Liquidity premium differential between TIPS and Nominal Treasuries

November 18, 2011
Make things as simple as possible but no simpler

Breakevens = inflation expectations + inflation risk premium + floor value – liquidity premium differential

Source: Philadelphia Fed, Barclays Capital
Implied floor values move around

**Til 1.25% Jan 21**

- Jan 21 Floor (bp, LHS)
- Jan 21 Floor Adjusted BEs (%), RHS

**Implied Probability of Cumulative Deflation over the tenor, %**

Source: Barclays Capital
Asset swap differentials are the best indicator of the liquidity premium differential

Source: Barclays Capital
What should the Treasury do?

- Total Gross Issuance ($bn, Excluding SOMA)
- Net Issuance

![Graph showing Total Gross Issuance and Net Issuance](source: US Treasury, Barclays Capital)

- TIPS Average Daily Trading Volume (rolling 3m, $bn)

![Graph showing TIPS Average Daily Trading Volume](source: New York Fed, Bloomberg)