

Table 7 – continued

	Panel B. High liquidity risk portfolio return			Panel C. Low liquidity risk portfolio return			
	EW	VW	VW	EW	VW	VW	
ΔFFF (in %)	-5.389**	-4.681***	-3.175*	-3.922*	-1.079	0.609	0.631
U.S. bank claims	-2.45	-2.59	-1.89	-1.95	0.44	0.24	0.28
	-0.005	-0.006*		0.001	0.003		
$\Delta FFF \times$ U.S. bank claims	-1.24	-1.79		0.28	0.95		
	-0.190***	-0.167**		0.027	0.063**		
U.S. portfolio flows	-3.10	-2.16		0.93	2.36		
				-0.002		-0.002	-0.004***
$\Delta FFF \times$ U.S. portfolio flows				-0.63		-1.24	-3.13
				0.023	0.028	0.019	-0.001
Local market return	0.994***	1.018***	1.009***	0.984***	0.804***	0.771***	0.799***
Local market volatility	17.11	16.98	16.62	16.81	20.11	20.99	19.70
Local market illiquidity	0.061	0.166	0.114	0.011	-0.301*	-0.378*	-0.301*
	0.13	0.38	0.26	0.02	-1.69	-1.69	-1.81
Global MKT-Rf	-0.883	-0.977	-0.908	-0.802	-0.458	-0.505	-0.454
	-1.09	-1.12	-1.01	-0.98	-0.89	-0.89	-0.88
	0.116***	0.131***	0.131***	0.117***	0.038	0.077**	0.041
Global SMB	2.65	3.08	3.08	2.76	1.04	2.20	1.10
	0.628***	0.528***	0.543***	0.651***	0.261***	0.421***	0.279***
Global HML	6.83	6.96	7.12	7.23	7.04	7.81	7.76
	0.075	0.051	0.061	0.087	0.163***	0.163***	0.147***
Global WML	1.19	0.89	1.02	1.36	3.09	3.05	2.99
	-0.219***	-0.202***	-0.209***	-0.229***	-0.036*	-0.076***	-0.043**
	-5.98	-6.20	-6.48	-6.31	-1.88	-3.42	-2.20
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2 (%)	66.9	70.7	70.0	66.3	71.2	66.5	71.0
# Obs.	7,511	7,511	7,891	7,891	7,511	7,891	7,891
# Countries	41	41	40	40	41	40	40

Table 8. ECB monetary policy shocks and local market liquidity risk premia in the Euro area.

