Discussion of “What Defines ‘News’ in Foreign Exchange Markets?”
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The usual disclaimers apply.
1. Introduction

• Paper addresses an important issue
  – How important are “fundamentals” news vs. “non-fundamentals” news?
  – Direct effect vs. indirect effect (via order flow) on exchange rate
  – Effect on return vs. volatility

• My comments focus on
  – How well are “news” measured?
  – How much can we understand from this for the larger exchange rate puzzle (Meese & Rogoff)?
2. Measuring “news”

- 3 categories of news
  - Macro news “surprise” (signed)
  - “None-scheduled fundamentals” news and none-scheduled non-fundamentals” news (unsigned)

- Why are there so few “news” (~5 per day)?
  - Search criteria (“money”, “foreign exchange” and ”economics”) – are there more fundamentals?
  - Timing issue crucial: headline news versus news articles – same news but latter often with “considerable” delay – problem for 20-minute windows?
Measuring “news”

- Macroeconomic announcement news
  - Only US news?
  - Only one coefficient in model – assumption of same directional effects and same magnitude of effects for all types of macro news
3. Results

- **Overall results**
  - Some statistical significance of coefficients…
  - ...but very low contribution to overall goodness-of-fit

- **Mean equation (1)**
  - Puzzling to find effects of unsigned news – what does it mean?
  - High significance of Japanese interventions for US dollar – euro exchange rate (4 out of 10 significant variables)
Results

• “Volatility” equation (2)
  – “Volatility” measured as absolute exchange rate returns
  – High R-squared (> 0.30), likely explained mostly by persistence of volatility
  – What would results be when using conditional volatility (i.e. conditioning on news in mean equation)?
Results

• News effects via order flow (4) & (6)
  – $OF_t = f(\text{news}) + v_t$ \hspace{1cm} (4)
  – $v_t$ is interpreted as “non-news component of order flow”
  – Low R-squared of news in (4) interpreted as “order flow is largely not driven by ‘news’ ”
  – $\Delta s_t = f(\text{news}) + \beta v_t + \varepsilon_t$ \hspace{1cm} (6)
  – $v_t$ is highly significant in (6) – which is interpreted that “non-news” of order flow is important driving factor of exchange rates
  – Again: what are news?
  – How well are news measured (~5 per day)?

- E&L (2003) find that
  - two thirds of macro news are transmitted to exchange rates via order flow
  - versus this paper finds no significant effect of news via order flow

- Why such different results
  - E&L daily frequency, very broad set of macro news, use of heteroskedasticity approach that does not rely on measuring ex-ante expectations of news
5. Implications

- What do the results say about the Meese-Rogoff induced debate?
  - How well can we measure fundamentals and news?
  - Problem of “news” is that by definition they cannot be forecasted
  - What is the duration of effects found in the paper?
  - Ehrmann & Fratzscher (2005): limited explanatory power of macro news of daily exchange rate movements, but good *directional* explanation (~75%) of monthly changes

- Overall: nice paper, with several interesting avenues for extension