Accepted Manuscript

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PII: S0022-1996(18)30001-1
DOI: doi:10.1016/j.jinteco.2018.01.001
Reference: INEC 3107

To appear in: Journal of International Economics

Received date: 22 August 2017
Revised date: 28 December 2017
Accepted date: 3 January 2018

Please cite this article as: Du, Wenxin, Im, Joanne, Schreger, Jesse, The U.S. Treasury Premium, Journal of International Economics (2018), doi:10.1016/j.jinteco.2018.01.001

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The U.S. Treasury Premium

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Federal Reserve Board | Federal Reserve Board | Columbia University and NBER

December 2017

Abstract

We quantify the difference in the convenience yield of U.S. Treasuries and government bonds of other developed countries by measuring the deviation from covered interest parity between government bond yields. We call this wedge the “U.S. Treasury Premium.” We document a secular decline in the U.S. Treasury Premium at medium to long maturities. The five-year U.S. Treasury Premium averages approximately 21 basis points prior to the Global Financial Crisis, increases up to 90 basis points during the crisis, and has disappeared after the crisis with the post-crisis mean at -8 basis points. Meanwhile, the short-term U.S. Treasury Premium remains positive post-crisis. We discuss the impact of sovereign credit risk, FX swap market frictions, and the relative supply of government bonds on the U.S. Treasury Premium.

Keywords: U.S. Treasuries, Sovereign Bonds, Convenience Yields.
JEL Classifications: F30, G12, G15.

*We thank Charles Engel (the Editor), Carlo Favero, Jeffery Frankel, Pierre-Olivier Gourinchas, Robin Greenwood, Sam Hanson, Bob Hodrick, Victoria Ivashina, Ruth Judson, Arvind Krishnamurthy, Matteo Maggiori, Annette Vissing-Jorgensen, and conference participants at the NBER International Seminar on Macroeconomics (Vilnius, Lithuania) for helpful comments and suggestions. We thank Kimberly Hagan for editorial assistance. The views in this paper are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Board of Governors of the Federal Reserve System or any other person associated with the Federal Reserve System. All remaining errors are our own.

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