This table shows the results of panel regressions of the liquidity risk premium in 11 Euro area stock markets on ECB monetary policy shocks interacted with excess claims of Euro area banks on the country of interest over the period 1995:01-2013:12. The dependent variable in Panel A is the monthly local market liquidity risk premium in each of the 11 markets, defined as the difference in the returns of portfolios of stocks with high and low liquidity risk (in US\$ and in % per month; see Table 2). The dependent variable in Panel B (Panel C) is the monthly return of the portfolio of stocks with high (low) liquidity risk. The key independent variable to proxy for changes in the monetary policy of the Euro area is the first difference in the European Central Bank (ECB) overnight deposit rate (in %). The interaction variable to assess the “bank channel” is the excess claims of Euro area banks on the country of interest, defined as the consolidated claims, on immediate borrower basis, of Euro area banks on each country, obtained from Table B4 of the Bank for International Settlements (in US\$ billions; see Table 6). This variable is de-trended by regressing it on a time trend over the sample period for each country and the data of most recent past quarter is matched with the current month liquidity risk premium. All panel models further include the following control variables: the local market return, volatility, and illiquidity (see Table 1) and the global market (MKT-Rf), size (SMB), value (HML) and momentum (WML) factors from Ken French’s website. All panel models include country fixed effects. Panels A, B, and C each report the following results based on both the equally-weighted (EW) and the value-weighted (VW) average liquidity risk premia and returns of the high and low liquidity risk portfolios: coefficients, *t*-statistics based on standard errors that are clustered by country and month (in italics below the coefficients), adjusted *R*², the number of country-month observations, and the number of countries included in the panel models. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Panel A. Liquidity risk premium		Panel B. High liquidity risk portfolio return		Panel C. Low liquidity risk portfolio return	
	EW	VW	EW	VW	EW	VW
ΔECB target rate (in %)	-1.980 *	-0.916	-2.482 ***	-1.159 *	-0.503	0.096
	-1.92	-0.91	-4.45	-1.95	-0.45	0.10
Euro area bank claims	0.001 *	0.002	0.000	0.001	-0.001	-0.001
	1.94	1.53	0.31	1.15	-1.33	-1.04
ΔECB target rate	-0.006	-0.018 **	-0.002	-0.009	0.004	0.008
× Euro area bank claims	-1.00	-2.48	-0.18	-0.88	0.56	1.35
Local market return	0.165 ***	0.163 **	0.810 ***	0.891 ***	0.646 ***	0.728 ***
	3.06	2.30	5.41	6.36	4.89	5.11
Local market volatility	0.226	-0.110	0.333	0.117	0.108	0.227
	0.77	-0.24	0.74	0.25	0.30	0.64
Local market illiquidity	-0.411	-0.246	-0.842	-0.743	-0.431	-0.497
	-0.68	-0.43	-0.96	-0.76	-1.42	-1.36
Global MKT-Rf	0.093	0.111	0.289 *	0.258 *	0.196	0.147
	1.34	1.03	1.73	1.75	1.32	0.90
Global SMB	0.249 **	0.249 **	0.737 ***	0.591 ***	0.488 ***	0.342 ***
	2.60	2.46	7.11	6.61	4.47	3.84
Global HML	0.039	0.098	0.339 **	0.328 ***	0.300 **	0.230
	0.51	0.99	2.57	2.78	2.44	1.47
Global WML	-0.180 ***	-0.205 ***	-0.256 ***	-0.233 ***	-0.076 ***	-0.028
	-3.00	-2.73	-4.00	-3.67	-2.85	-1.23
Country FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R ² (%)	15.9	14.1	69.2	73.0	65.2	68.6
