

BOOK CHAPTER

Business Cycles and the Impact of Macroeconomic Surprises on Interest Rate Swap Spreads: Australian Evidence

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This study examines the response of Australian interest rate swap spreads to the arrival of macroeconomic news information during the economic expansion and contraction periods. We find that the impact of news announcements on swap spread change differs and largely depends on the state of the economy. The unexpected inflation rate is the only news released that has significant impact on swap spreads across all maturities during contractions and remains the important news announcement throughout the business cycles, while the unanticipated unemployment rate tends to be more relevant to 10-year swap and the unanticipated change in money supply tends to be more relevant to 4- and 7-year swaps during expansions. We also find shocks from these news surprises appear to have significant impact on the conditional volatility of the swap spread change during both economic phases. The macroeconomic shocks in general are negatively related to the conditional volatility of the swap spread change, suggesting that the newsworthy announcements tend to reduce uncertainty on the news announcement days in the swap market during expansion and contraction periods.

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