Predicting Treasury Yields

Accessing factors that affect
treasury yields

What is *yield*?

- The rate at which the sum of all future cashflows is equal to the price of the bond
- US funds the government by issuing treasury securities (bills, notes, bonds) via auctions
- Securities are awarded to competitive bidders with the lowest bids in ascending order
- All bidders will receive the same yield @ highest accepted bid

Why do we care?

- High yield = low price
  - Not as much money raised
  - Debt ceiling crisis – amount outstanding
- High yield = high borrowing cost

Price @ Issue	Payback	Yield	Cost
$99.00	$100	Low	Low
$95.00	$100	High	High

- High yield = low demand for treasuries
  - Treasuries considered safest
  - High yield indicates a favorable view of the economy from market participants

Factors that affect yields

- Economic data (GDP, inflation, unemployment rate, etc.)
- Outstanding treasuries
- Amount auctioned vs. demand
- Fed open market operations
- Party affiliations (senate, house, president)
- Debt ceiling

Data

- Historical yields
  - http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield
- Fed's balance sheet
  - http://www.federalreserve.gov/monetarypolicy/bst_fedsbalancesheet.htm
- Real GDP
  - http://research.stlouisfed.org/fred2/series/GDPC1
- PCE Inflation
  - http://research.stlouisfed.org/fred2/categories/21
- Unemployment
  - http://research.stlouisfed.org/fred2/series/UNRATE
- Treasuries outstanding
  - http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt.htm