

The impact of central bank intervention on forecast heterogeneity

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We investigate the impact of central bank intervention in the foreign exchange market on forecast heterogeneity. Building measures of market heterogeneity from a sample of forecasts made by a large number of commercial banks over two recent periods for the DEM or EUR and the JPY against the USD, we show that in general, forecast heterogeneity increases as a result of interventions, whether unexpected (DEM-EUR) or expected (JPY). Our results also emphasise the important role played by rumours, especially in the YEN-USD market. Hence, official interventions are shown to move market opinions, albeit differently for the two markets.
