General Discussion of 'Measuring Global Interest Rate Comovements with Implications for Monetary Policy Interdependence'

Participants were surprised at the low magnitude of the interdependence of interest rates. Several directions were suggested to tease out additional information about the result relating to: the frequency of the data, subsampling the data, and consideration of the relative exchange rate and interest rate effects.

It was noted that the shadow interest rates used related to monthly data, however, higher frequency data may allow for a cleaner interpretation of genuine co-movement in interest rates across countries.

For subsampling, participants touched on two potential ways to split the data: conditioning on the stance of policy (i.e. expansionary or contractionary episodes) and removing Japan from the panel given the country's unique experience and lack of co-movement with other countries.

Exchange rate effects were also noted as important for understanding co-movement given that exchange rate adjustment can take the place of market pressure for yields to equalise.

Dr Fry-McKibbin noted that these results were conditioned on a number of macroeconomic variables, and there is follow-up work underway that intends to unpick the relationship between these including through exchange rates. There is also a separate paper considering exchange rate and interest rate differentials. Furthermore, looking at higher frequency data would be of interest, but it does remove the ability to condition on macroeconomic variables – implying a trade-off between the approaches.

Participants also discussed whether these insights can be used to understand the risk of US Treasuries losing their special status. It was agreed that such an episode would involve either a significant change in general global risk profiles or another asset being seen as the low-risk reserve asset. As a result, this would constitute a state change, where the current set of co-movements are conditional on the current state – meaning that this cannot necessarily inform contagion risk.