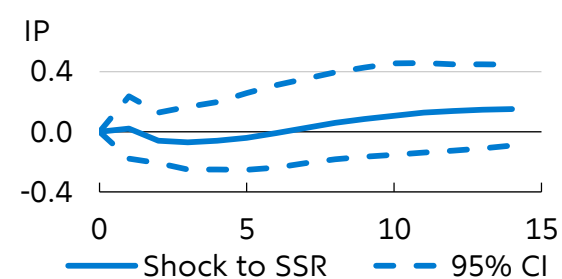
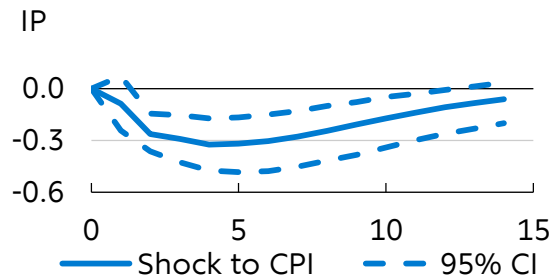
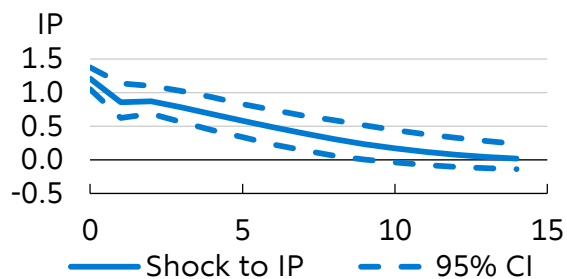
QE reflected in so-called shadow short rate, SSR



Estimate VAR model based on SSR

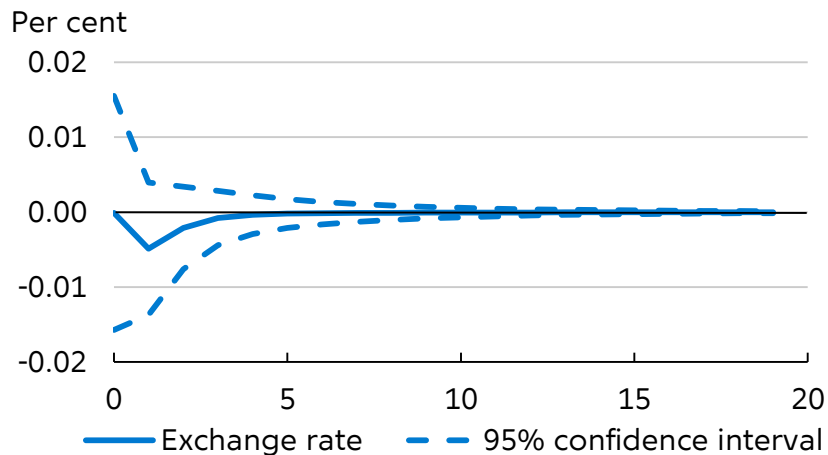
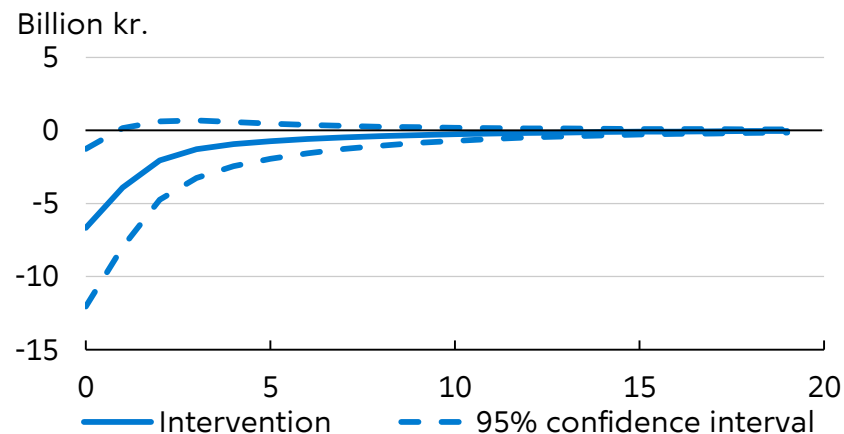
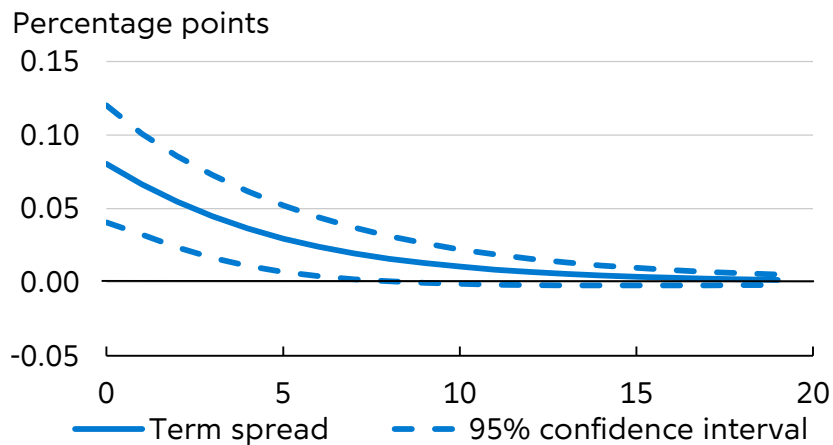
- 2 blocks: Euro area and "other country"
- Assumption: "Other country" does not affect euro area
- First step: Identify EA monetary policy shock
- Second step: Study effect of EA monetary policy shock on "other country"
- Short sample (2010-17, monthly data): effect of SSR on financial variables dependent on SSR

