

The Pre-FOMC Announcement Drift

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discussion by

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Third BU/Boston Fed Conference on Macro-Finance Linkages

December 1, 2011

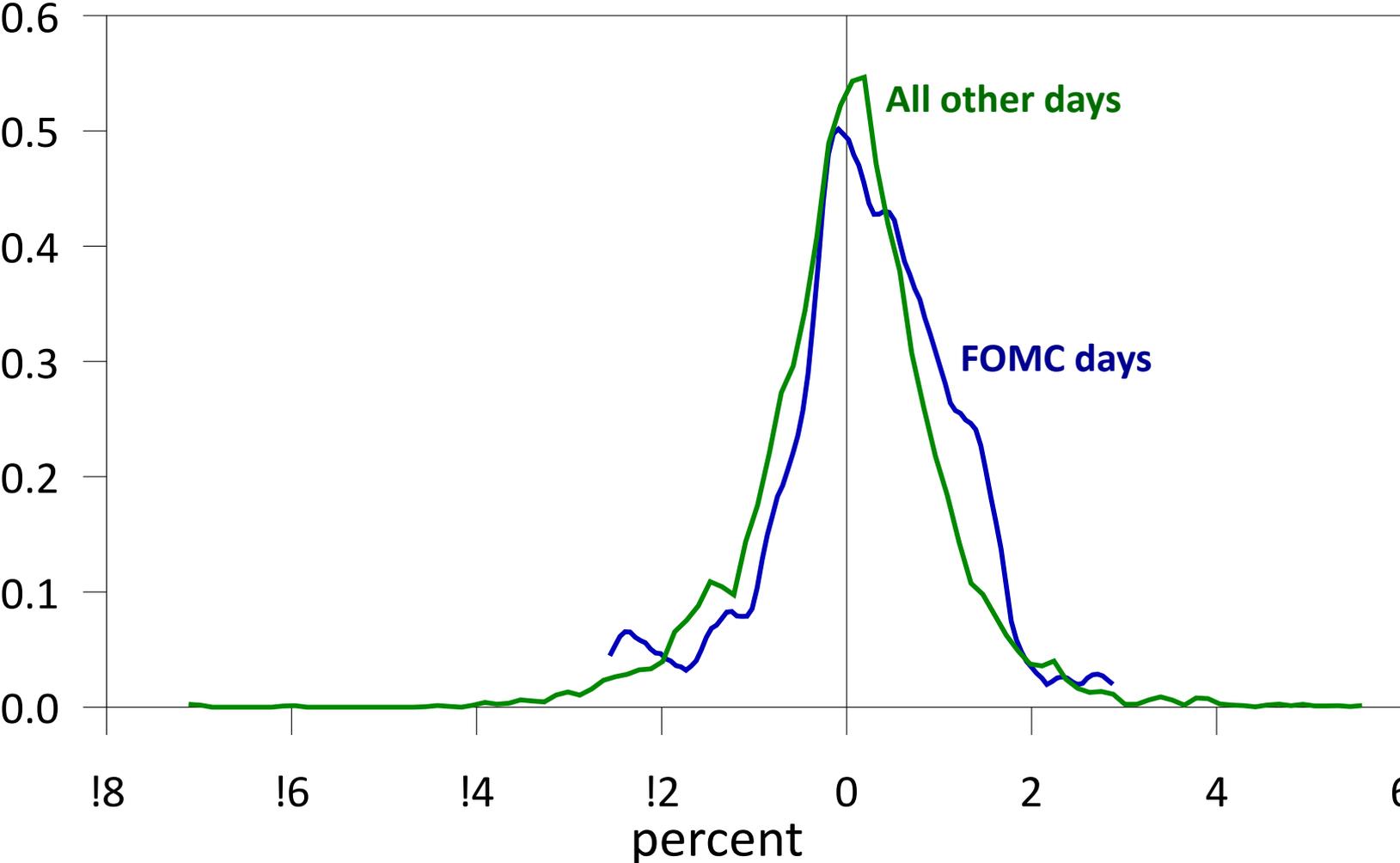
A new anomaly is discovered

- The paper shows that stocks exhibit abnormal returns on FOMC meeting days.
- It considers and dismisses several alternative explanations.
- Go forth and day trade!
- Use FOMC meeting frequency as a policy tool?

