

Quantitative Easing and International Markets

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Perspectives on QE

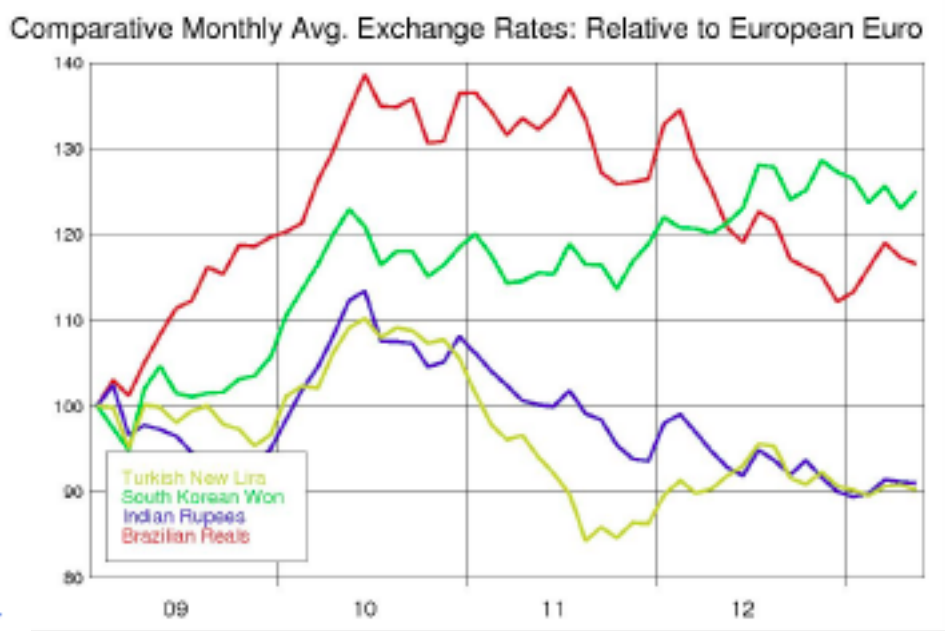
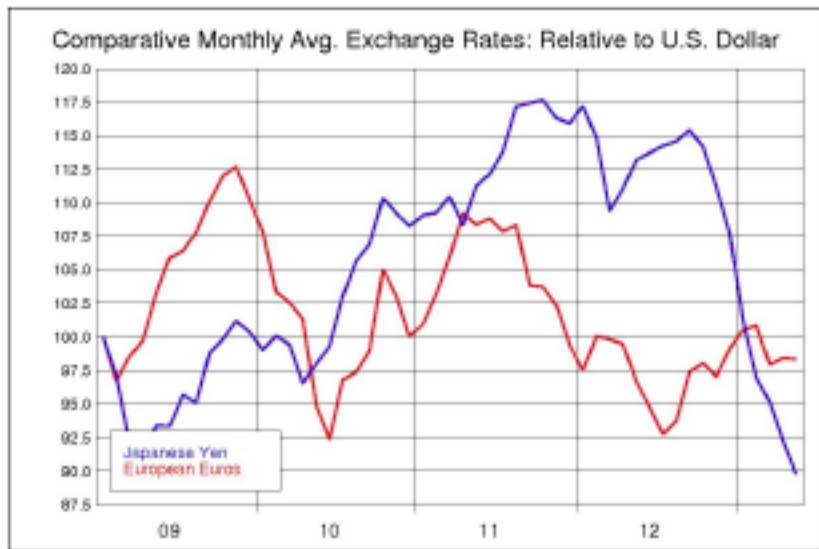
- **EME perspectives**
 - Currency concerns
 - Hot money concerns
 - Growth and competitiveness concerns
- **US perspective**
 - Fed vs Foreign purchases of US Treasuries
 - Which foreigners purchase US Treasuries?

Currency Wack-a-Mole?

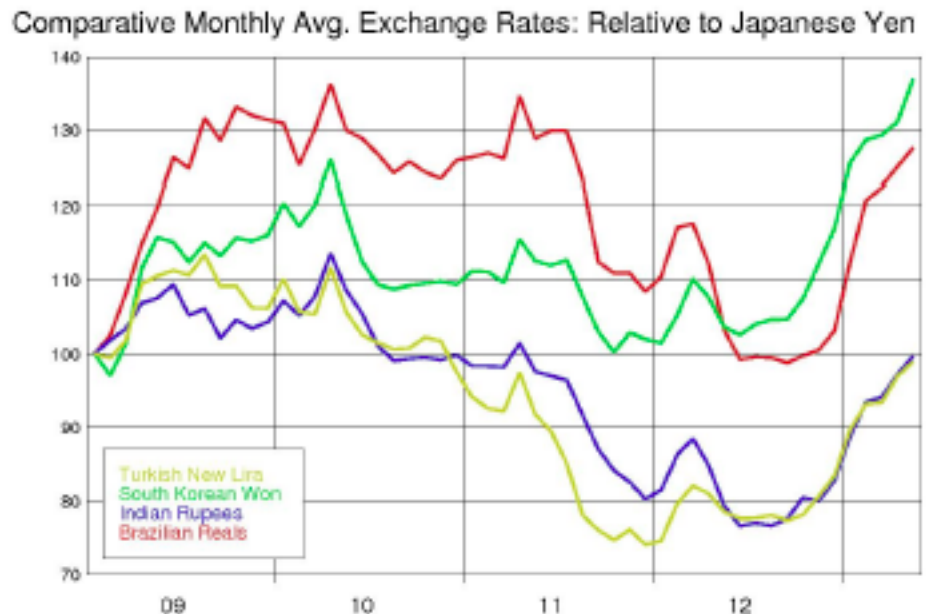
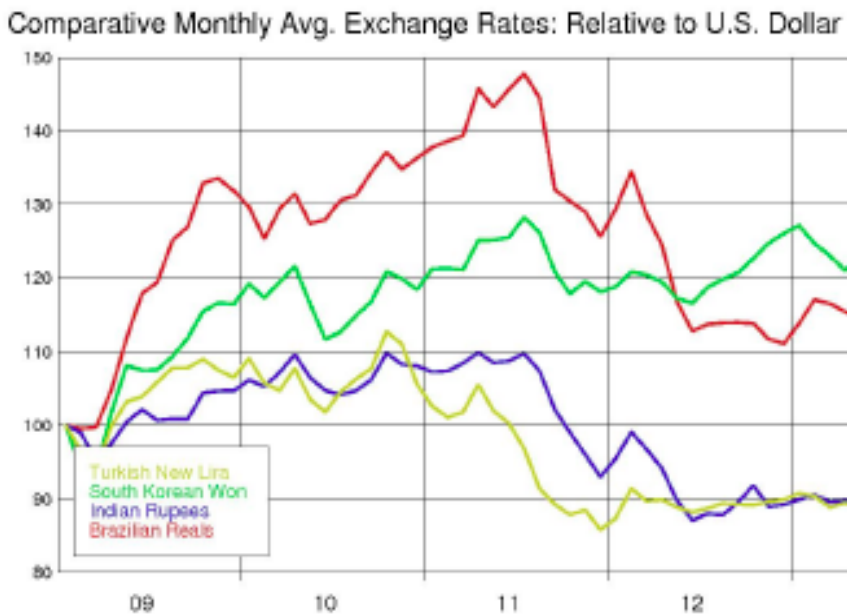
Appreciation concern, but against which currency?

