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The reaction of asset markets to Swiss National Bank communication

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In this paper we analyze high-frequency movements in Swiss asset markets in reaction to real-time communication by the Swiss National Bank. Our analysis of central bank communication encompasses monetary policy announcements, speeches and interviews. We examine the reactions of the currency market, the bond market and the stock exchange. The evidence suggests that speeches and interviews, along with monetary policy announcements, engender a significant price reaction. This paper sheds light on the relevance of communications other than monetary policy announcements.

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1. Introduction

Communication by central banks has attracted considerable attention in the last few years. It is seen as instrumental in achieving transparency and a high degree of accountability. Moreover, by communicating their intentions, central banks affect the expectations of financial market participants and financial assets and thus increase the effectiveness of monetary policy (Blinder, 1998; Woodford, 2003; Bernanke, 2004). Ideally, monetary policy is able to respond less aggressively than would otherwise have been necessary.

In the last years, a burgeoning, mostly empirical, literature on central bank communication has developed. This paper contributes to this line of research by analyzing whether communication by Swiss National Bank (SNB) management affects Swiss asset markets using high-frequency data. The paper adds to the literature by investigating reactions of asset markets to official policy announcements, speeches and interviews using a new database derived from internal SNB information and

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external newswire reports. In addition, the study cross-check news reactions, employing both non-parametric techniques as well as established parametric methods.

The paper's findings are that SNB communication does indeed affect asset markets. They react not only to official policy statements but also to speeches and interviews. Market participants actively monitor and promptly respond to central bank communication. While official policy announcements cannot be used in a discretionary way, speeches and interviews allow the monetary authorities to flexibly inform market participants about past and ongoing economic activity as well as about impending policy. The policy conclusions of this paper are that communication tools may be seen as additional policy instruments which, however, have to be handled with circumspection.

This paper's conclusion is partially at odds with [Reeves and Sawicki \(2007\)](#) who found that in the UK, speeches and testimony to parliamentary committees are less informative than the Bank of England's Minutes and Inflation Report. The Swiss case also contrasts with [Kohn and Sack \(2004\)](#) who found a significant response in interest rate expectations to the Federal Open Market Committee and to then-Chairman Greenspan's testimony to Congress, but no reaction to ordinary speeches – the most comparable form of communication across countries.

After reviewing related research, this paper describes the SNB's monetary policy concept and its communication instruments. Next, it describes the data, followed by a presentation of the results. After a discussion of methodological limits to the empirical framework, it draws some conclusions.

2. Literature survey

There is a growing body of literature on macroeconomic news and financial assets. One line of research, to which our paper contributes, focuses on information emanating from central banks. [Guthrie and Wright \(2000\)](#) made an early contribution by investigating the impact of statements by the Reserve Bank of New Zealand on interest rates. [Bomfim \(2003\)](#) studied the influence of Federal Reserve announcements on the U.S. stock market. [Kohn and Sack \(2004\)](#) analyzed the response of various U.S. financial variables to FOMC statements accompanying interest rate decisions and to former chairman Greenspan's testimony to Congress. [Jansen and De Haan \(2005\)](#) analyzed the reaction of euro-dollar exchange rates to statements by the European Central Bank and national central bank officials. [Reeves and Sawicki \(2007\)](#) looked into the reaction of sterling interest rates to Bank of England communication. [Andersen et al. \(2007\)](#) explored the response of US, German and British stock, bond and foreign exchange markets to US macroeconomic news, including target announcements by the Federal Open Market Committee. [Ehrmann and Fratzscher \(2007a\)](#) studied the effects on asset prices from ECB announcements and press conferences and [Ehrmann and Fratzscher \(2007b\)](#) the impact of communication by the Federal Reserve, the Bank of England, and the ECB on interest rates. [Ehrmann and Fratzscher \(2009\)](#) assessed the impact of communication by the Federal Reserve on the level and volatility of interest rates along the US yield curve. Overall central bank communication has been found affecting substantially asset markets. Official statements, reports and minutes exhibit the clearest and most consistent effects. The evidence on speeches is more mixed while interviews have been studied only little. While some studies have reported significant effects of speeches on asset markets ([Ehrmann and Fratzscher, 2007b; Rozkrut et al., 2007; Andersson et al., 2006a,b](#)), neither speeches by then-Chairman Greenspan ([Kohn and Sack, 2004](#)) nor those by the Bank of England ([Reeves and Sawicki, 2007](#)) had significant effects on financial markets.

3. SNB's monetary policy concept and communication tools

The SNB's monetary policy concept, which grew out of 25 years of monetary targeting, consists of three elements. The first element is a definition of what the SNB considers compatible with price stability – a rise in the CPI of less than 2% per annum that acts as a nominal anchor. The second element is an inflation forecast issued quarterly following a monetary policy assessment. Monetary policy assessments are held in mid-March, mid-June, mid-September and mid-December ("scheduled decisions"). The third element is a published operational target range for the three-month Libor as a reference interest rate. Normally, this range has a width of 100 basis points. Additionally, the SNB

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