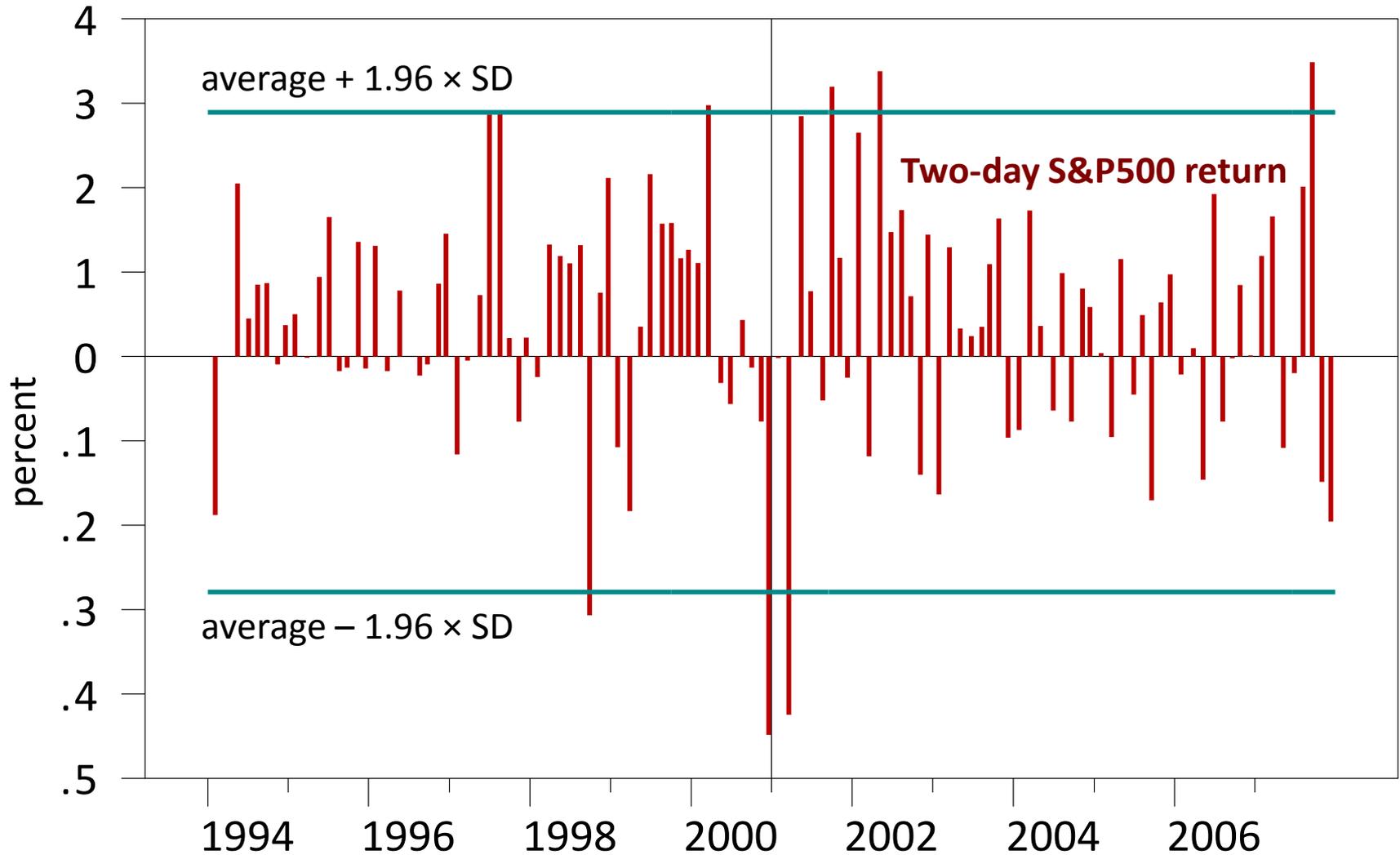
The main result

	One-day return, %	Two-day return, %
Non-FOMC days	0.025	0.049
FOMC days	0.216	0.395
Difference	0.191	0.346
p-value for difference = 0	0.04	0.01

Distribution of one-day stock returns



Not the result of an outlier or two



Some weird day-of-week effect?