- 2010: euro and yen trend appreciation vs. dollar. EMEs....
 - Appreciated then stabilized vs. euro
 - Trend appreciation vs. dollar
 - Spiked then stabilized vs. yen
- 2011: yen appreciated, euro depreciated. EMEs....
 - Diverse behavior vs. dollar
 - Depreciated vs. yen
 - Stable or trend depreciation vs. euro
- 2012-2013: accelerating depreciation yen; depreciation then appreciation of euro. EMEs...
 - Accelerating appreciation vs. yen
 - Stable vs dollar and euro
- **Real issue: volatility 'sloshing'**

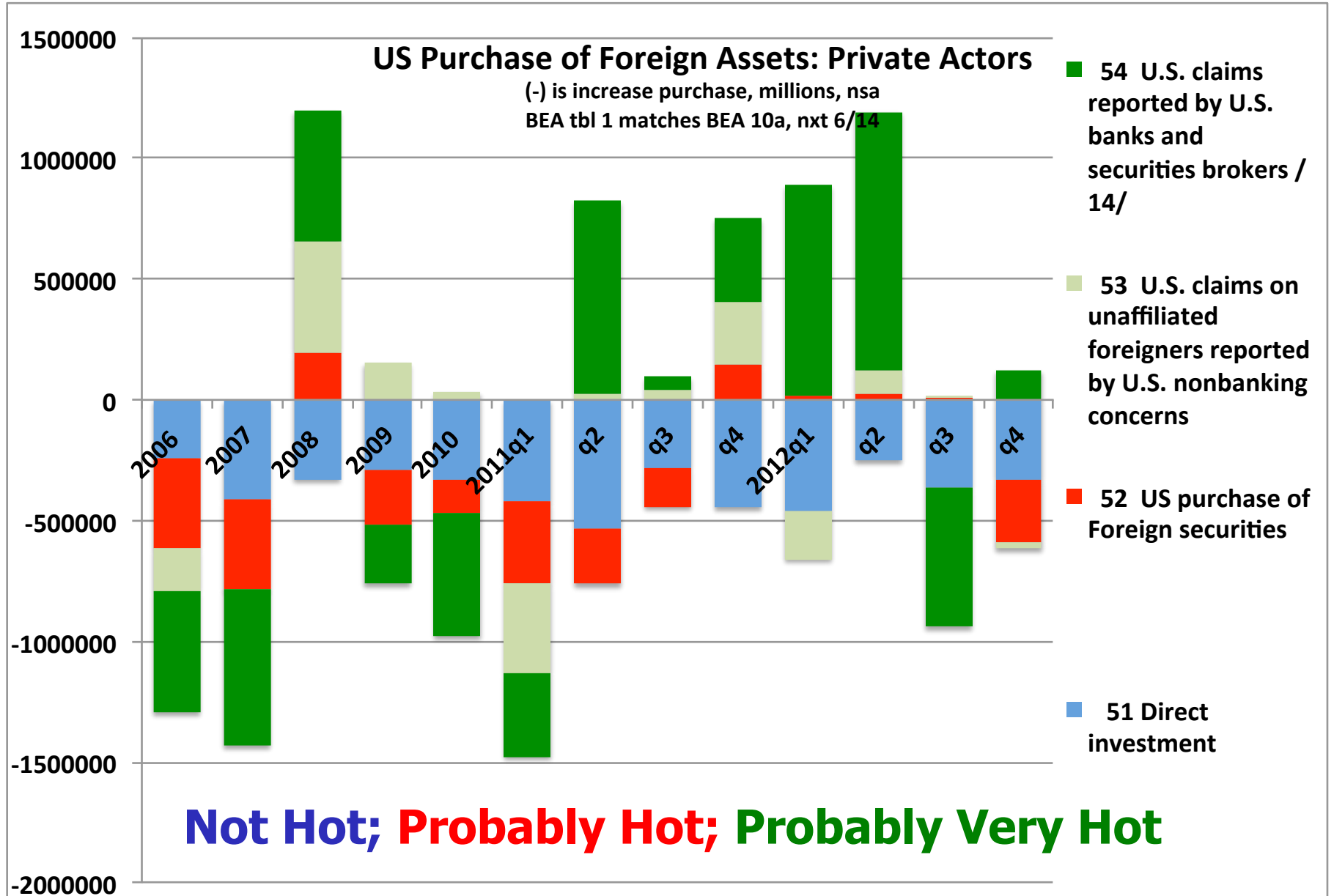
Appreciation concern, but against which currency?



