

Discussion of **The Term Structure of Monetary Policy Uncertainty**
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Wake Forest

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Overview

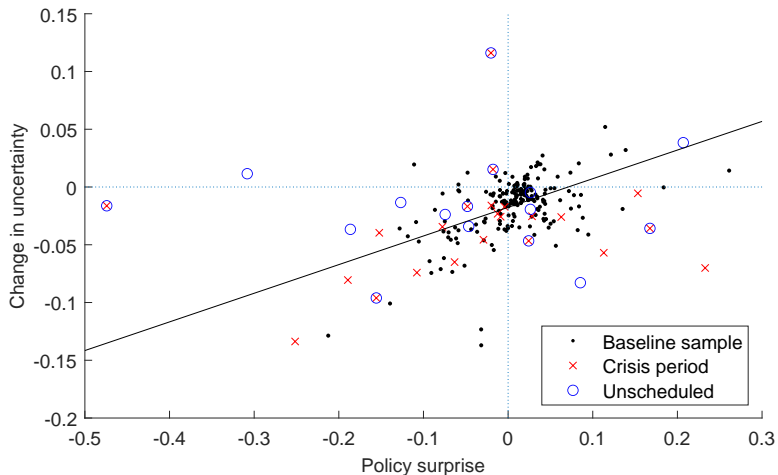
Use options on Eurodollar futures to construct monetary policy uncertainty measure

- Focus on full term structure rather than a single horizon
- EDX level (i.e. 2nd factor of mp uncertainty) matters for Treasury and forward rate reactions and for literature studying interaction effects
- Uncertainty measures help better identify forward guidance shocks

⇒ They show convincingly that monetary policy uncertainty is an important additional factor in the monetary transmission mechanism

Correlation of EDX with first-moment monetary shocks

From Bauer, Lakdawala & Mueller (2022): Δ EDX 4Q vs. Nakamura & Steinsson policy shock



Correlation of EDX with first-moment monetary shocks

My hunch: first moment monetary shocks highly correlated with EDX level

Table 4: Monetary Policy Surprises & The Term Structure of Monetary Policy Uncertainty

	Dependent Variable: Δ 10-yr Treasury Yield				
	Excluding First-Moment Monetary Policy Surprises		Including First-Moment Monetary Policy Surprises		
EDX Level	0.99*** [0.00]	0.99*** [0.00]	0.42** [0.01]	0.14 [0.27]	0.16 [0.31]
EDX Slope		1.51*** [0.00]	0.84*** [0.00]	0.62*** [0.00]	0.76*** [0.00]
Δ 2-yr Target			0.65*** [0.00]	0.00 [0.99]	
Path				0.60*** [0.00]	
PNS					0.56*** [0.00]
R ²	0.14	0.32	0.57	0.59	0.55
EDX F-test	[0.00]	[0.00]	[0.00]	[0.00]	[0.00]

Correlation of EDX with first-moment monetary shocks

This correlation matters for understanding interaction results:

	Dependent Variable: Δ 10-yr Treasury Yield	
EDX Level	0.54*** [0.00]	0.53*** [0.00]
EDX Slope		0.72*** [0.00]
Δ 2-yr	1.03*** [0.00]	0.99*** [0.00]
Δ 2-yr x L EDX 4Q	-0.27* [0.08]	-0.10 [0.64]
Δ 2-yr x L EDX 5Q-1Q		-0.28 [0.50]
R ²	0.55	0.58
EDX F-test	[0.00]	[0.00]

Conclusion

Very nice paper!

- We should convince the broader empirical monetary field to start using these second moment shocks