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

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Discussion by Jonathan Wright
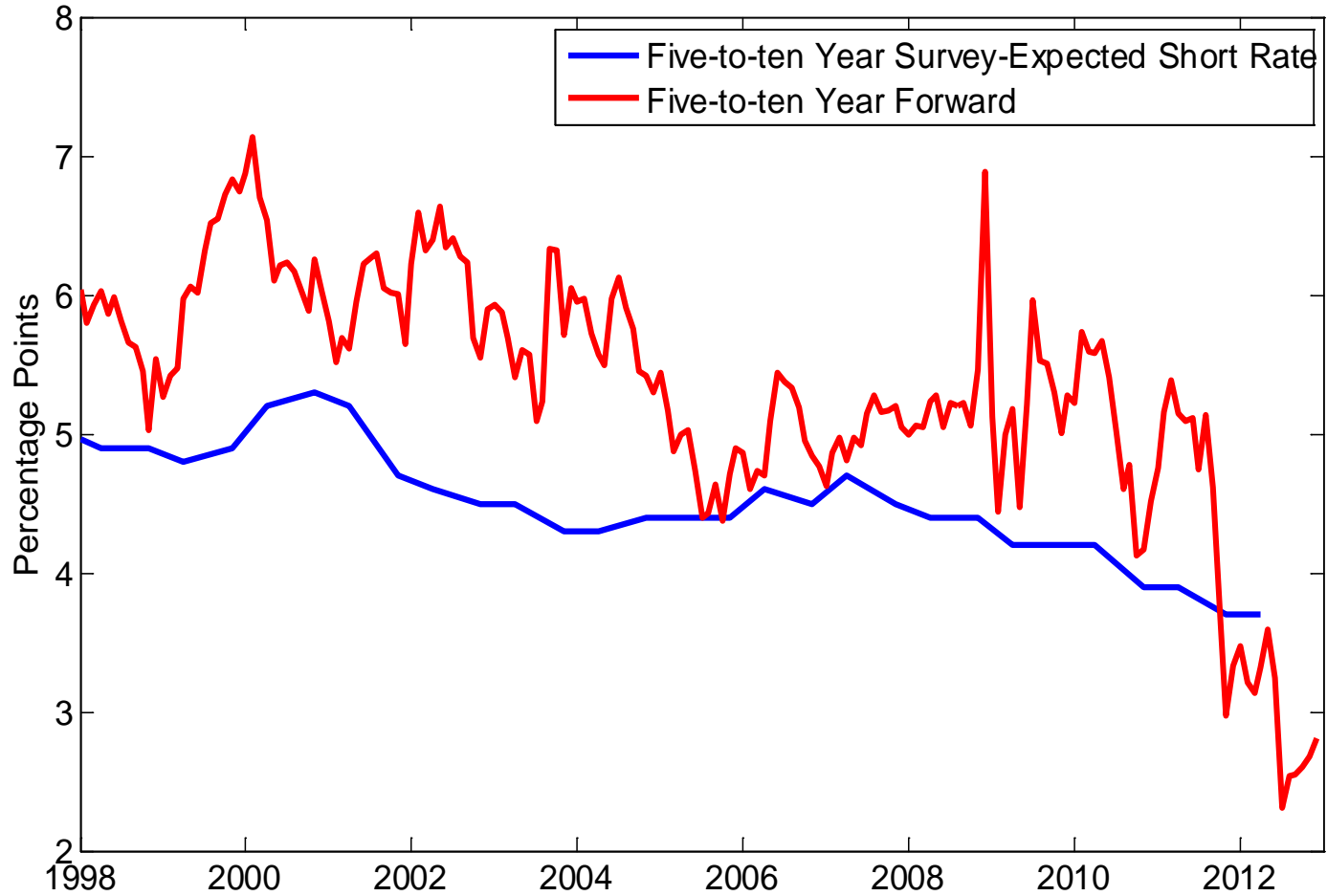
Quantities Matter