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Time period shown in diagram: 1/Jan/2009 - 21/May/2013



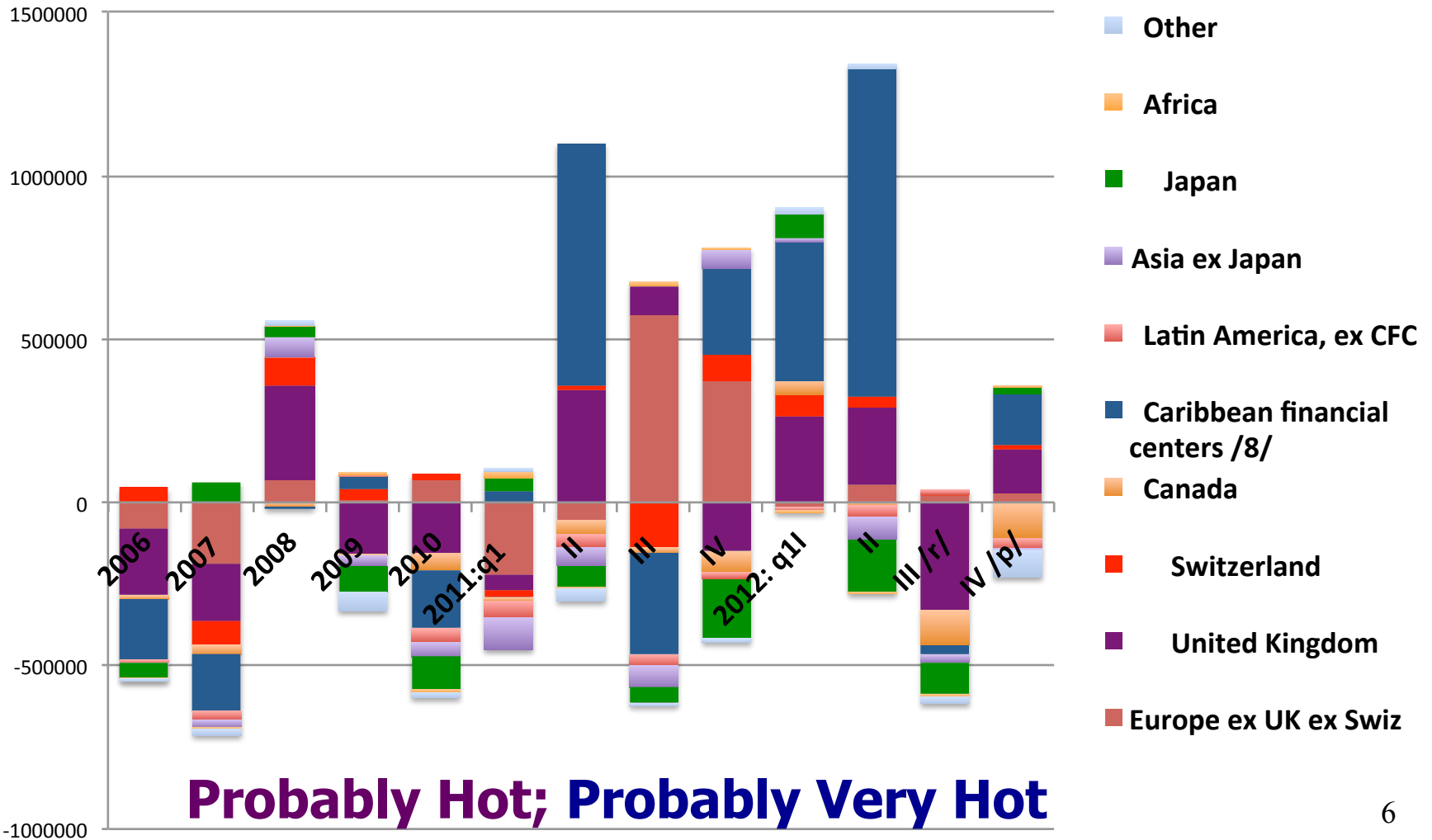
US Transactions in Foreign Assets By Type



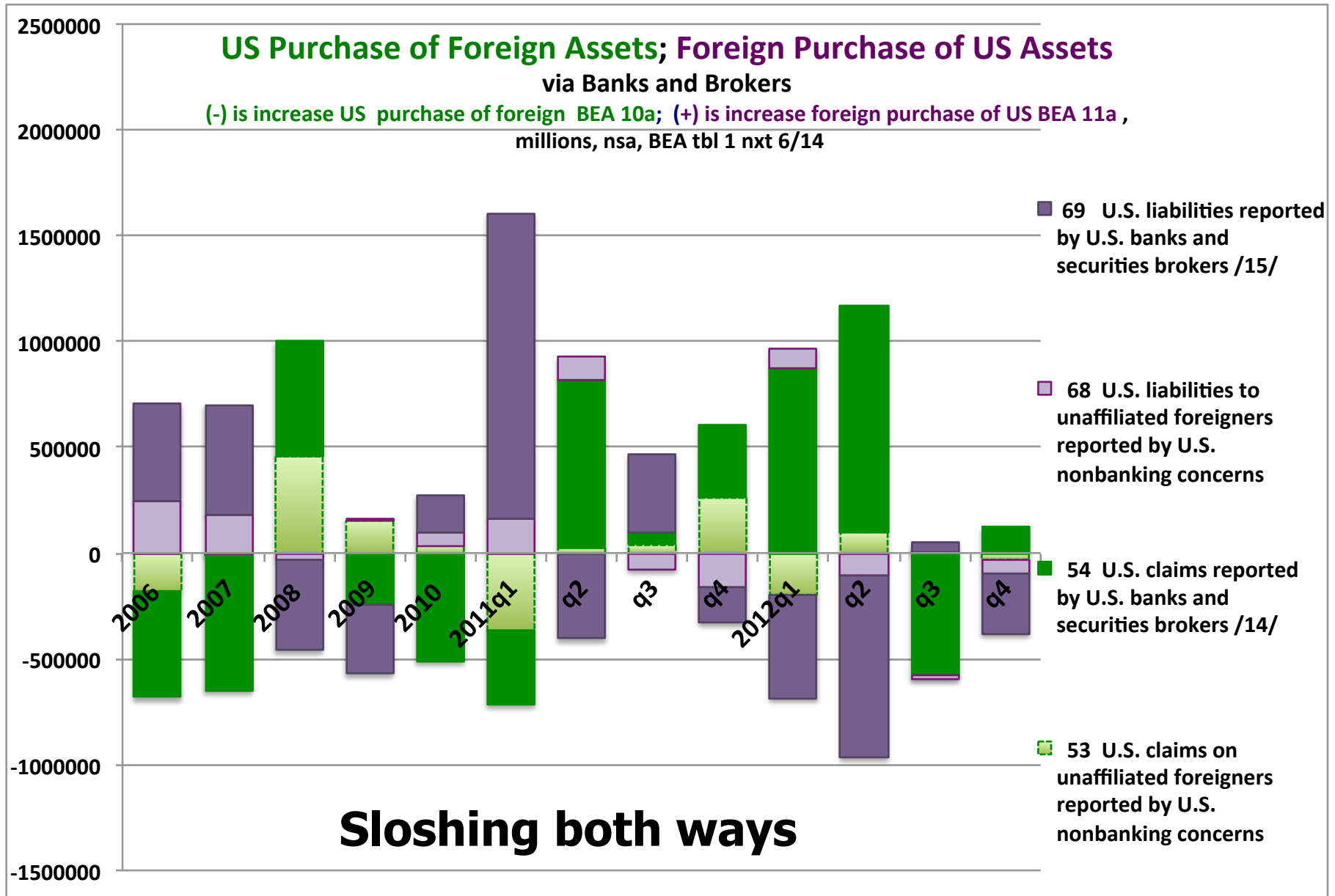
US Transactions by Bank/Brokers by Geography

