

US Monetary Policy Announcements and the Term Structure of Interest Rate Differentials. Some New Evidence from the Futures Market.

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Abstract

This paper investigates the effect of US monetary policy announcements on the term structure of US interest rate differentials with Hong Kong SAR and Singapore. US monetary policy shocks are measured by using data from short-term interest rates futures markets around FOMC dates. Our results, based on careful treatment of interest rates endogeneity and time-varying risk premia in futures markets, confirm that US monetary policy surprises significantly affect the term structure of interest rates. Our results also suggest that the dynamics of US interest rate differentials is determined by the relative magnitude of interest rates' response to unanticipated US monetary policy changes in each country. The implications of these results for the validity of the expectations hypothesis of the term structure of interest rates and the uncovered interest parity are discussed.

JEL classification: E43, E44, E52, F31, G13.

Keywords: Monetary Policy, Interest rate futures, Term structure of interest rates, Uncovered interest parity.