

Discussion of D'Amico and Seida (2022)  
“Unexpected Supply Effects of Quantitative Easing and Tightening”

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Federal Reserve Board

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“Evaluating the monetary-policy toolkit: lessons for the future”

The opinions expressed in this presentation are my own and do not  
reflect the views of the Board of Governors or its staff.

## Contribution of the paper

- ▶ Balance sheet policy (BSP) increasingly part of CB's standard toolkit
- ▶ However, many questions remain
  - ▶ Efficacy: financial market; macroeconomy
  - ▶ Channels: local supply; duration; signaling
  - ▶ State dependence: market conditions; QE vs QT
  - ▶ Persistence of effects
- ▶ Difficulties
  - ▶ Few observations
  - ▶ Market expectations
  - ▶ Concurrent shocks: CB information; FG
- ▶ Contributions of this paper
  - ▶ New methodology to estimate local supply effect
  - ▶ Try to address state dependence

## Summary of paper

- ▶ New measure of local supply effect; exploit kinks in event study responses of yields to BSP surprises
  - ▶ Select BSP events with kinks in yield responses
  - ▶ Construct supply surprises using pre- and post-event primary dealer surveys
  - ▶ Regress changes in slope of yield responses around kink on supply surprises around kink
- ▶ Explore state dependence of BSP
  - ▶ over time, across QE and QT, and across market conditions (volatility and market functioning)
- ▶ Findings:
  - ▶ Local supply effects explain large part of total effects in the literature
  - ▶ Effects for given surprises didn't diminish over time and is larger when market vol was above recent ranges.
- ▶ My comments
  - ▶ Very innovative idea!
  - ▶ Want to see more evidence that the identification works as intended

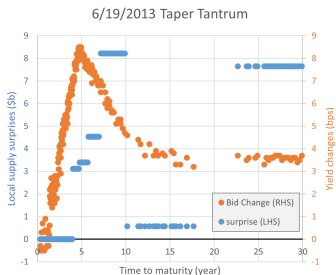
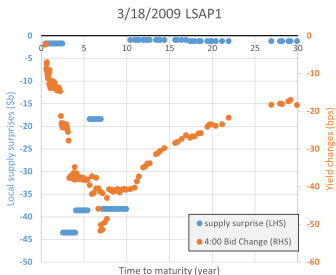
## #1: Do kinks in yield reaction coincide with kinks in supply surprise?

- ▶ Methodology similar to regression kink design
  - ▶ Examine induced kink in outcome variable (yield changes) due to kink in policy rule (supply surprises across maturities)
  - ▶ Departure: kink identified from outcome variable rather than policy rule
- ▶ Two relevant assumptions:
  - ▶ A1: Kink in outcome variables coincide with kink in policy variable
  - ▶ A2: No other variables cause kinks in the outcome variable

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A1: Kinks in outcome variable coincide with kink in policy variable

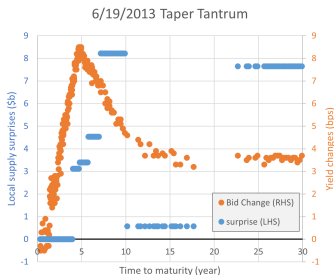
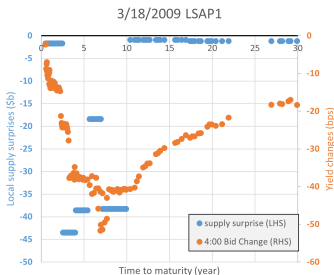
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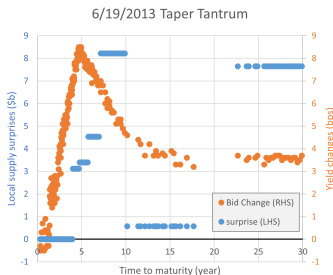
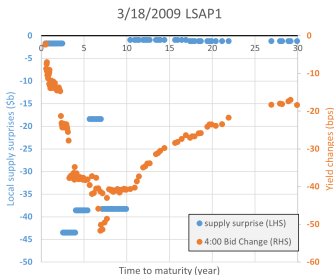