Claims on Foreigners: Banks and Brokers

(-) is increase claim on/purchase of/ foreign assets; (+) sales of/decrease in purchase of/ foreign assets
 millions, nsa, BEA 10a, matches line 53,54 nxt 6/14



US Transactions by Bank/Brokers: Both Ways

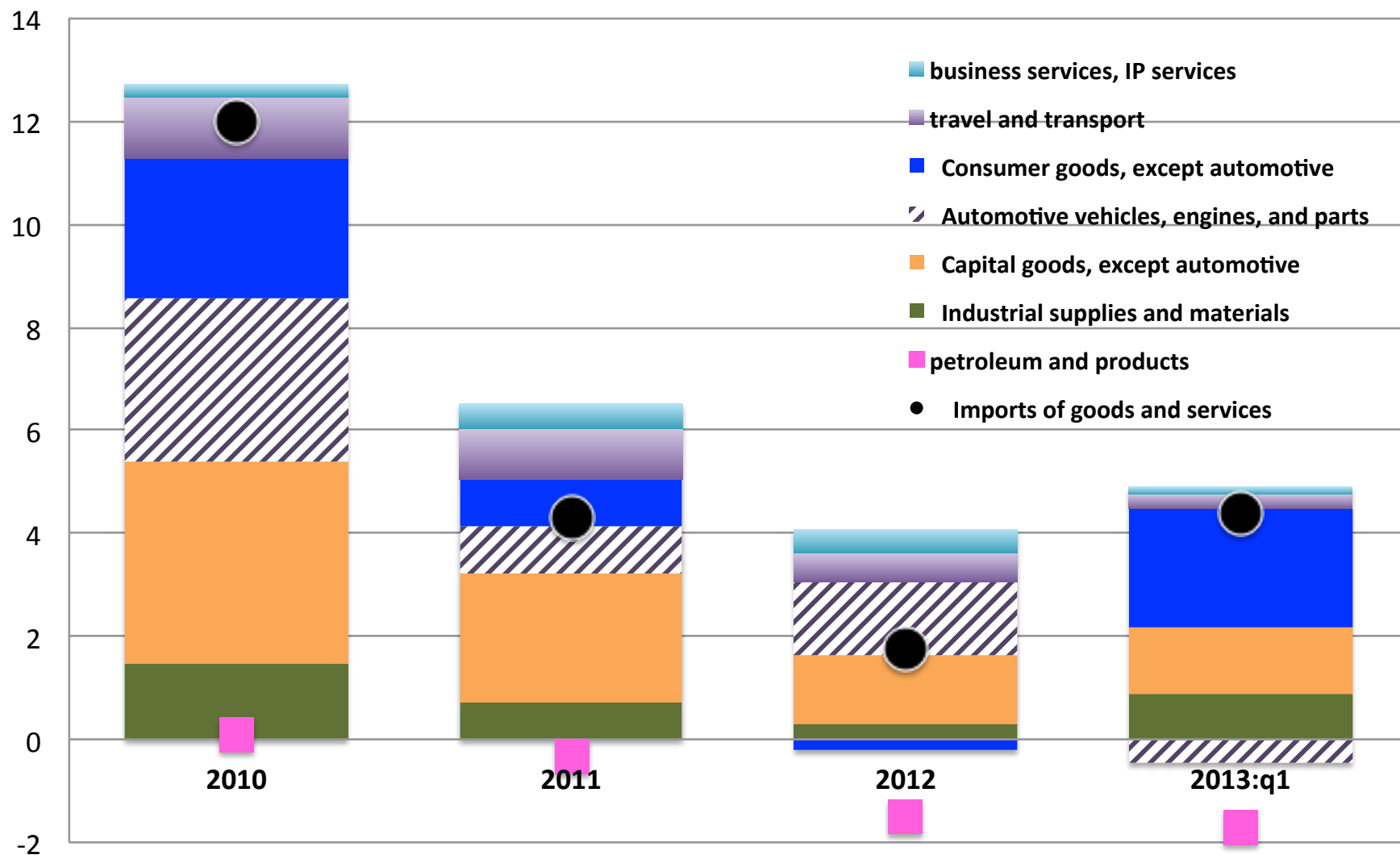


Imports: A Window into US markets

helps reveal which countries most exposed

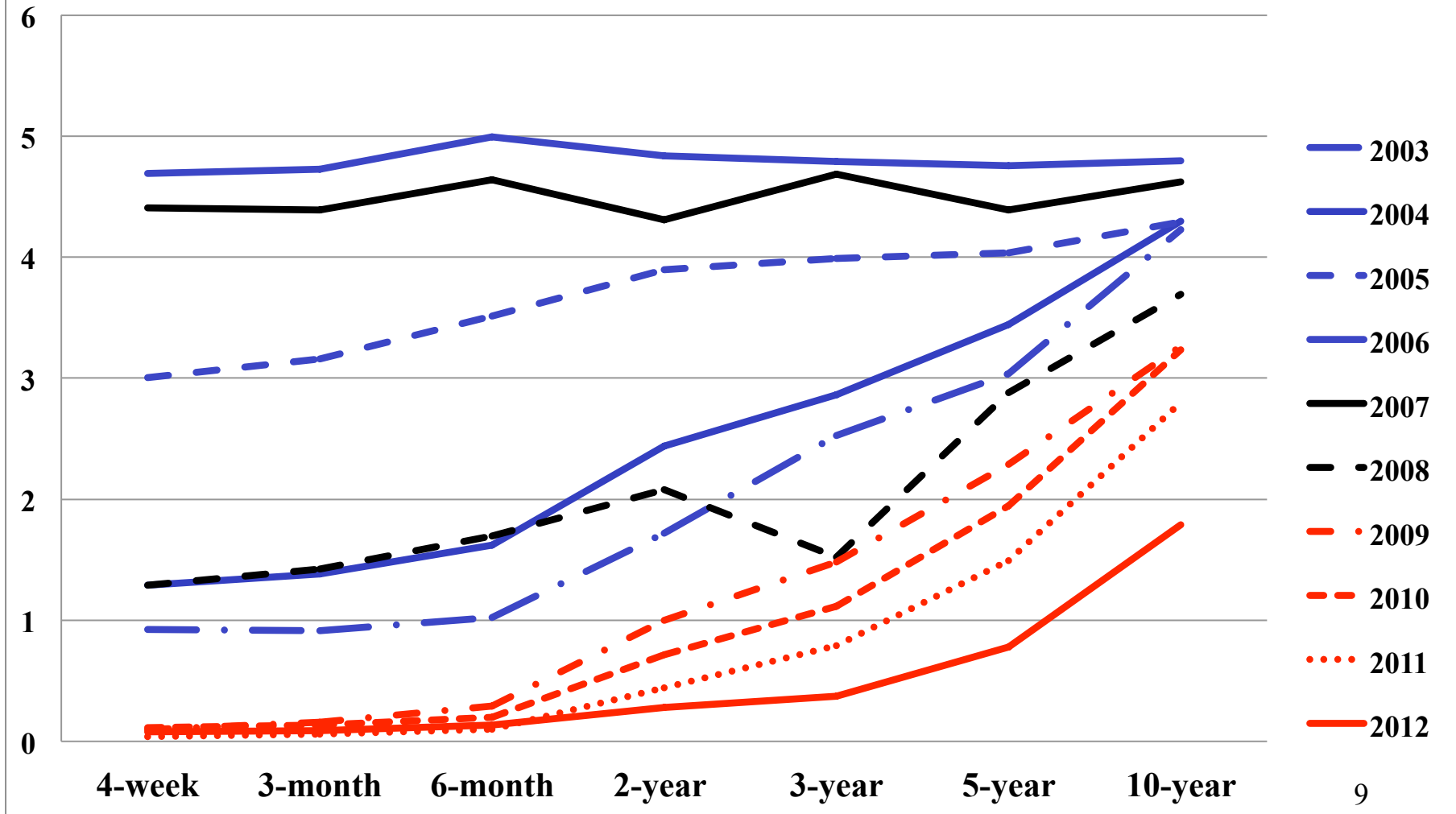
Imports: Real Growth qt/qt-1 and Contributions to Real Growth

