NEWS RELEASE

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St. Louis Fed's *Review:*
Technical Analysis and the Profitability of U.S. Foreign Exchange Intervention;
Universal Banking, Control Rights, and Corporate Finance in Germany;
How Closely Do Banks Manage Vault Cash?
A Guide to Nominal Feedback Rules and Their Use for Monetary Policy

ST. LOUIS — The latest edition of ***Review***, the Federal Reserve Bank of St. Louis' journal of economic and business issues, features the following articles:

• **"Technical Analysis and the Profitability of U.S. Foreign Exchange Intervention."** Recent research has discovered two seemingly contradictory facts about U.S. intervention in foreign exchange markets. On the one hand, extrapolative technical-trading rules trade against U.S. foreign exchange intervention and produce excess returns during intervention periods. Other research, however, shows that technical traders make excess returns when they take positions contrary to U.S. intervention. Christopher S. Neely, a senior economist at the St. Louis Fed, discusses how differing investment horizons, and varying return and position sizes may reconcile this paradox.

• **"Universal Banking, Control Rights, and Corporate Finance in Germany."** Corporate governance mechanisms assure investors of those organizations that they will receive

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adequate returns on their investments. These mechanisms in Germany include prominent roles for banks, other large financial and non-financial firms, and employees, through a system known as codetermination. Analyses of the relative merit of the U.S. and German financial and corporate governance systems, however, have begun to appear only recently. William R. Emmons, a research economist, and Frank A. Schmid, a senior economist, both at the Federal Reserve Bank of St. Louis, review the German system. Their aim is to lay the groundwork for future research to determine how people and institutions (investors, banks, employees, etc.) fare under different financial systems.

• **"How Closely Do Banks Manage Vault Cash?"** Recent reductions in required reserves at depository institutions have not been accompanied by significant reductions in their vault cash holdings. This suggests that banks may be managing vault cash reserves primarily as precautionary balances to satisfy daily fluctuations in deposits and withdrawals, rather than part of total reserve management. In 1997, some larger banks instituted formal management of vault currency. Donald S. Allen, an economist at the Federal Reserve Bank of St. Louis, concludes that if this practice spreads, it will have implications for the Federal Reserve's ability to track the money supply — and, therefore, monetary policy — and cash operations.

• **"A Guide to Nominal Feedback Rules and Their Use for Monetary Policy."** If the Federal Reserve is to sustain a policy of price stability, monetary policy actions will generally agree with the prescriptions from nominal feedback rules. These rules are designed to achieve price stability by specifying precise adjustments in the policy instrument when the nominal target deviates from

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its desired path. This property means that monetary policy might be well described by a nominal feedback rule in a low-inflation country such as Switzerland. Michael J. Dueker, a research officer at the Federal Reserve Bank of St. Louis, and Andreas M. Fischer, an economic advisor at the Swiss National Bank in Zurich, provide a general description of nominal feedback rules and use one rule (with time-varying parameters) to model Swiss monetary policy actions. Dueker and Fischer explain how this indicator-model can foreshadow a build-up of inflationary pressures before they become obvious through other traditional policy indicators.

Subscriptions to ***Review*** are free and can be obtained by calling (314) 444-8809. The publication is also available on the Bank's website: http://www.stls.frb.org.

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