

CHAPTER VI

CONCLUSIONS AND SUGGESTIONS

6.1 Conclusions

The impacts of macroeconomic news on asset returns have been documented in the empirical literature. As macroeconomic announcements reveal new information that not previously incorporated into asset prices, market participants will realize the difference between the actual value and their expectation and consequently adjust their expectation. The investigations of the source of time-varying risk premium have received attention as it will be useful to define factors that reflect time-varying risk premium, and thus use in the asset pricing model. Studying the impact of macroeconomic announcement is also interesting for market efficiency issue. If the market is efficient, prices of financial instruments should adjust to new information immediately after such information is announced. Lagged adjustment, on the other hand, suggests market inefficiency.

In this paper, I study the impact of macroeconomic announcements on Thai government bond and stock returns by examining the effect on risk premiums and volatilities of government bond and stock simultaneously based on the bivariate GARCH-M estimation. This paper also examines how quickly government bond and stock markets react to new information. Finally, this paper investigates whether stock and government bond react to the information content of announcements. The types of announcements in this paper include the news about real economy, inflation, confidence index, and export-import measures.

Based on the bivariate GARCH-M estimation without macroeconomic news dummy variables, the results do not exhibit time-varying risk premiums of stock and government bond. When the bivariate GARCH-M is estimated with macroeconomic news dummy variables, risk premium of government bond is found to be time-varying with covariance risk on macroeconomic announcement days. Specifically, government

bond exhibits significant positive risk premium to conditional covariance on macroeconomic announcement days. Meanwhile, macroeconomic announcements cannot explain time-varying risk premium of the SET index.

Macroeconomic announcements are found to be sources of time-varying variances for stock and government bond, as well as time-varying covariance between stock and bond. Stock volatility exhibits a significant increase on macroeconomic announcements days, while government bond volatility exhibits a significant increase on the day prior to macroeconomic news releases. The results support the hypothesis that market participants adjust their expectation according to the new information released. Furthermore, there is evidence that shocks to volatility that occur on announcement days have a subsequent impact on daily volatility of the SET index. This finding differs from those found in developed markets. While the developed market literature finds that market reactions are generally efficient, the reaction of Thai stock market is quite far from efficient.

In addition, covariance between stock and bond markets significantly decreases on macroeconomic announcements dates. This may be explained by the "flight-to-quality" pattern, when risk aversion increases, investors adjust their portfolio to include more safe assets and fewer risky assets. As a result, government bond prices go up and stock prices fall.

When separating news effects into each type of information content, BOT press release on economic conditions and inflation announcement are sources of time-varying conditional variance of the SET index. Meanwhile, news release on inflation data can explain time-varying conditional variance of the the government bond index. In addition, GDP announcement generates a significant change in conditional covariance between stock and government bond.

6.2 Suggestions

A significant impact of macroeconomic announcement on stock and bond markets provides the implication for a variety of investments, risk management, and hedging decisions. As macroeconomic announcements generate shock to volatility of Thai stock and bond markets, there may be demand for derivative instruments. For example, based on the evidence that asset price volatility will move significantly on macroeconomic announcement dates, investors can take long positions in put and call option on the asset.

For theoretical perspective, macroeconomic announcements as a source of time-varying risk premium and volatility seem to have implication for asset pricing as well as option pricing model. As macroeconomic announcements cause risk premium to vary over time, the asset pricing model, such as CAPM, should incorporate macroeconomic factors to reflect time-varying risk premium. Also, time-varying volatility with macroeconomic announcement may be incorporated into the option pricing models.

Future research in this field may consider the cross-country impact of macroeconomic announcements. For example, events in the US economy are frequently taken as a leading indicator in other economies. As such, it is possible that the US macroeconomic announcements may have an impact on other economies.