- The majority of FOMC meetings are Wednesdays, some on Tuesdays or Thursdays.
- Regress two-day return on day-of-week dummies.

	Constant	FOMC	Tues	Wed	Thurs	Fri
Estimate	0.049	0.346				
(p-value)		(0.01)				
Estimate	0.074	0.350	-0.026	-0.029	-0.057	-0.010
(p-value)		(0.01)	(0.67)	(0.71)	(0.46)	(0.87)

Does it depend on the outcome?

- Change, no change
- Hike, cut, no change.
- Hike, cut, “disappointment,” “relief,” neither.
- Regress two-day return on various dummies.

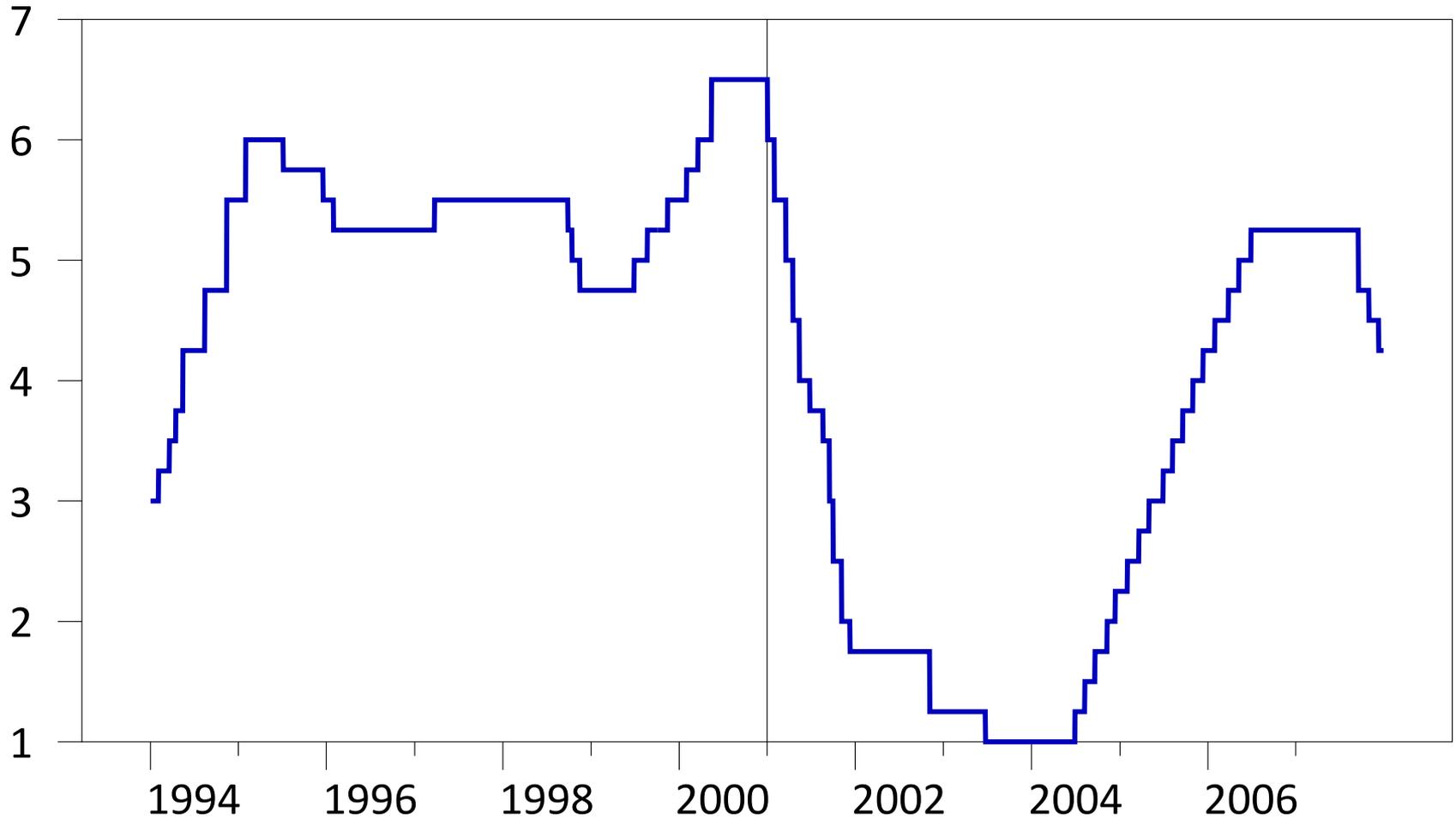
	Change (48)	No chg (64)	Hike (30)	Cut (18)	Relief (23)	Disappoint (13)	Neither (28)
Estimate	0.240	0.427					
(p-value)	(0.28)	(0.01)					
Estimate		0.427	0.336	0.080			
(p-value)		(0.01)	(0.11)	(0.86)			
Estimate			0.332	0.080	<i>0.432</i>	0.566	<i>0.359</i>
(p-value)			(0.11)	(0.86)	<i>(0.07)</i>	(0.25)	(0.09)

