

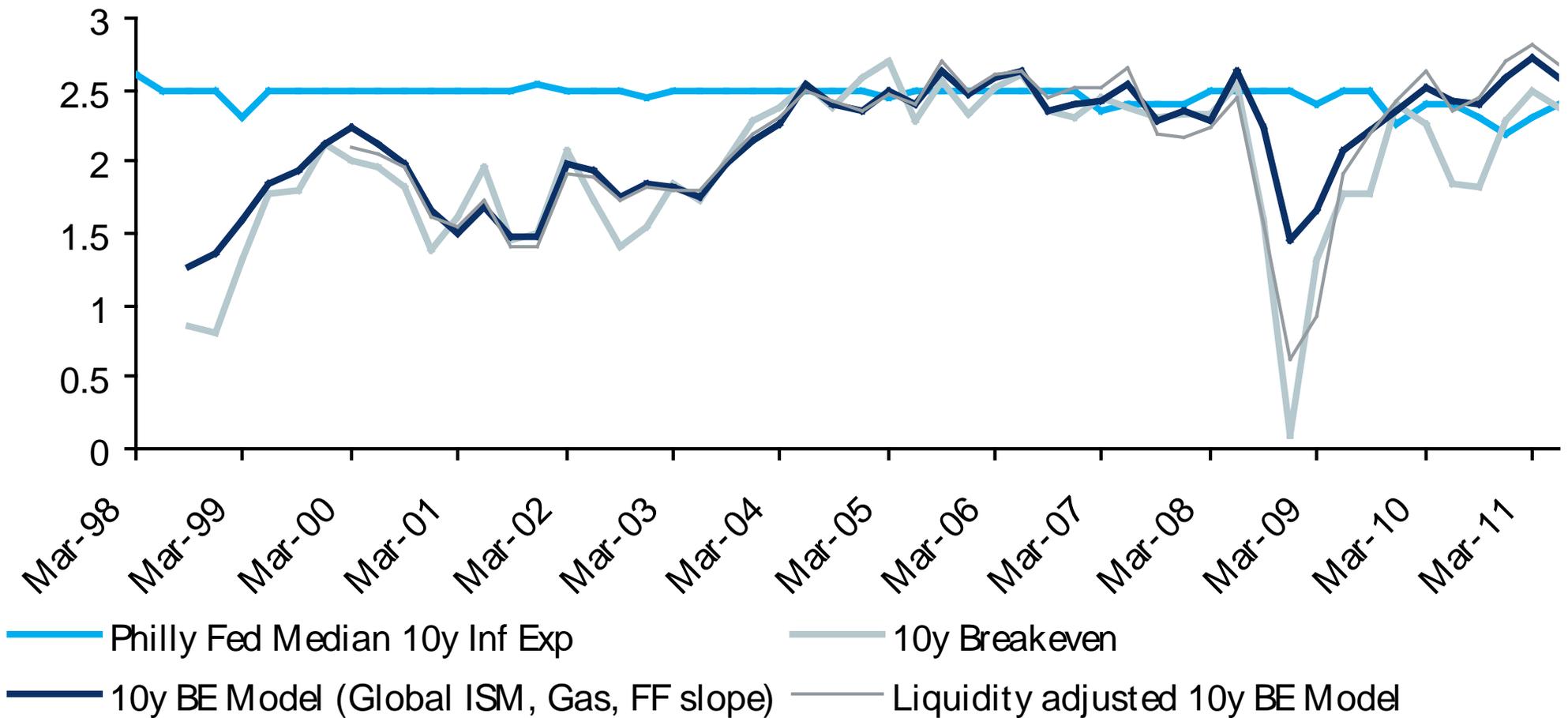


Liquidity premium differential between TIPS and Nominal Treasuries

November 18, 2011

