

## IBSS RESEARCH SEMINAR

*Organized by: RCE 4 Data Analytics and Modelling*

### Thus spoke FOMC: The Fed and Sovereign CDS Spread

#### Abstract

We study how sovereign credit default swaps (SCDS) respond to central bank communications. Employing a GPT-based NLP communication measure, we find that dramatic changes in the Federal Open Market Committee's (FOMC) hawkish or dovish stance, as conveyed through the FOMC speeches and meeting statements, have provided useful information, influencing the trajectory of SCDS spreads. When the FOMC is already in an extremely hawkish or dovish position, the market overreacts and requires time to absorb the information and take appropriate actions. Asymmetries exist in the direction of central bank communications. The hawkish voice shifts provide signals, meanwhile, the dovish tone shifts indicate noises. Our findings highlight the significance of the application of large language models and provide implications for improving the effectiveness of central bank guidance.

#### Presenter

Dr. Jian Li is currently an associate professor at the Institute for Advanced Economic Research, Dongbei University of Finance and Economics. He received a Ph.D. in Economics from Goethe University Frankfurt Germany. His research interests are monetary policy, household finance, capital flows and ageing, financial stability, and innovation economics. His work has been published on major journal in economics and finance, such as Journal of Banking & Finance, European Economic Review, Journal of Empirical Finance, and Macroeconomic Dynamics.

#### Date:

14 March 2025

#### Time:

14:00-15:30 (China Standard)

#### Location: BS 574