End-Use NIPA 4 2 2, Feb 28 data

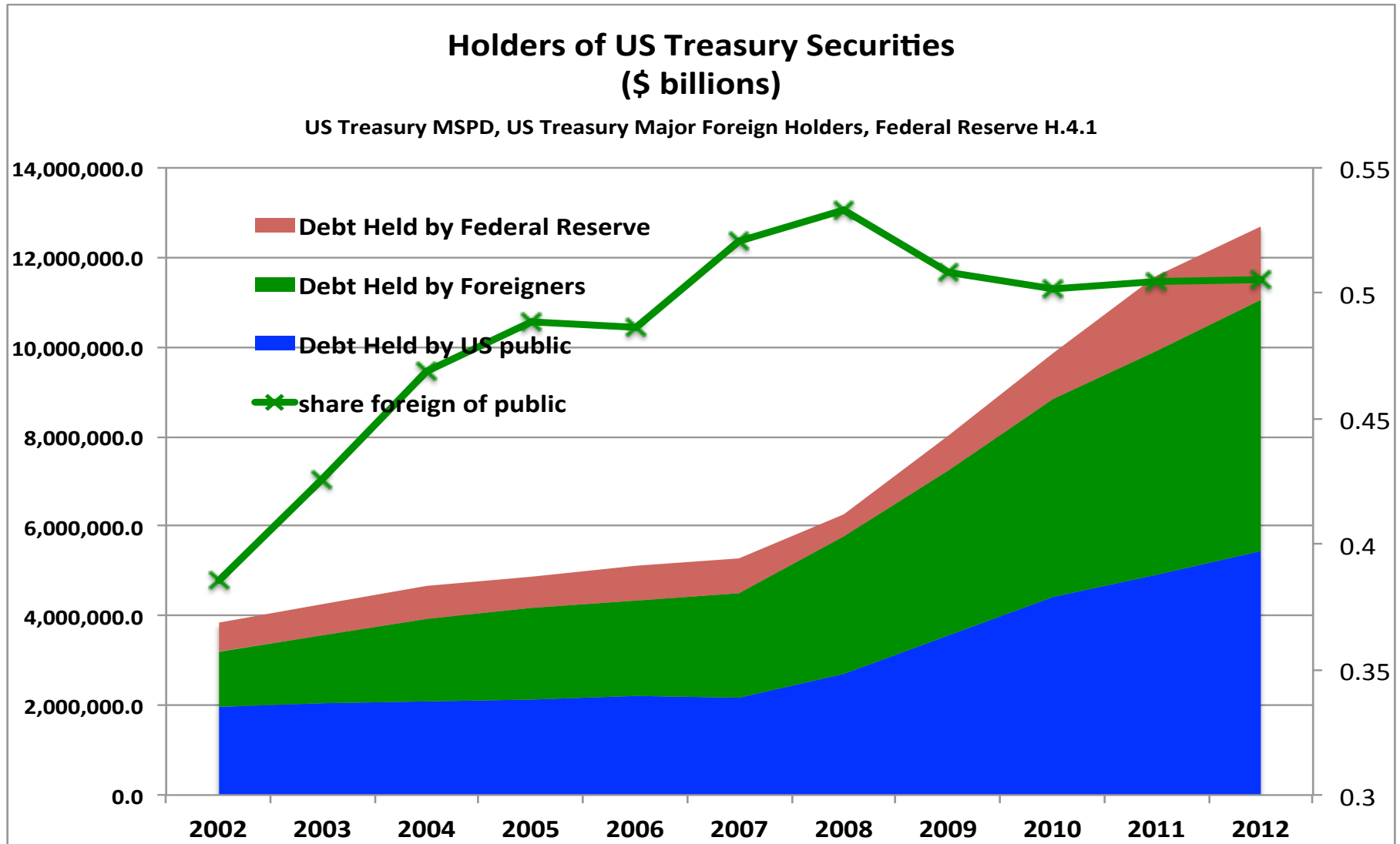


Quantitative Easing: Zero Lower Bound

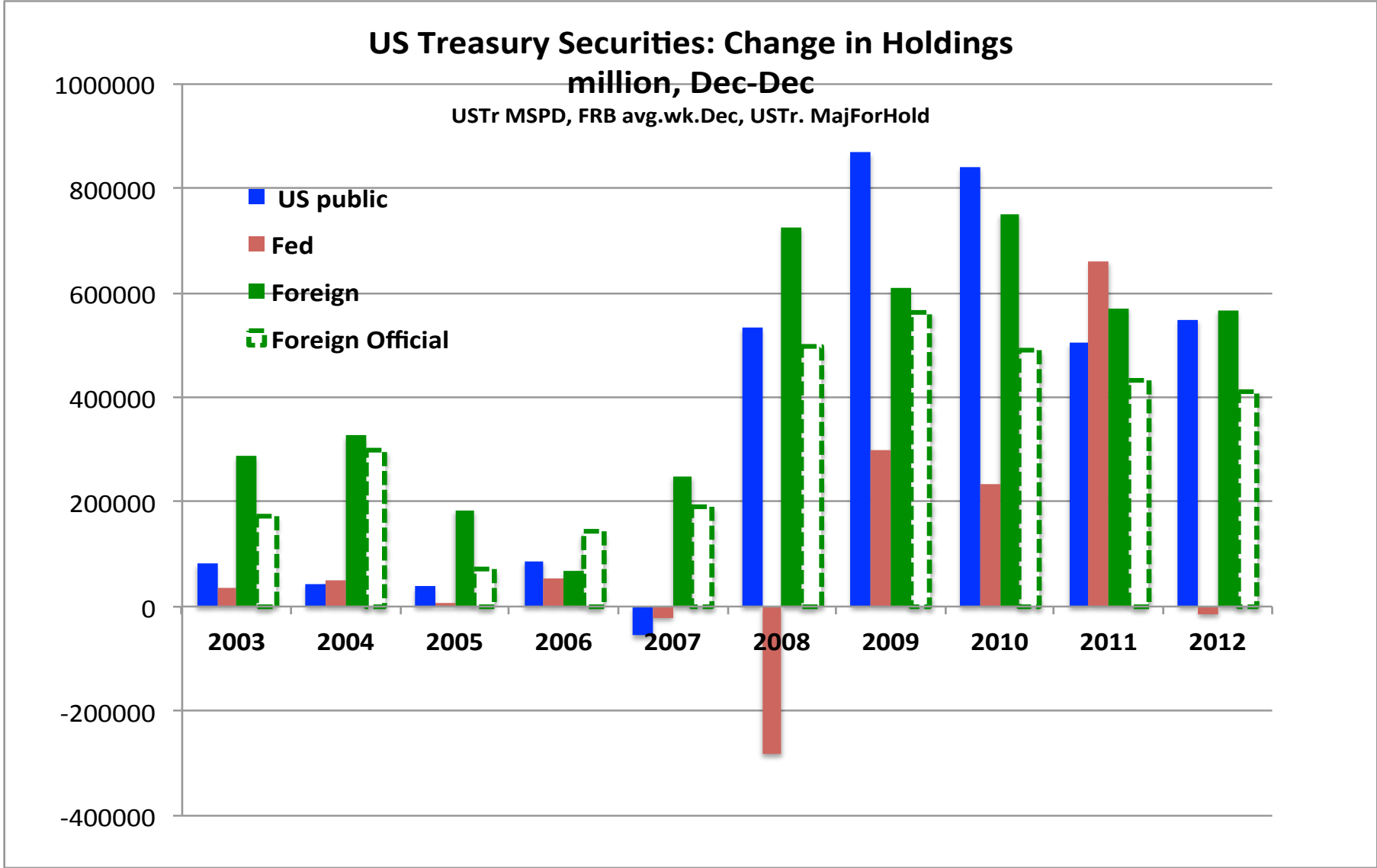
US Treasury yield curve: 2003-2012



Who Holds US Treasury Securities?