# Obs.	1,815	1,815	1,815	1,815	1,815	1,815
# Countries	11	11	11	11	11	11

Table 9. U.S. monetary policy shocks and local market illiquidity premia.

This table shows the results of panel regressions of the illiquidity premium in 41 stock markets on U.S. monetary policy shocks over the period 1995:01-2013:12. The dependent variable is the monthly local market illiquidity premium in each of the 41 markets in the sample, defined as the difference in returns of the portfolios of stocks with high and low illiquidity, obtained from the two-dimensional sorting based on size and illiquidity. In Panel A, the proxy for U.S. monetary policy shocks as key independent variable is the contemporaneous monthly change in the Federal Funds futures rate, defined as the cumulative change in the implied Federal Funds futures (FFF) rates around FOMC meetings held within the month (in %; see Table 4). In Panel B, the monetary policy proxy is a dummy variable indicating months with U.S. monetary policy expansions, defined following Jensen and Moorman (2010) to be equal to one from the month of a decrease in the U.S. Federal Fund rate until the month in which an increase in the rate is made, and zero otherwise. The interaction variable to assess the “bank channel” is the excess claims of U.S. banks on the country of interest, defined as the consolidated claims, on immediate borrower basis of U.S. banks on each country, obtained from the Table B4 of the Bank for International Settlements (in US\$ billions; see Table 6). All panel models further include the following control variables: the local market return, volatility, and illiquidity (see Table 1) and the global market (MKT-Rf), size (SMB), value (HML) and momentum (WML) factors from Ken French’s website. Panels A and B each report the following results based on both the equally-weighted (EW) and the value-weighted (VW) average illiquidity premia: coefficients, *t*-statistics based on standard errors that are clustered by country and month (in italics below the coefficients), adjusted *R*², the number of country-month observations, and the number of countries included in the panel models. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Panel A. Illiquidity premium & ΔFFF monetary policy proxy		Panel B. Illiquidity premium & JM monetary policy proxy	
	EW	VW	EW	VW
Monetary policy proxy	-1.220 <i>-0.72</i>	-1.928 <i>-1.17</i>	0.181 <i>1.08</i>	0.151 <i>0.88</i>
U.S. bank claims	-0.000 <i>-0.43</i>	-0.001 <i>-0.48</i>	0.004 <i>1.00</i>	0.005 <i>0.91</i>
Monetary policy proxy × U.S. bank claims	0.009 <i>0.35</i>	0.000 <i>0.01</i>	-0.010 <i>-1.64</i>	-0.013* <i>-1.92</i>
Local market return	-0.194*** <i>-5.04</i>	-0.206*** <i>-5.60</i>	-0.194*** <i>-5.03</i>	-0.206*** <i>-5.59</i>
Local market volatility	-0.934*** <i>-4.55</i>	-0.847*** <i>-4.26</i>	-0.956*** <i>-4.62</i>	-0.859*** <i>-4.29</i>
Local market illiquidity	-0.804*** <i>-2.55</i>	-1.063** <i>-2.23</i>	-0.818*** <i>-2.63</i>	-1.072** <i>-2.23</i>
Global MKT-Rf	-0.007 <i>-0.20</i>	0.015 <i>0.42</i>	-0.007 <i>-0.18</i>	0.015 <i>0.41</i>
Global SMB	0.210*** <i>4.01</i>	0.214*** <i>4.14</i>	0.203*** <i>3.97</i>	0.206*** <i>4.17</i>
Global HML	0.078* <i>1.72</i>	0.123 <i>2.55</i>	0.077 <i>1.71</i>	0.123** <i>2.54</i>
Global WML	0.065*** <i>2.80</i>	0.041 <i>1.50</i>	0.064*** <i>2.75</i>	0.041 <i>1.46</i>
Country FE	Yes	Yes	Yes	Yes
Adj. R ² (%)	10.4	9.7	10.5	9.7
# Obs.	7,506	7,506	7,506	7,506
# Countries	41	41	41	41