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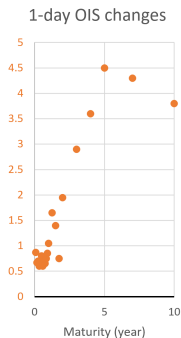
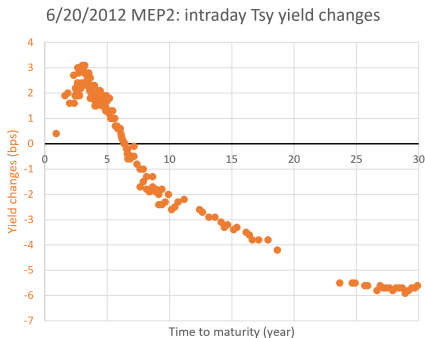
- ▶ BSP events without kinks (eg LSAP2): are there kinks in supply surprises?
- ▶ What drives the mismatch?
  - ▶ Paper refers to different degrees of market segmentation
  - ▶ Would be helpful to link to some market segmentation measures (eg yield curve fitting errors at different maturity sectors)

## #2: Could other factors drive/contribute to the kinks?

A2: No other variables cause kinks in the outcome variable

### 1. Kink effect in expected policy path

- ▶ Signaling effect of QE/QT announcements
- ▶ Other info in statement

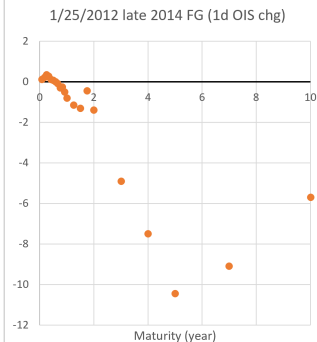
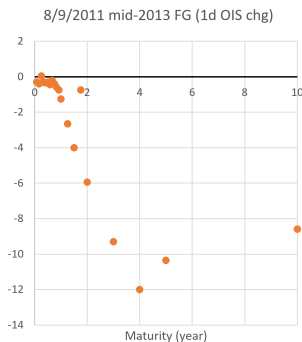




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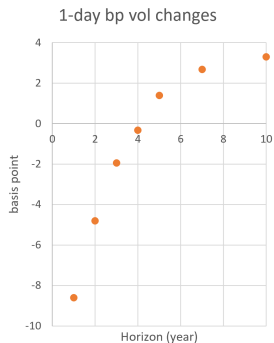
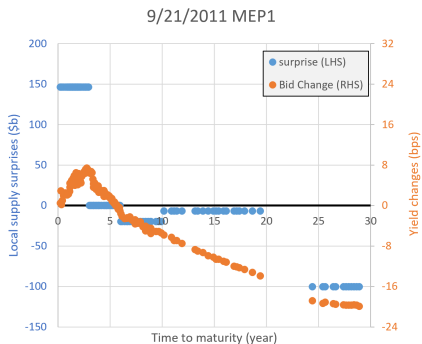
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- ▶ FG shocks could also cause a kink at intermediate horizons



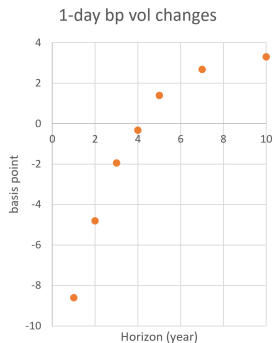
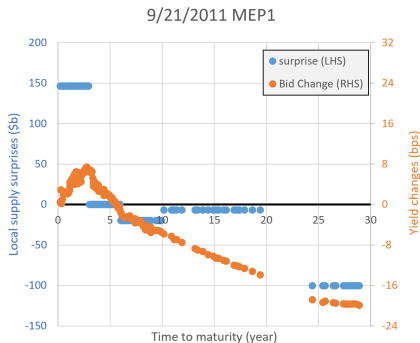
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## 2. Kink effect in interest rate uncertainty



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### 2. Kink effect in interest rate uncertainty



- ▶ Kink on its own is not a sign of local supply effects
- ▶ Would be helpful to control for those other factors

## #3: Specification and Theory

Empirical specification:

- ▶ Local supply surprise measure
  - ▶ Current measure: difference of supply surprises on two sides of kink
  - ▶ But: location of yield response kink should be at maximum local supply shock
  - ▶ Minor: MEP surprises seem to be calculated differently from other episodes

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### Theory/Motivation:

- ▶ King (2019): 1 demand shock, so effect will be increasing in maturities
- ▶ Extend to 2 shocks as in Vayanos-Vila (2021) to generate kinks/humps?



- ▶ Innovative methodology
- ▶ Important question
- ▶ Suggestions
  - ▶ Tighten the link between kinks of yield response and of supply surprises
  - ▶ Control for other confounding factors