Foreign Holdings of U.S. Treasuries and U.S. Treasury Yields

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Discussion by Jonathan Wright
Quantities Matter

• Quantities affecting Treasury yields
  – Bernanke, Reinhart and Sack (2004)
  – Gagnon et al. (2011)
  – D’Amico and King (2011)
Why Foreign Official Purchases Matter

• Drive down future equilibrium rates

• Lower term premia
Term Premium Regressions

• Estimated Equation

\[ TP_t = \alpha + \beta X'_t + \varepsilon_t \]

• I can get a (near) perfect fit with regressors: level, slope, curvature and surveys.
“Two step” methodology

• 1. Estimation of term premia.

• 2. Relating estimates to stuff.

• Combine them?
Excess Return Regression

• Possible regression

\[ x_{t,t+h} = \alpha + \beta' X_t + \epsilon_{t,t+h} \]

• Regression in the paper

\[ x_{t,t+h} = \alpha + \beta' X_{t,t+h} + \epsilon_{t,t+h} \]
How about augmented VAR?

- Take VAR in PCs of yields and foreign flows
  – Joslin, Le and Singleton (2011)
Clean identification of causal effects

• High-frequency effects of announcements

• Martin (2012) regresses Treasury yield changes on NDF changes around PBOC announcements
  – For China, few big announcements
Ten-Year Treasury Yield, July 21 2005

Note: On-the-run yield
Other Comments

• Why focus on the five year?

• What about swap spreads?
Conclusion

• Hard but important problem