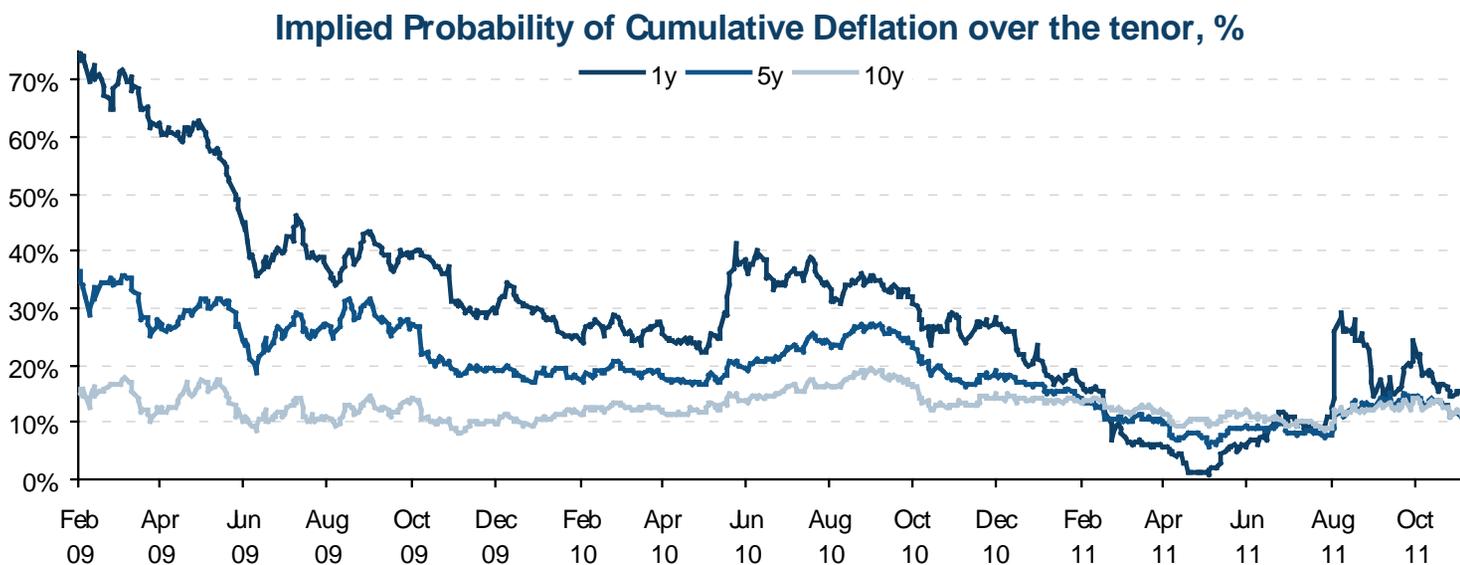
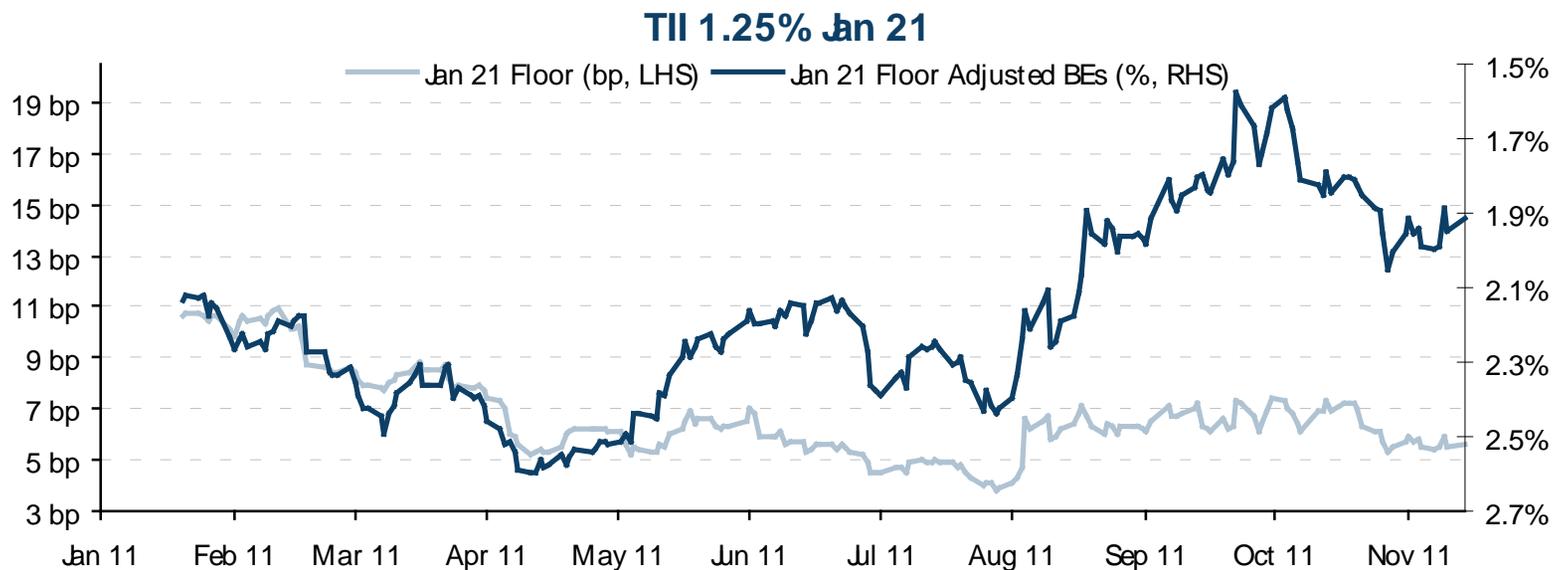
Make things as simple as possible but no simpler

