

IT'S NOT WHAT THEY SAY, IT'S HOW THEY SAY IT – THE IMPACT OF THE TONE OF ECB GOVERNING COUNCIL SPEECHES ON FINANCIAL MARKETS

CONOR PARLE

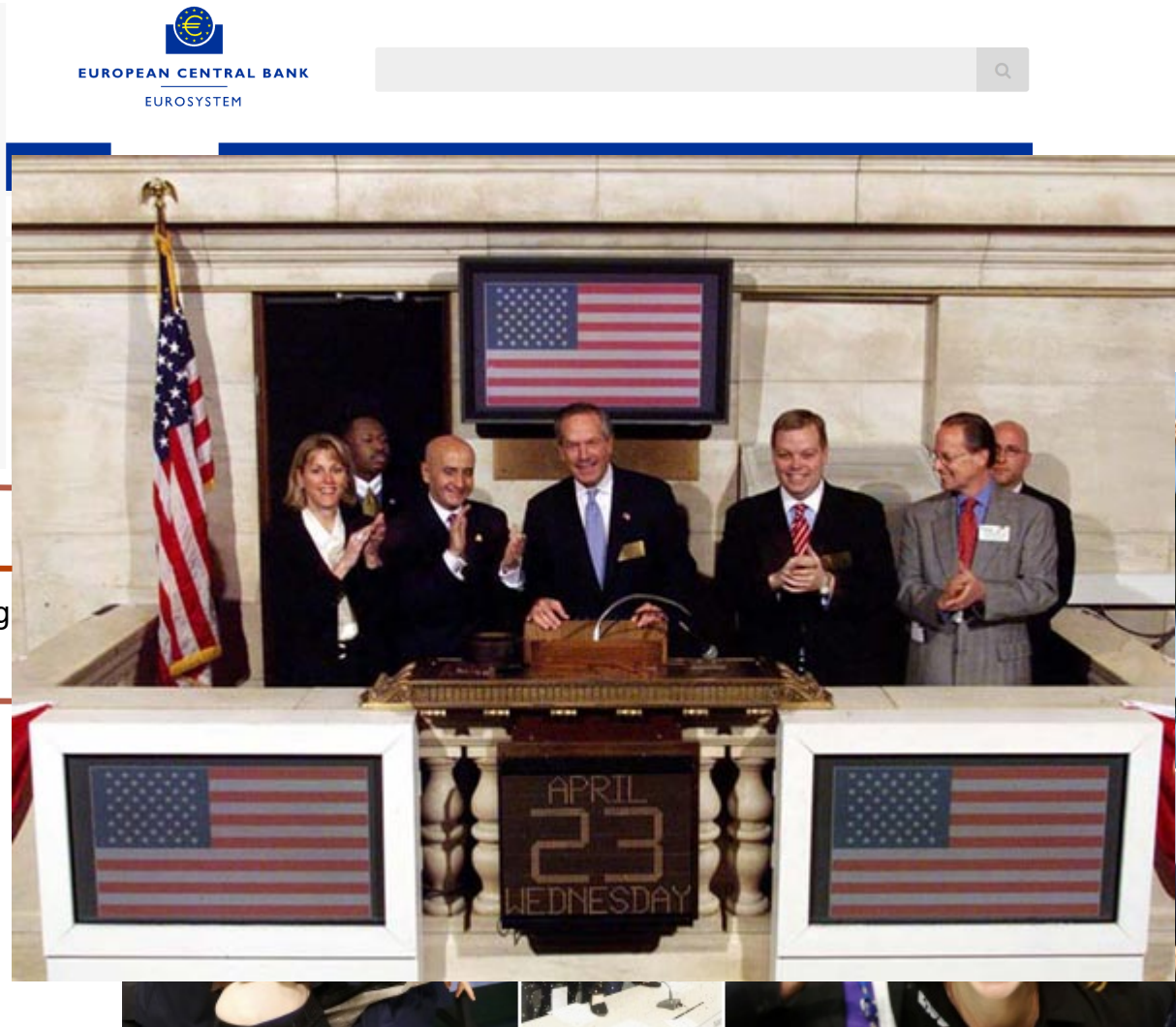
Discussion by Ricardo Gimeno

Banca d'Italia

Rome, October, 21st, 2019



THE SET UP

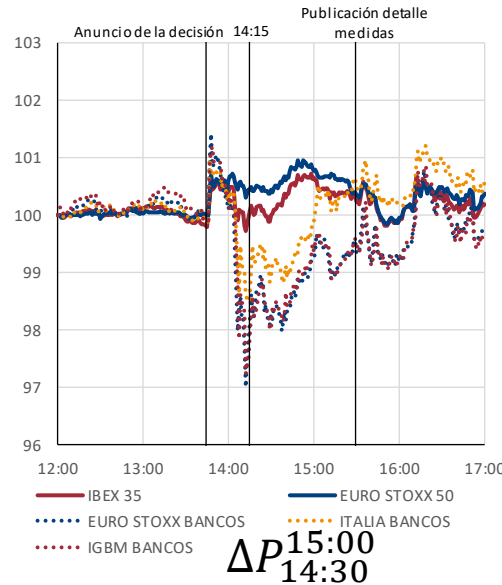


THE SET UP

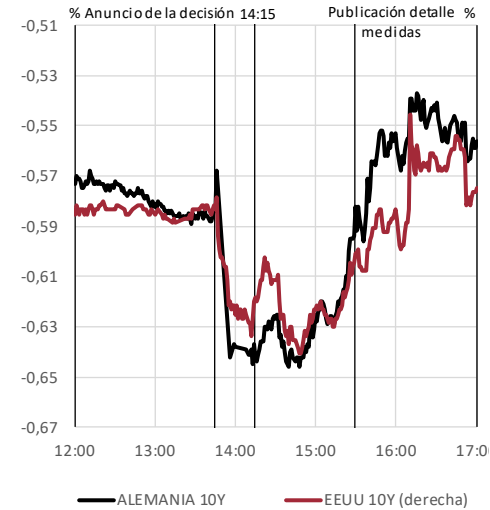
TIPO DE CAMBIO



ÍNDICES BURSÁTILES (100 = 12:00h)