Figure 1. Dynamics of liquidity risk premia.

This figure shows the dynamics of the liquidity risk premium in emerging markets (Panel A), developed markets (Panel B), and for the NYSE (Panel C) over the period 1995:01-2013:12. The local market liquidity risk premium depicted in this figure is the six-month moving average of the difference in the monthly returns of portfolios of stocks with high and low liquidity risk (in US\$ and in % per month; see Table 2). Panels A and B show the average of this six-month moving average local market liquidity risk premium across, respectively, the 17 emerging markets and the 26 developed markets in our sample. Each panel shows both the equally-weighted (EW) and the value-weighted (VW) liquidity risk premium.

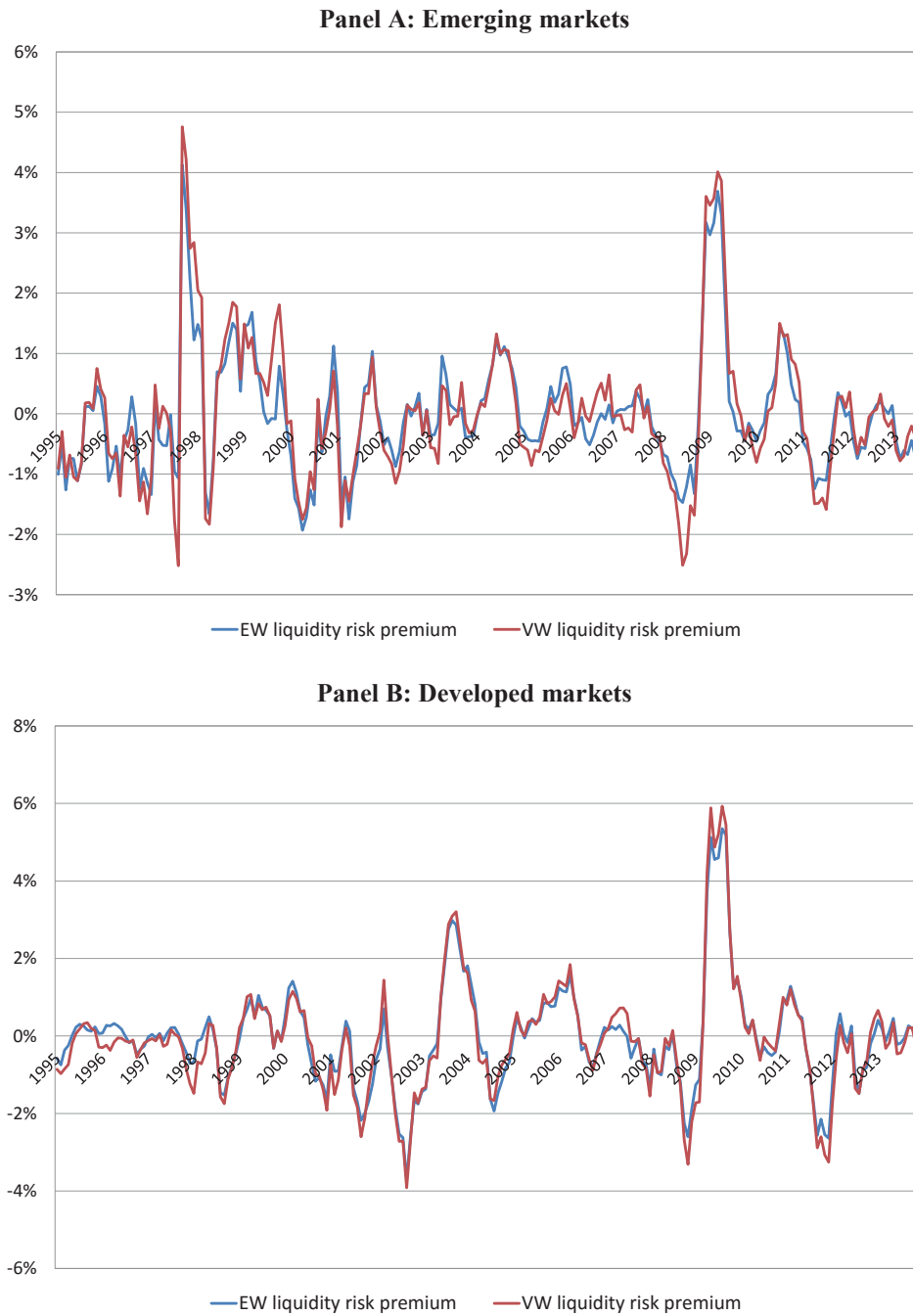


Figure 1 – continued.

Panel C: NYSE

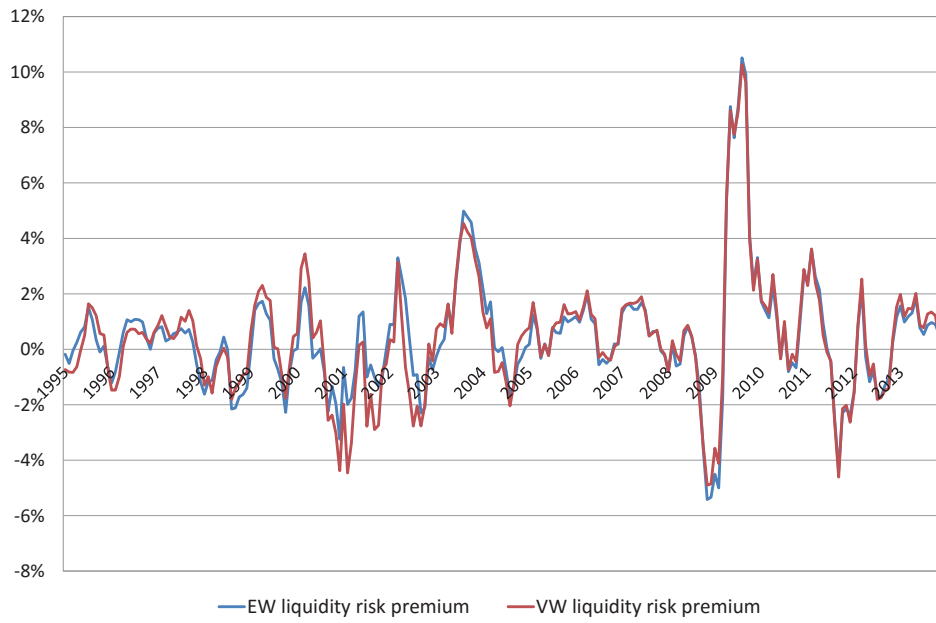


Figure 2. Changes in the Federal Funds futures rate (%) around FOMC meetings.

