

Analysis of Financial Market Responses to Economic News

— Centering around Stock and Bond Futures Markets

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This study examines market responses to economic news, based on five-minute intraday data. For a more detailed analysis, the study analyzes how external variables, such as economic conditions and the degree of financial instability, as well as market participants' expectations, including news shocks and estimated standard deviations, affect such responses.

According to the results of the analysis, news shocks falling short of or exceeding market expectations affect volatility and extreme price fluctuations (jumps) in the bond markets more significantly than those in the stock markets. Meanwhile, news shocks and estimated standard deviations of individual indicators have different influence on the financial markets depending on the economic phase and the degree of financial instability, which confirms that these external variables are necessary in analyzing financial market responses.

In light of this, understanding expert expectations of certain indicators in advance will help in predicting and responding to market responses when these indicators are released. However, as such responses can vary depending on the economic phase and the degree of financial instability, these external variables should be closely monitored. Meanwhile, Base Rate announcements have increased bond market volatility significantly when news shocks exceed expectations or estimated standard deviations are large amid high financial market instability. Given that the Base Rate is the indicator to which market participants are most sensitive, when the financial markets are highly unstable, communications can be made to adjust market participants' expectations and thus reduce bond market volatility upon a Base Rate announcement.

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