RENTABILIDAD DE LA DEUDA PÚBLICA A 10 AÑOS



$\Delta P_{15:30}^{15:00}$

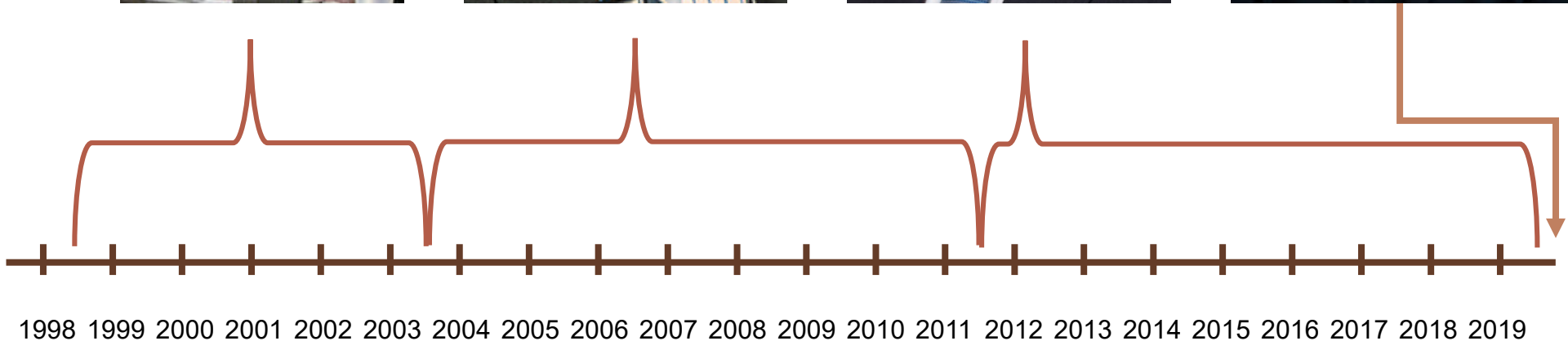
$\Delta P_{14:30}^{13:45}$

14:30 -15:00 Impact of the Introductory Statement (forward guidance)

15:00 -15:30 Impact of the Q&A (FG consistency)

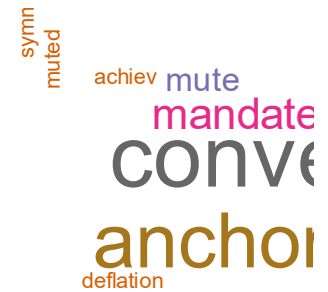
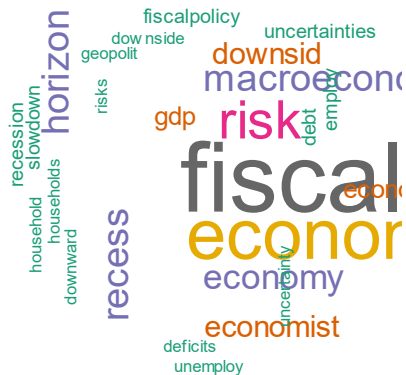
13:45 -14:30 Impact of the Monetary Policy Decisions





