FOREIGN HOLDINGS OF US TREASURIES AND TREASURY YIELDS

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AC Indicates certifying analyst. See last page for analyst certification and important disclosures.
Term premium estimates from arbitrage-free pricing models have significant measurement errors; they tend to attribute most of the variability in interest rates to changes in term premium.

**5Y forward OIS vs. Kim-Wright expected 5Y forward spot; %**
FOMC rate guidance has had a large impact on forwards but little impact on short rate expectations derived from arbitrage-free pricing models.

Would advise caution in interpreting term premium estimates too literally.

Econometric models of term premium may need to control for growth/inflation expectations and other factors that predominantly influence short rate expectations.

Failure to properly account for declining short rate expectations since 2009 has pushed model-based term premium estimates significantly negative.
Estimates of yield impact of foreign buying are smaller than they appear

- $100 bn in monthly purchases is more than 5 times monthly supply of Treasuries during period studied
- Estimates imply an increase of foreign purchases during 2002-2007 equal to total supply would have lowered yields only 9 bp
- These estimates are well under one half the estimated impact from QE; Fed buying has ranged from 50% of monthly supply in QE1 to almost 100% of monthly supply in QE2
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