Effects on euro area are as expected



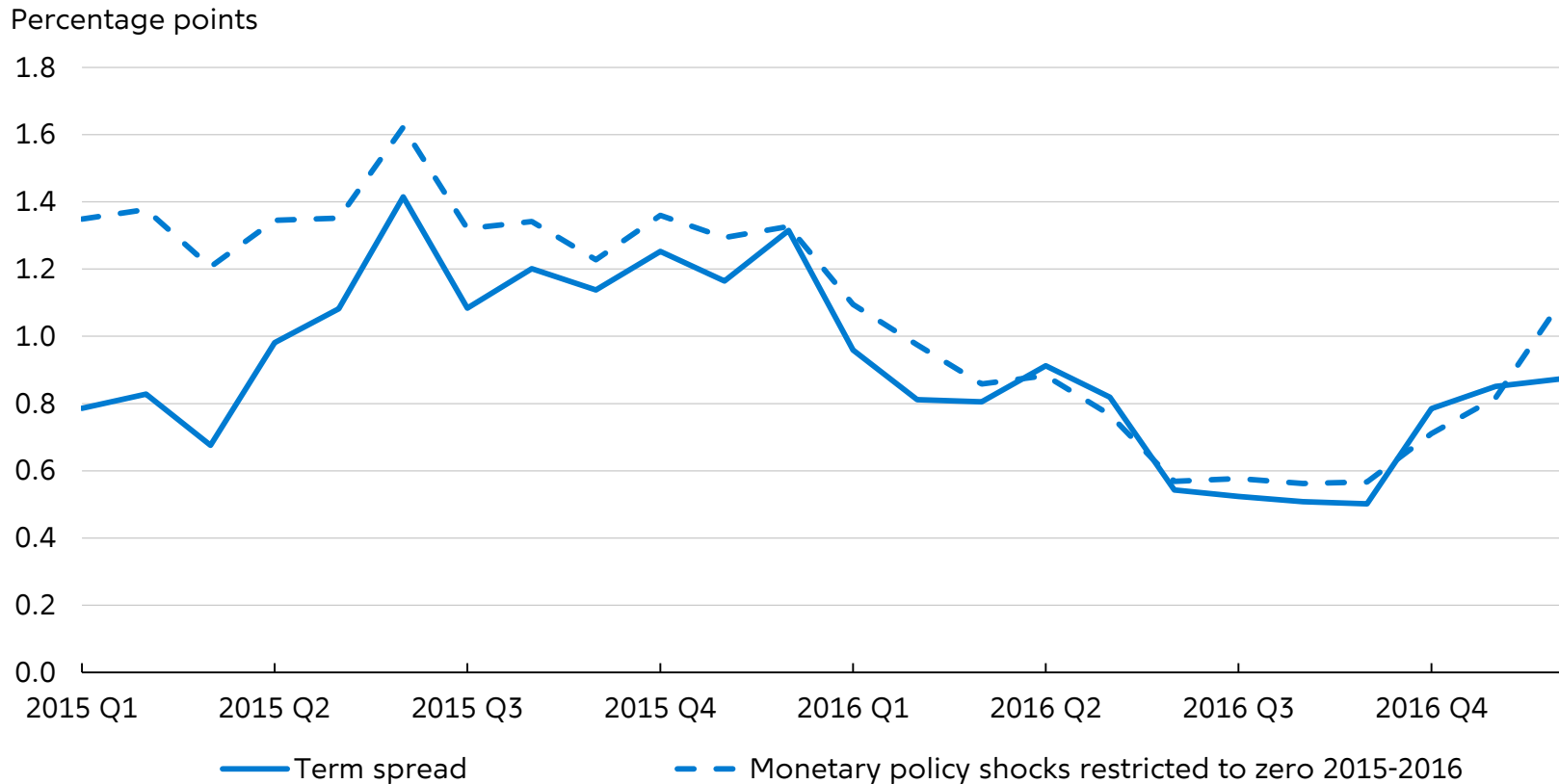
Note: Figures depict one-standard deviation shocks.