What about the “Kuttner Shocks”?

- Better to control directly for funds rate surprises.
- Regress *1-day* return on leads and lags of FOMC dummies, expected and surprise funds rate changes, and change in 3-month futures rate.

Lagged FOMC dummies						Expect	Surp	ΔFF3
-2	-1	0	1	2	Σ -1 to 1			
0.026	0.201	0.203	0.162	-0.022	0.566			
(0.78)	(0.03)	(0.03)	(0.15)	(0.81)	(0.001)			
0.029	0.203	0.137	0.165	-0.019	0.505	0.857	-7.70	-1.46
(0.75)	(0.03)	(0.15)	(0.14)	(0.82)	(0.003)	(0.09)	(0.000)	(0.72)

The funds rate target, 1994-2007



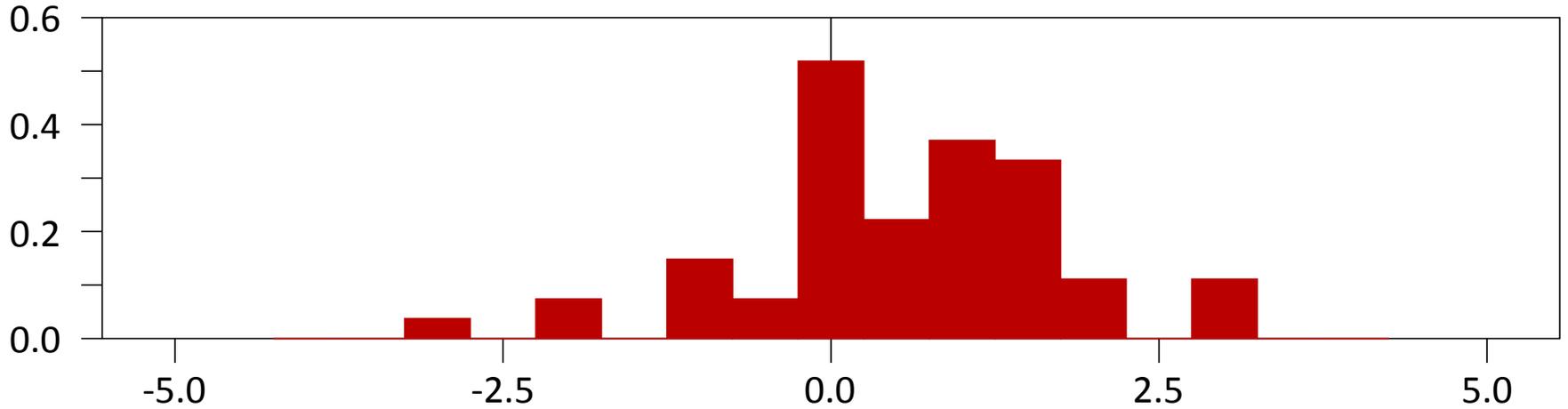
Subsample stability?