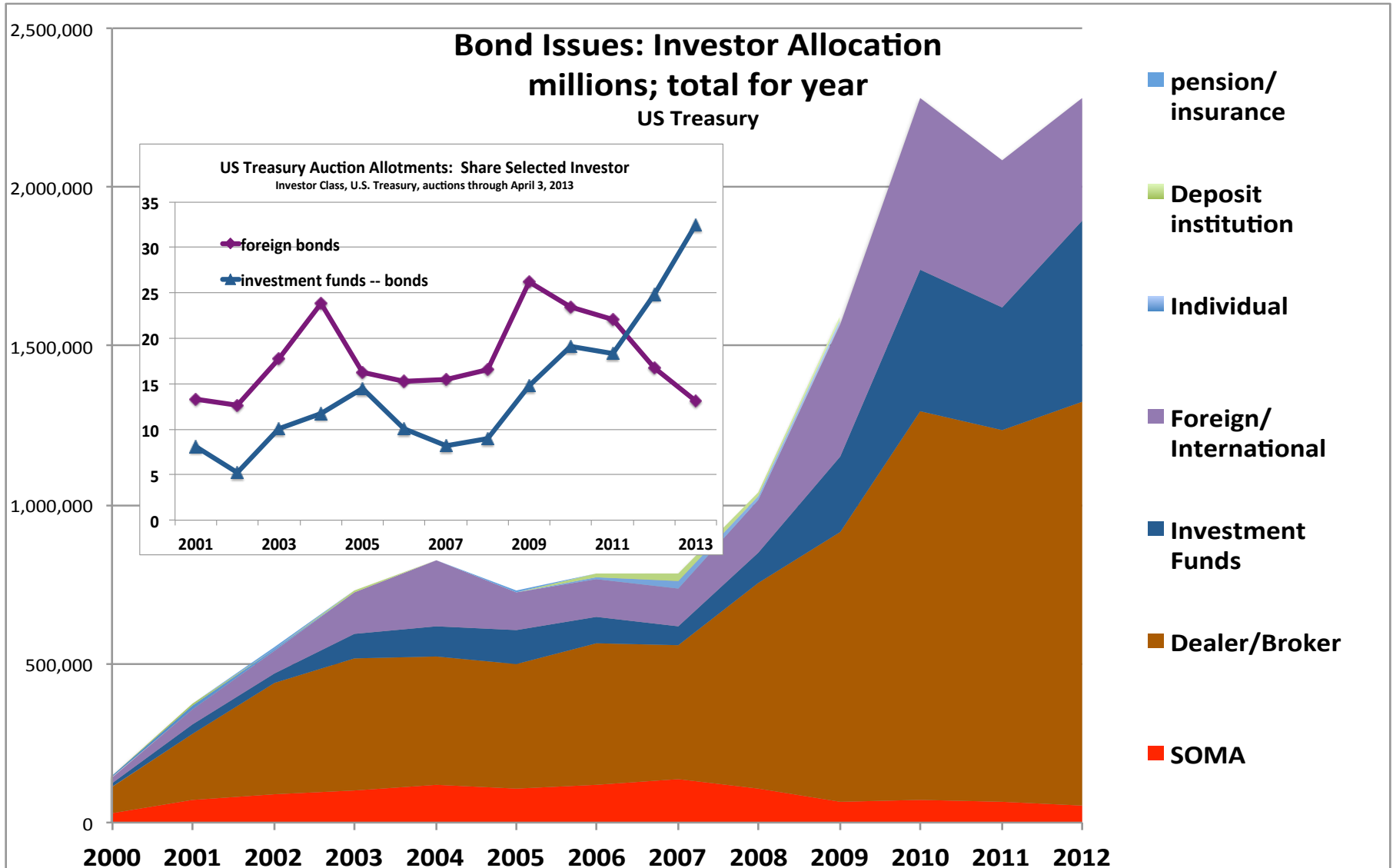


Quantitative Easing: The Tool



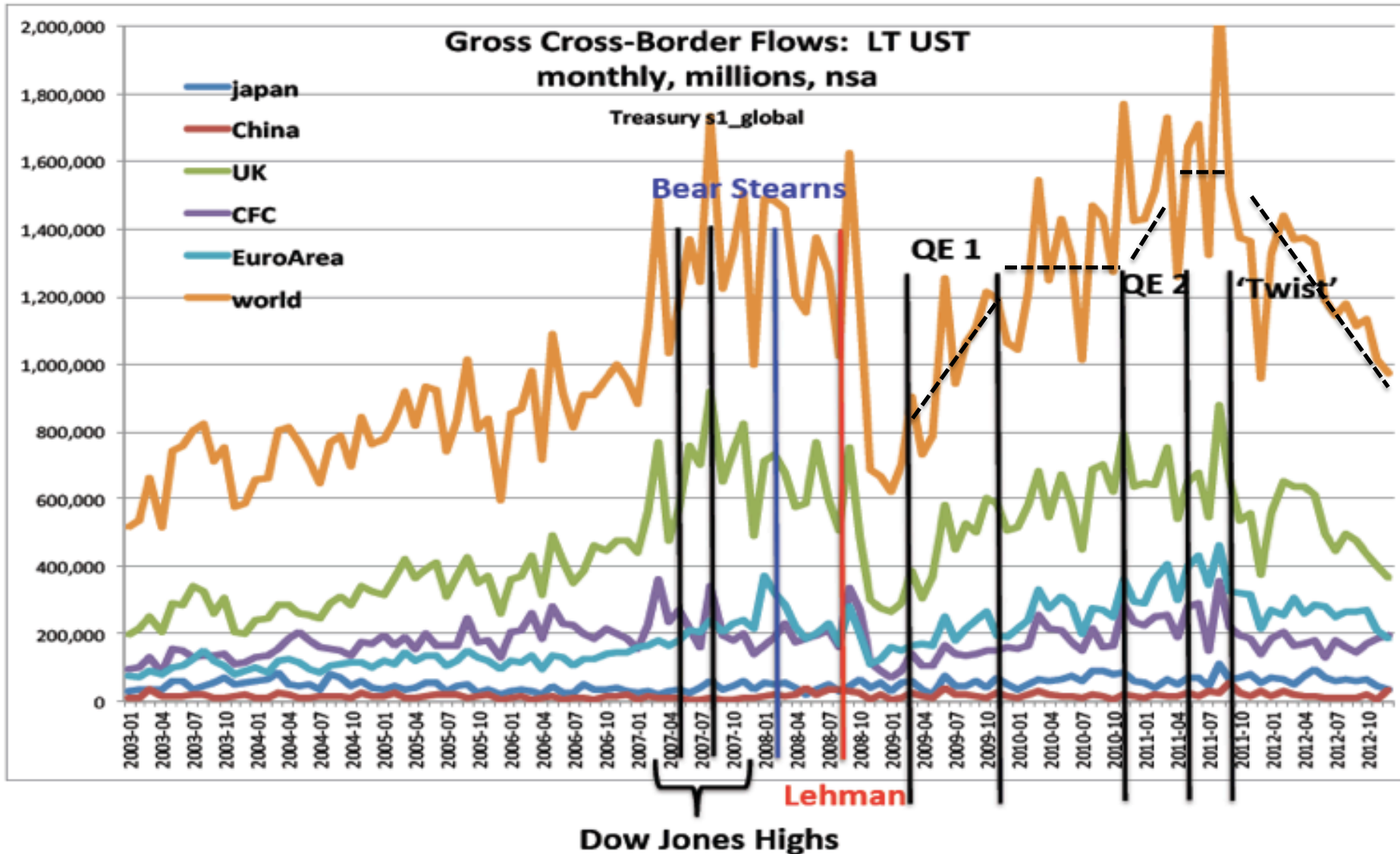
QE and the Bond Auction:

