Attention, Uncertainty Reduction and Pre-announcement Premium in China

Rui Guo, Dun Jia, Xi Sun*

This Draft: August 5, 2019

Abstract

This paper examines Chinese stock market returns in an environment in which the dates of central bank’s information supply through public announcements are not pre-fixed. We document that positive excess returns accumulate for 3 days before China’s central bank releases data of monetary aggregates, which may be announced either early or late in a month. This pre-announcement premium appears sizable, has a longer duration than that of the pre-FOMC premium in the U.S., and is not driven by potential data leakages or expectation changes. We present a model to account for this premium by highlighting the channel of investors’ information demand given unscheduled deliveries of announcements. As investors with limited attention find it optimal to learn about data ahead of announcements, increasingly focused attention drives down market uncertainty and boosts equity prices. We show that China’s setting of “quasi-scheduled” central bank announcements provides the exact data structure for us to test the key model mechanism of an information demand channel, which helps rationalize the empirics found for both China and the U.S.

JEL codes: E44, E52, G14

Key Words: Equity Premium, Macro Announcement, Monetary Policy, Inattention

*Guo: Hanqing Institute of Economics and Finance, Renmin University of China. Email: rui.guo@ruc.edu.cn.
Jia (Corresponding Author): Hanqing Institute of Economics and Finance, Renmin University of China. Email: dun.jia@ruc.edu.cn.
Sun: Hanqing Institute of Economics and Finance, Renmin University of China. Email: xi.sun@ruc.edu.cn. We benefited from discussions with Hengjie Ai, Liyan Yang, Tao Zha, Jun Qian “QJ”, Christopher Polk, Xiaoji Lin, Howard Kung, Shiyang Huang, Grace Xing Hu, George Jiang, Zhigang Qiu, Hongda Zhong, and Jianyu Leyla Han. We thank comments from participants at various conferences and seminars. All errors are ours. This paper was previously circulated under the title of “Monetary Announcement Premium in China”.