

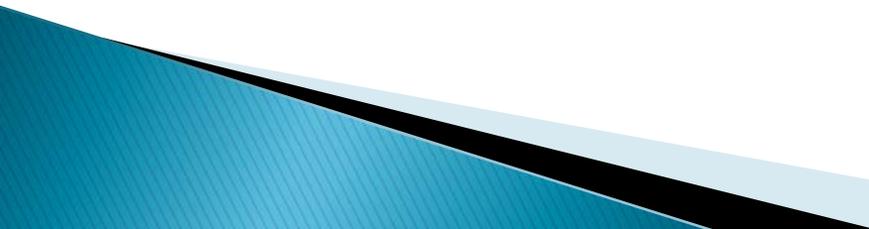
DISCUSSION OF
“An Empirical Decomposition of Risk
and Liquidity in Nominal and
Inflation-Indexed Government Bonds”

–Matthew Richardson,
Roundtable on Treasury Markets and Debt
Management, November 18, 2011

Thoughts on debt management – TIPS

- ▶ Breakeven inflation (T-Notes minus TIPS yields)
 - Liquidity premium
 - What is liquidity?
 - Clientele effects?
 - Inflation risk premium
 - What does it mean to have risk priced?

Thoughts on debt management – TIPS continued...

- ▶ Compelling reasons for TIPS
 - Completing the market
 - Provide regulators/market participants measures of expected inflation based on traded prices as opposed to professional forecasters.
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Specific comments

- ▶ Plethora of recent papers looking at same thing
 - Pflueger–Viceira (2011) try to measure liquidity more directly.
 - Highlight their contribution relative to others.
- ▶ Properties of breakeven inflation
 - 10yr inflation forecasts, 10 yrs of data, highly persistent against liquidity measures / inflation surveys also highly persistent.
 - Why not contemporaneous changes?

Specific comments continued

- ▶ What is liquidity?
 - Convert TIPS to cash w/o market impact?
 - Is there something special about Treasuries?
 - Pflueger–Viceira use many measures; there are many more... principal components?
 - Or would a structural model be better?
- ▶ Some concerns about estimation methodology
 - Estimate L from BEI over entire sample; then, over same sample, use L^\wedge to analyze relation between $R(L^\wedge)$ against $X(L^\wedge)$.