- Does it hold up post-2001? Post-2008?

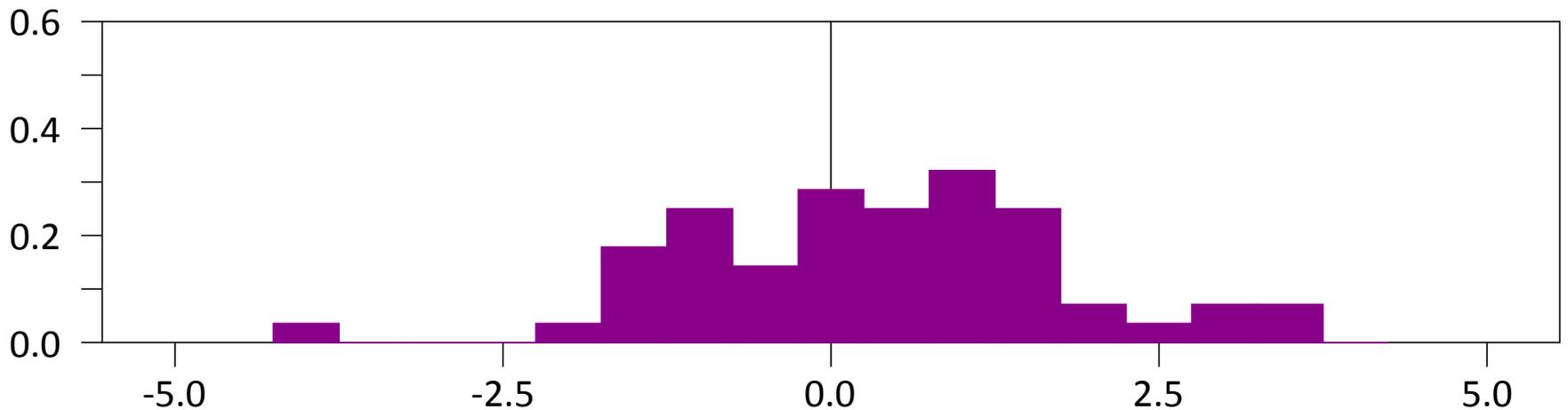
Sample	Lagged FOMC dummies						
	-2	-1	0	1	2	Σ -1 to 1	Joint
1994– 2000	0.007	0.361	0.260	0.096	0.035	0.717	
	(0.955)	(0.002)	(0.030)	(0.483)	(0.789)	(0.002)	(0.003)
2001– 2007	0.045	0.047	0.147	0.229	-0.076	0.422	
	(0.726)	(0.746)	(0.314)	(0.195)	(0.534)	(0.130)	(0.444)
2001– 20012	-0.042	-0.035	0.389	-0.087	0.003	0.266	
	(0.690)	(0.084)	(0.006)	(0.598)	(0.978)	(0.241)	(0.052)
2008– 2012	-0.170	-0.153	0.736	-0.540	0.115	0.043	0.019
	(0.346)	(0.689)	(0.006)	(0.067)	(0.633)	0.926	

