

Macro Roundup Article

Headline: Preferred Habitats and Timing in the World's Safe Asset

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Tweet: Alexandra Tabova and Francis Warnock find that two of three major purchasers of Treasuries, US private purchasers and foreign private purchasers, have elastic demand curves, implying that rates will tend to go higher as Treasury issuance increases.

Summary: Our results have implications for a pressing question as we transition to a post-QE world: Who will buy Treasuries as the Fed reduces the size of its portfolio? Perhaps foreign governments, but they have not materially added to their Treasury portfolios in almost a decade. Moreover, they tend to hold shorter duration bonds, while the Fed's portfolio is tilted more towards longer durations. More likely it will be private investors, whether U.S. or foreign, whose purchases react to yields and whose portfolios are tilted towards longer duration bonds.

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Primary Topic: Financial Markets

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