Spillovers to Denmark



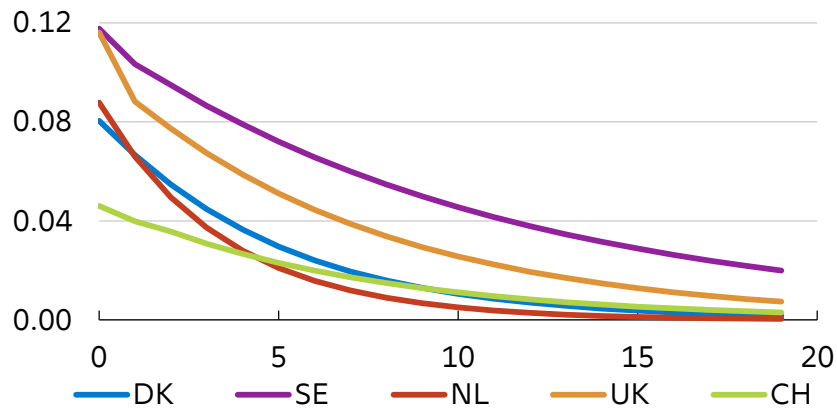
Note: Figures depict one-standard deviation shocks.

ECB QE reduced Danish term spread by at least 50 basis points

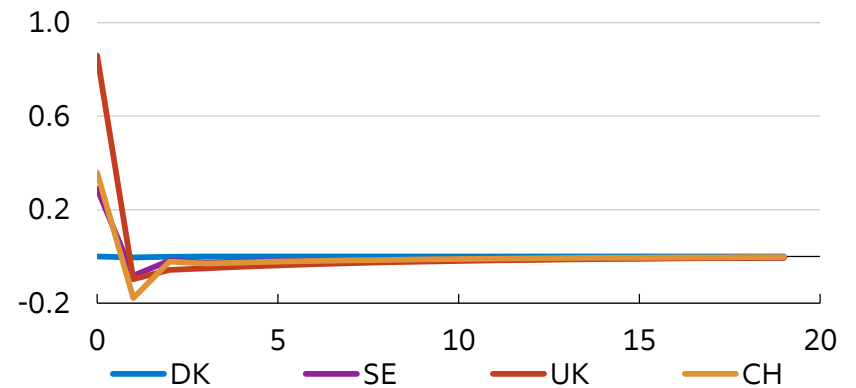


Spillovers depend on exchange rate regime

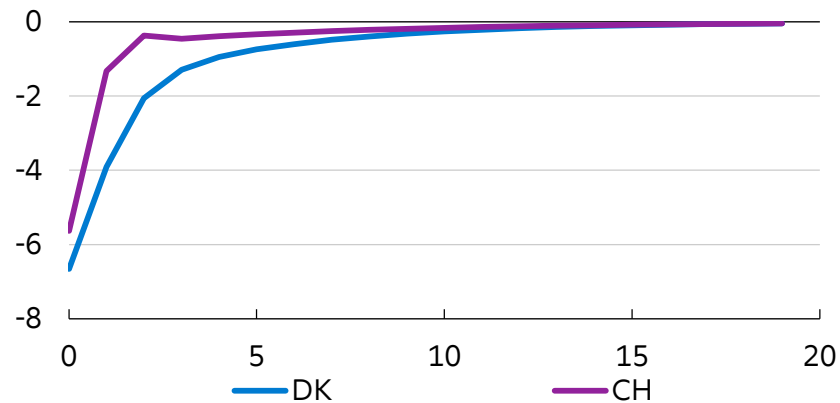
Term spread, percentage points



Exchange rate, per cent



Intervention, bil. local currency



Note: Figures depict one-standard deviation shocks.

Additional slides



DANMARKS
NATIONALBANK

The 17 events

Date	First Newswire	Event
September 04, 2014	14:34	ECB press conference
September 12, 2014	14:12	News conference following a meeting of euro area finance ministers in Milan
September 24, 2014	08:20	Interview with Europe 1, conducted on 23 September 2014 and aired on 24 September 2014
September 25, 2014	05:00	Interview with Lithuanian business daily Verslo Zinios
October 02, 2014	14:40	ECB press conference
October 10, 2014	16:00	Statement at the Thirtieth meeting of the IMFC, Washington
October 24, 2014	16:41	An ECB spokesman reading from Mario Draghi's speaking points at a euro area summit, Brussels
November 06, 2014	14:35	ECB press conference
November 17, 2014	15:17	Introductory remarks at the European Parliaments Economic and Monetary Affairs Committee
November 21, 2014	09:33	Speech at the Frankfurt European Banking Congress, Frankfurt am Main
November 27, 2014	09:45	Introductory remarks at the Finnish parliament and speech at the University of Helsinki
December 04, 2014	14:37	ECB press conference
January 02, 2015	08:00	Interview with Handelsblatt, published on 2 January 2015
January 08, 2015	16:05	Letter to Mr Luke Ming Flanagan (member of the European Parliament), published on 8 January 2015
January 14, 2015	09:00	Interview with Die Zeit, published on 15 January 2015
January 22, 2015	14:40	ECB press conference
March 05, 2015	14:30	ECB press conference