Supervised classifications:

1. AFINN Measure
2. Loughran Measure
3. Hawk-Dove Measure



Hawk-Dove Measure:

Dovish Terms:

- Accommodation
- Recession
- Devastation
- Unemployment
- Downturn

Hawkish Terms:

- Business
- Economy
- Equity
- Housing
- Inflationary
- Manufacturing
- Prices
- Securities
- Toll
- Businesses
- Employment
- Expansion
- Income
- Investment
- Outlook
- Production
- Slack
- Wage
- Demand
- Energy
- Financial
- Indicators
- Investments
- Output
- Recovery
- Spending
- Wages
- Economic
- Equities
- Growth
- Inflation
- Labour
- Price
- Resource
- Target

What is the correlation between:

1. AFINN Sentiment Measure
2. Loughran Sentiment Measure
3. Loughran Uncertainty Measure
4. Hawk-Dove Index

What is the correlation between the topical tone:

- | | |
|--------------------------------|-----------------------------------|
| 1. Economic Analysis | 7. Price Information |
| 2. Structural Reforms | 8. Global Macro |
| 3. Monetary Policy Information | 9. Price Stability |
| 4. Monetary Analysis | 10. Fiscal Consolidation |
| 5. Administrative | 11. APP |
| 6. Financial Markets | 12. Monetary Policy Information 2 |

Baseline Results

Sentiment Measures tend to be quite volatile

1. Use different experts with different judgements on the hawkish/dovish and positive/negative nature of words. Use Cronbach alpha to measure the Validity
2. Construct confidence intervals by bootstrapping the words used.
3. Filter the signal/noise in the sentiment series. Select those words with the higher degree of signal to noise ratio
4. Go unsupervised, by selecting the words that are better aligned with the market reactions.

Figure 1: AFINN Sentiment Time Series

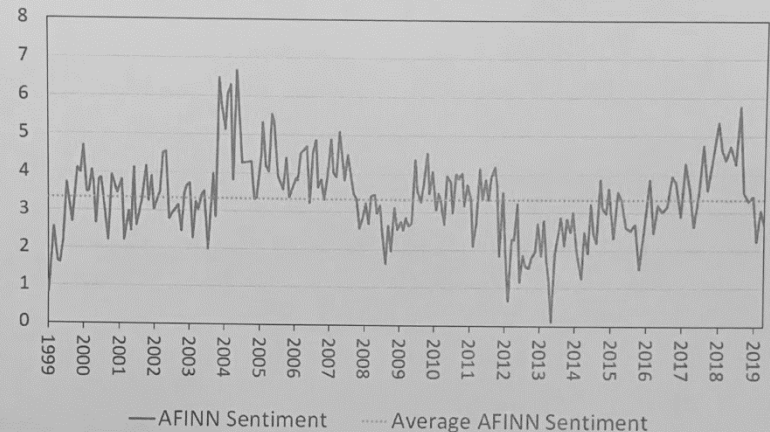
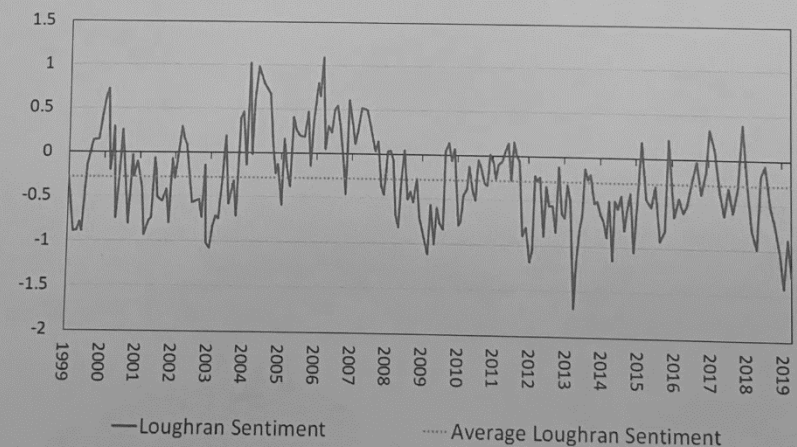


Figure 2: Loughran Sentiment Time Series



Ricardo Gimeno (ricardo.gimeno@bde.es)

Thank you for your attention!