- 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

Forward Rates

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

$$xrt_{t,t+h} = \alpha + \beta' X_t + \varepsilon_{t,t+h}$$

- Regression in the paper

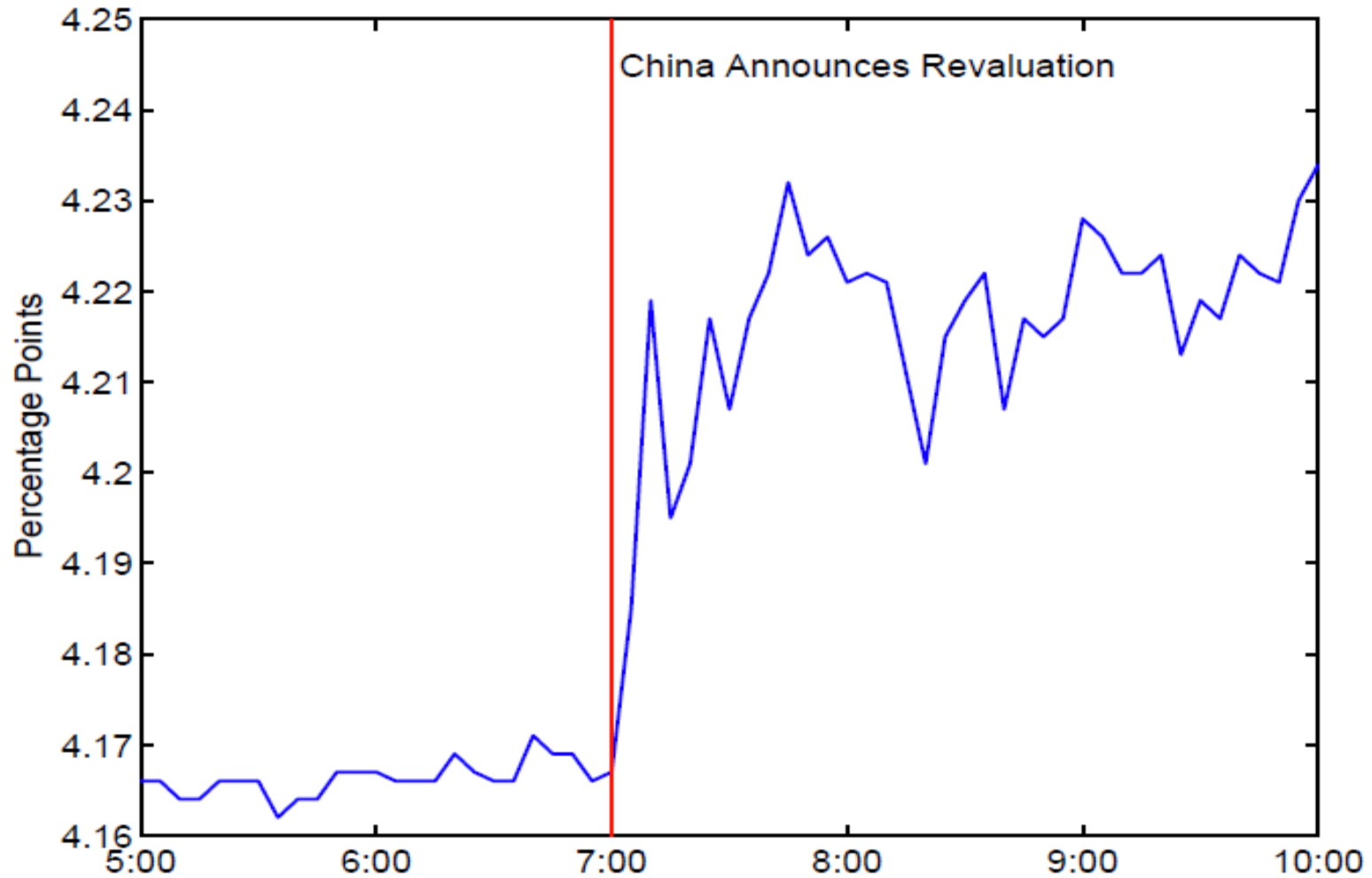$$xrt_{t,t+h} = \alpha + \beta' X_{t,t+h} + \varepsilon_{t,t+h}$$

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