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

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D.G. OPERATIONS, MARKETS AND PAYMENT SYSTEMS
THE SET UP

13:00
14:00
15:00
16:00

13:45
Press Release:
Monetary Policy Decisions

14:30-15:00
Introductory Statement

15:00-15:30
US Stock Market Opening

15:00-15:30
Questions & Answers

D.G. OPERATIONS, MARKETS AND PAYMENT SYSTEMS
13:45 - 14:30 Impact of the Monetary Policy Decisions

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

15:00 - 15:30 Impact of the Q&A (FG consistency)
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
2. Structural Reforms
3. Monetary Policy Information
4. Monetary Analysis
5. Administrative
6. Financial Markets
7. Price Information
8. Global Macro
9. Price Stability
10. Fiscal Consolidation
11. APP
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.
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Thank you for your attention!