The figure shows the dynamics of our key proxy for U.S. monetary policy shocks: monthly changes in the Federal Funds futures rate over the period 1995:01-2013:12. Changes in the Federal Funds futures rate (in %) are defined as the difference between implied rate on day $d+1$ and implied rate on day $d-1$ in month t , where implied rate is obtained by “100-Federal Funds futures price” since Federal Funds futures price is “100-implied future interest rate”. The dates $d+1$ and $d-1$ are one day before and after the FOMC meeting, respectively, in month t . If multiple FOMC meetings were held in a given month, the daily changes are cumulated for that month.

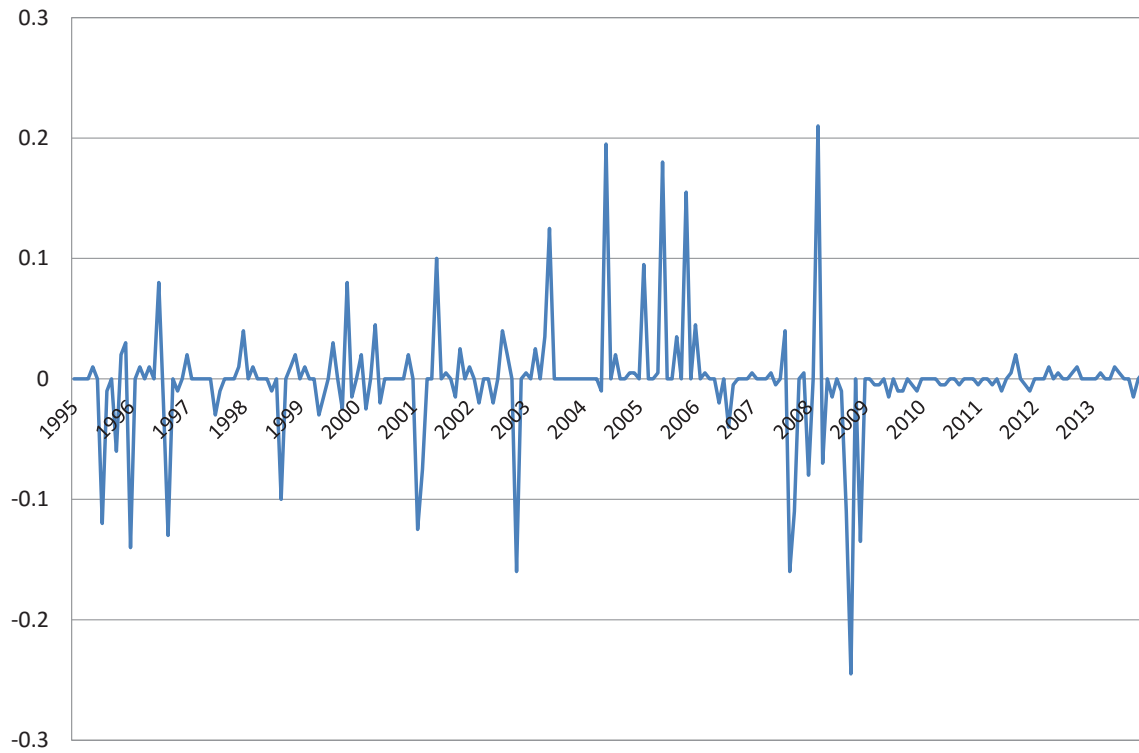


Figure 3. Aggregate claims of U.S. banks on all countries.

The figure shows the dynamics of our key variable to assess the “bank channel” of U.S. monetary policy transmission: aggregate claims of U.S. banks on all 41 countries in our sample over the period 1995:Q1-2013:Q4, defined as the consolidated claims, on immediate borrower basis, of U.S. banks on each country, obtained from Table B4 of the Bank for International Settlements (in US\$ billions; see Table 6), aggregated across all 41 countries besides the U.S. that are included in our sample.