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



Source: Philadelphia Fed, Barclays Capital

Implied floor values move around

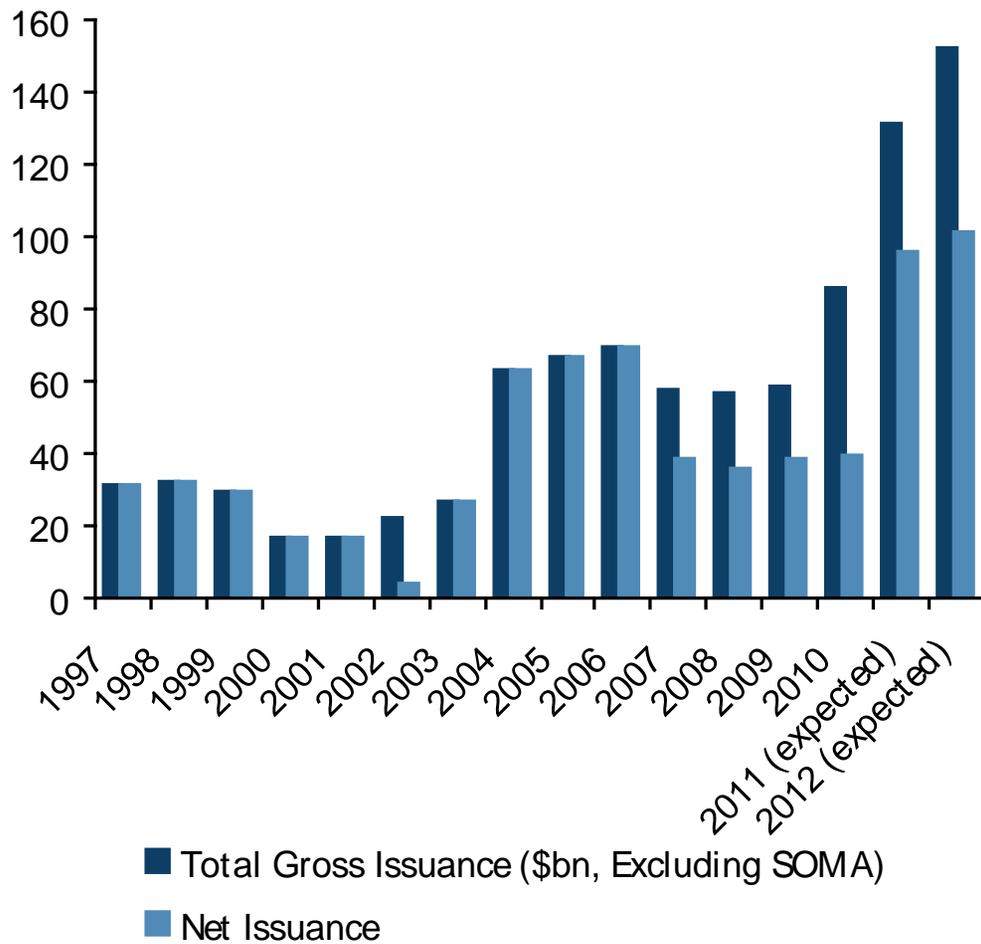


Asset swap differentials are the best