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The U.S. Treasury Premium*

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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.

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