How do non anticipated E.C.B. and FED actions affect the EUR/USD dynamics?

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In this paper, we investigate the effects of the Federal Reserve, the Bundesbank, and the European Central Bank Actions on the USD/DEM and the EUR/USD dynamics over the 1992-2001 period. By Central Bank Actions (CBA), we speak about a large definition of interventions, among which interventions on currency reserves, interventions on the monetary market and interventions through official speeches. We test many models considering whether interventions on currency reserves have been anticipated or not by the market, whether these interventions are achieved together with other policy tools (monetary policy and/or official speeches), and whether central banks intervene on currency reserves in concert with other monetary authorities. We also test the effect of intervention rumours on the USD/DEM and the EUR/USD dynamics. To this aim, we rely on a new measure of volatility implied by the FIGARCH model that outperforms the traditionally used GARCH one. The results indicate that the Fed interventions have a stabilizing effect on the volatility when they are not anticipated by the market or when they are associated with an official speech. inversely, the Bundesbank interventions coupled with an official speech have a destabilizing impact on the market. We find too that concerted interventions are associated with an increase in volatility, whereas unilateral interventions of the Bundesbank tend to reduce the volatility over the 1992-2001 period, this effect being devoted to the recent period 1999-2001.

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