indicator of the liquidity premium differential

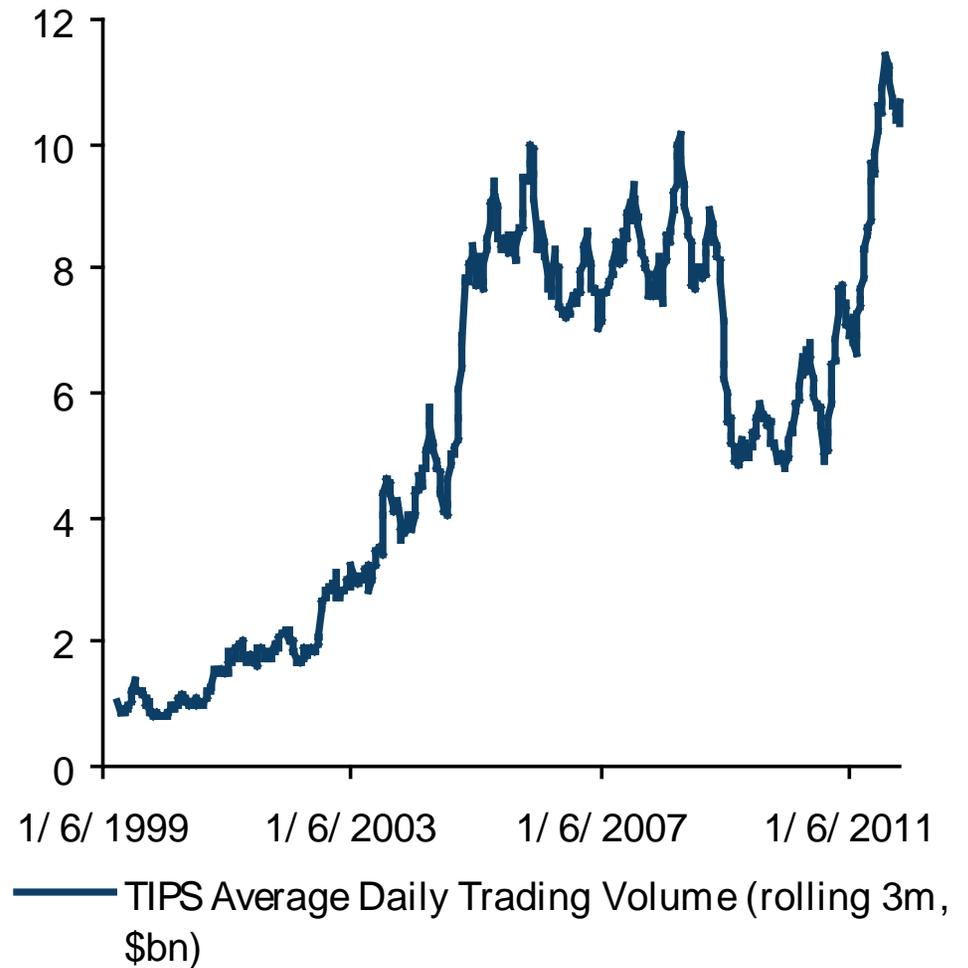


Source: Barclays Capital

What should the Treasury do?



Source: US Treasury, Barclays Capital



Source: New York Fed, Bloomberg