Distribution is less lopsided post-2001

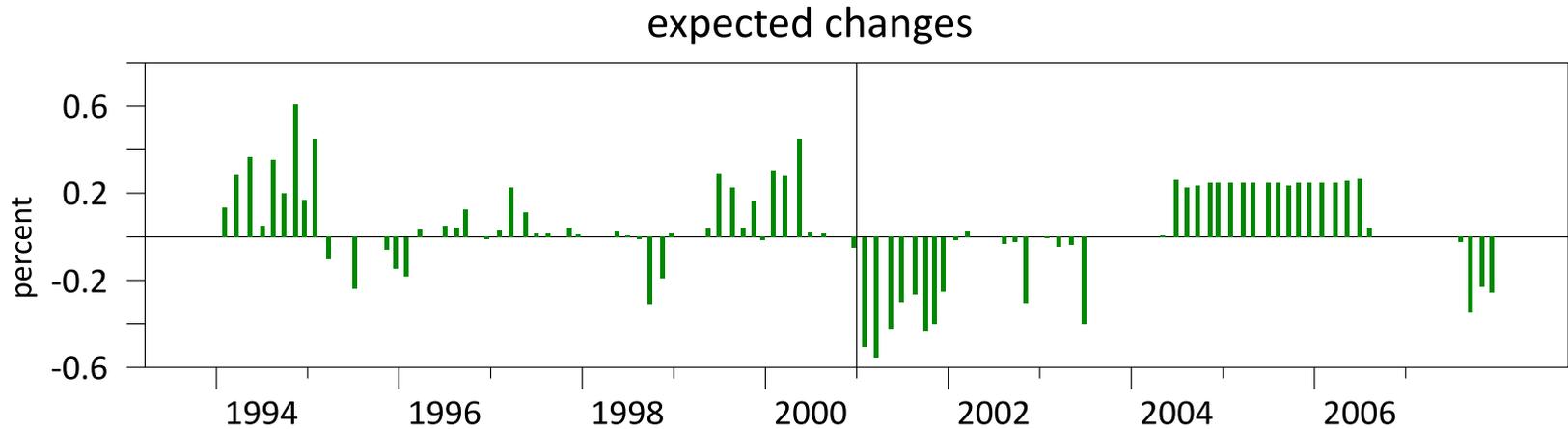
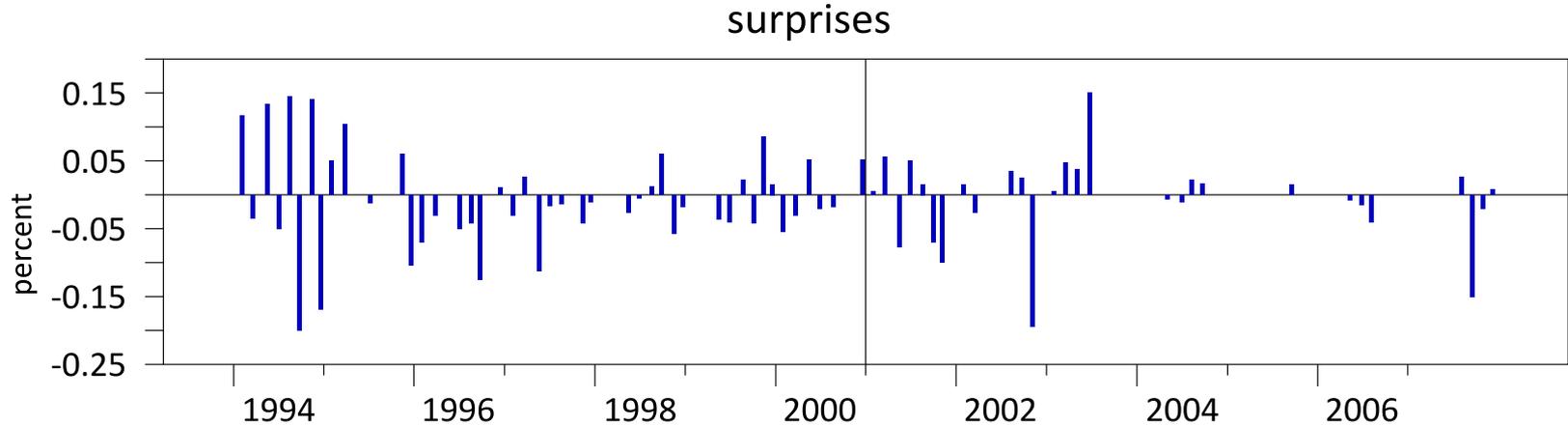
pre-2001



2001 to 2008



More predictable policy post 2001?



Conclusion

- Intriguing and disturbing.
- Withstands all sorts of robustness checks.
- Hard to explain.
- *But* may have weakened in recent years.