

Disentangling Messages from the Treasury Market

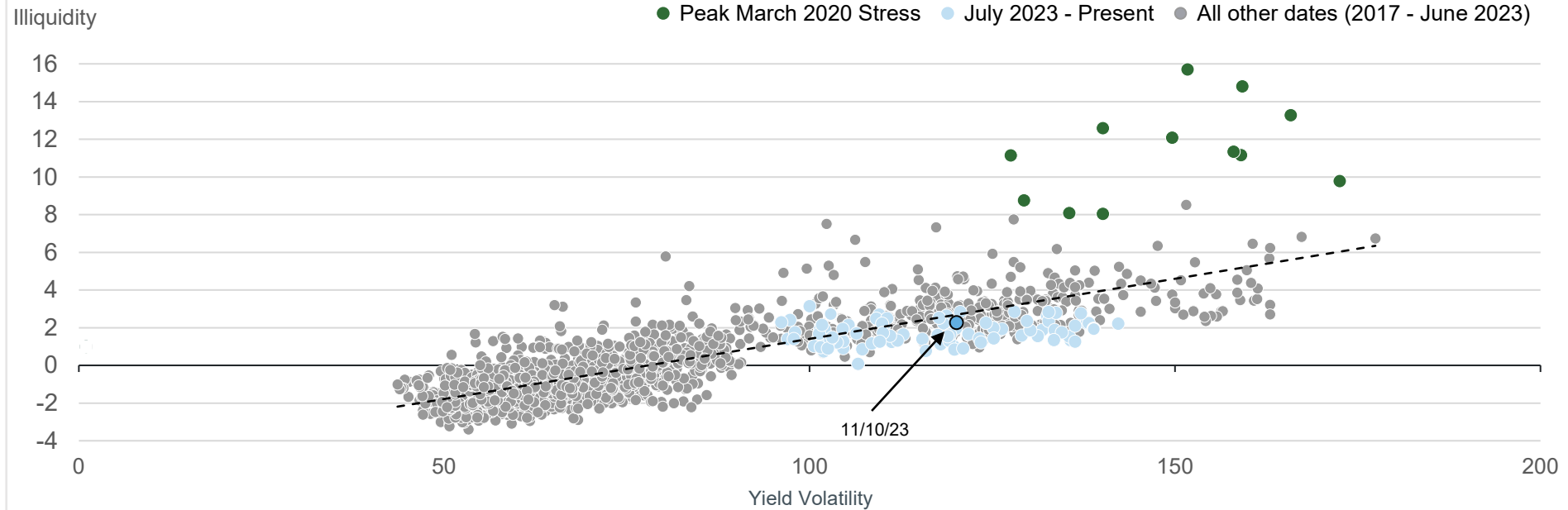
Roberto Perli, System Open Market Account (SOMA) Manager
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Treasury market liquidity is worse than in years past, but broadly consistent with current levels of interest rate volatility

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10-Year Treasury Illiquidity vs Volatility: 2017 - Present

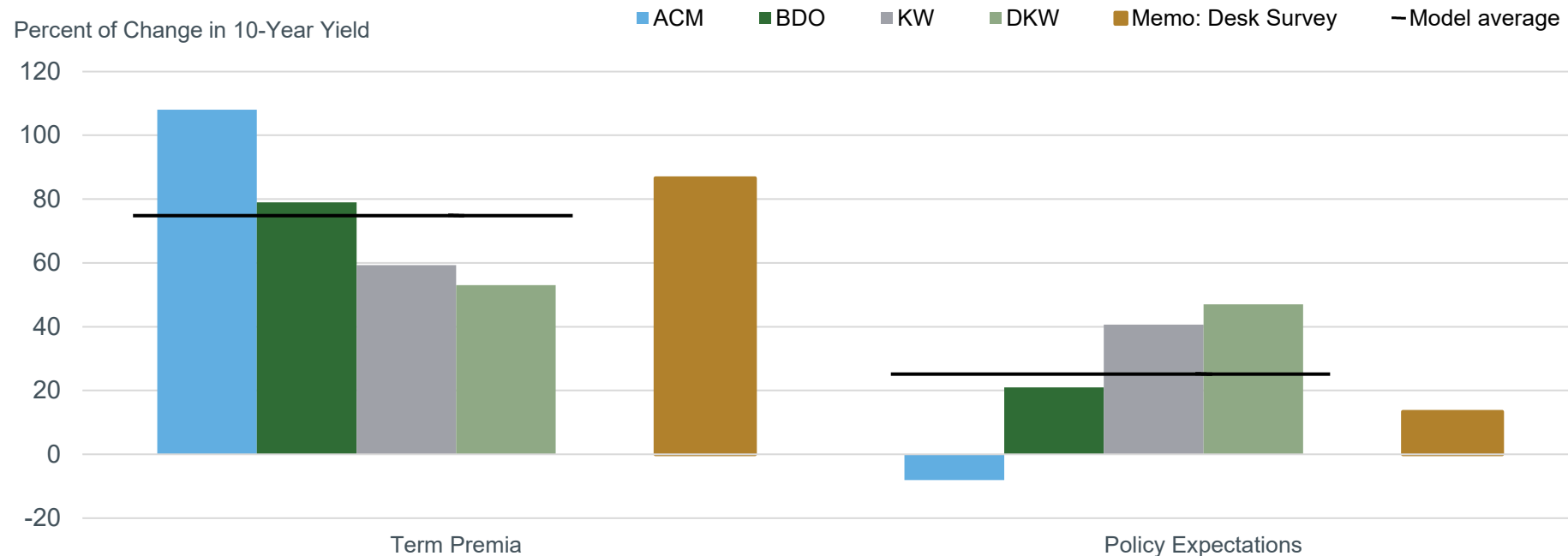


Note: The illiquidity index for the 10-year Treasury note is constructed using principal component analysis using a variety of liquidity metrics calculated from BrokerTec data. The index itself is the first component (PC1). SOFR-based implied 1M10Y volatility is used for data from 8/6/2021 onwards; LIBOR-based implied volatility is used earlier. Observations through 11/10/23.
Source: Bloomberg L.P., CME Group Inc. (BrokerTec), Staff Calculations

Models suggest term premiums accounted for the bulk of the recent change in yields, with only a modest fraction attributable to policy expectations

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Model Decomposition of Changes in 10-Year Nominal Treasury Yield from July to October



Note: ACM is Adrian, Crump, and Moench; BDO is Breach, D'Amico, and Orphanides; DKW is D'Amico, Kim, and Wei; and KW is Kim and Wright. Desk Survey series shows change from 6/5/23 to 9/11/23. Survey of Primary Dealers and Market Participants.

Source: Bloomberg L.P., Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, Staff Calculations

Most of the move in Treasury yields has been driven by real interest rates

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10-Year Real Yield and TIPS-Implied Inflation Compensation



Note: Observations through 11/14/23.

Source: Bloomberg L.P.

Market pricing and survey data suggest longer-run inflation expectations are well anchored

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TIPS-Implied Inflation Compensation



Note: Observations through 11/14/23.
Source: Bloomberg L.P.