Falling share international/rising investment fund



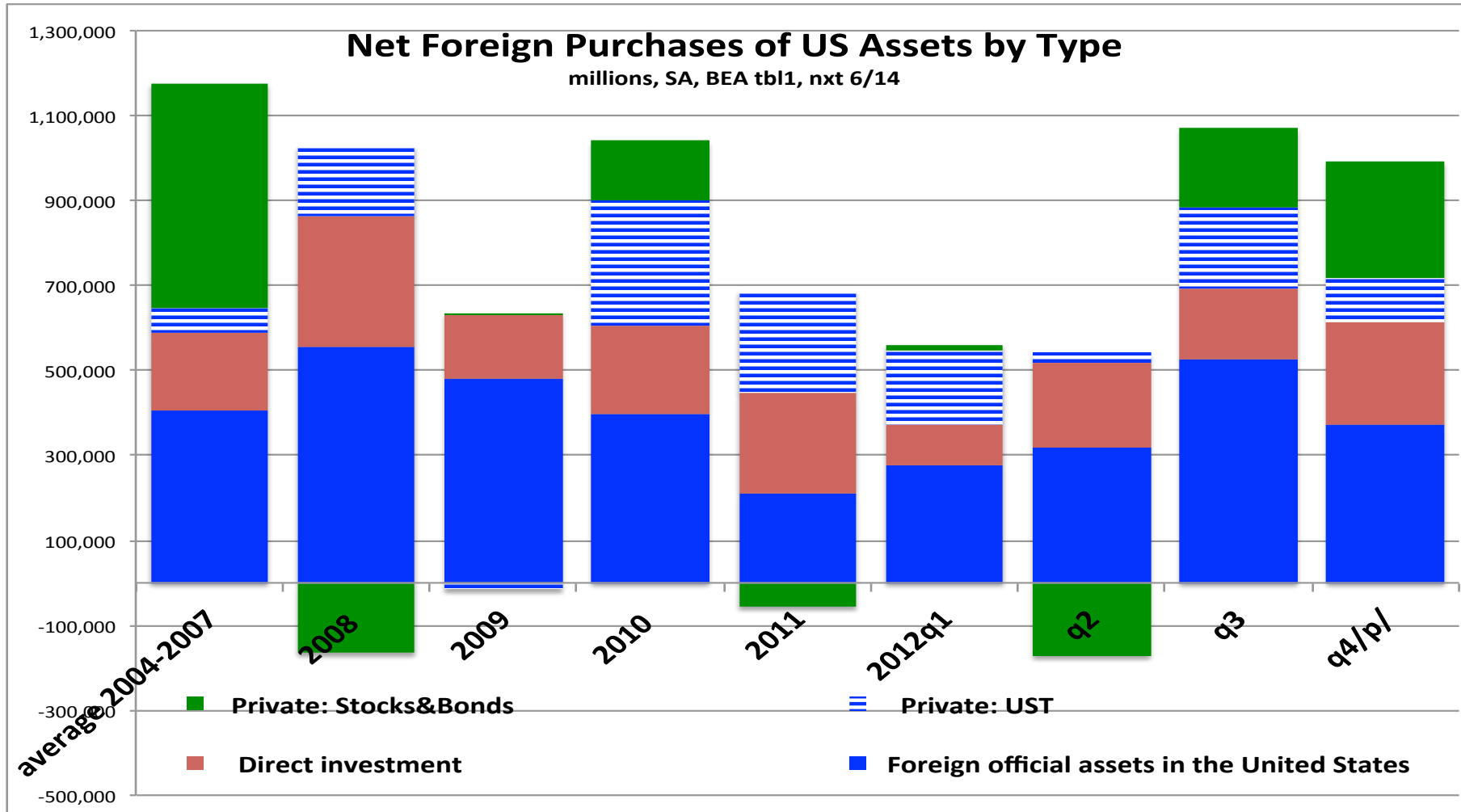
Gross Inflows: QE Arbitrage

financial centers drive trends, not official Asia



Net Inflows: Possible Return to Risk?

Gross vs net flows give different picture of QE



Steady FDI. Modest revival Corporate Asset.
Private flight to UST during turmoil; Steady official.

Foreign Official Portfolio at ZLB

increasing share, lengthening 3-6yr duration

Maturity Structure of Foreign Official Holdings of U.S. Treasury Securities

as of June 30

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FOI share, total	63	67	68	71	74	74	76	75	75	73
share Bonds in FOI	76	79	84	87	90	88	78	85	88	91

Maturity Structure of LT UST /1/

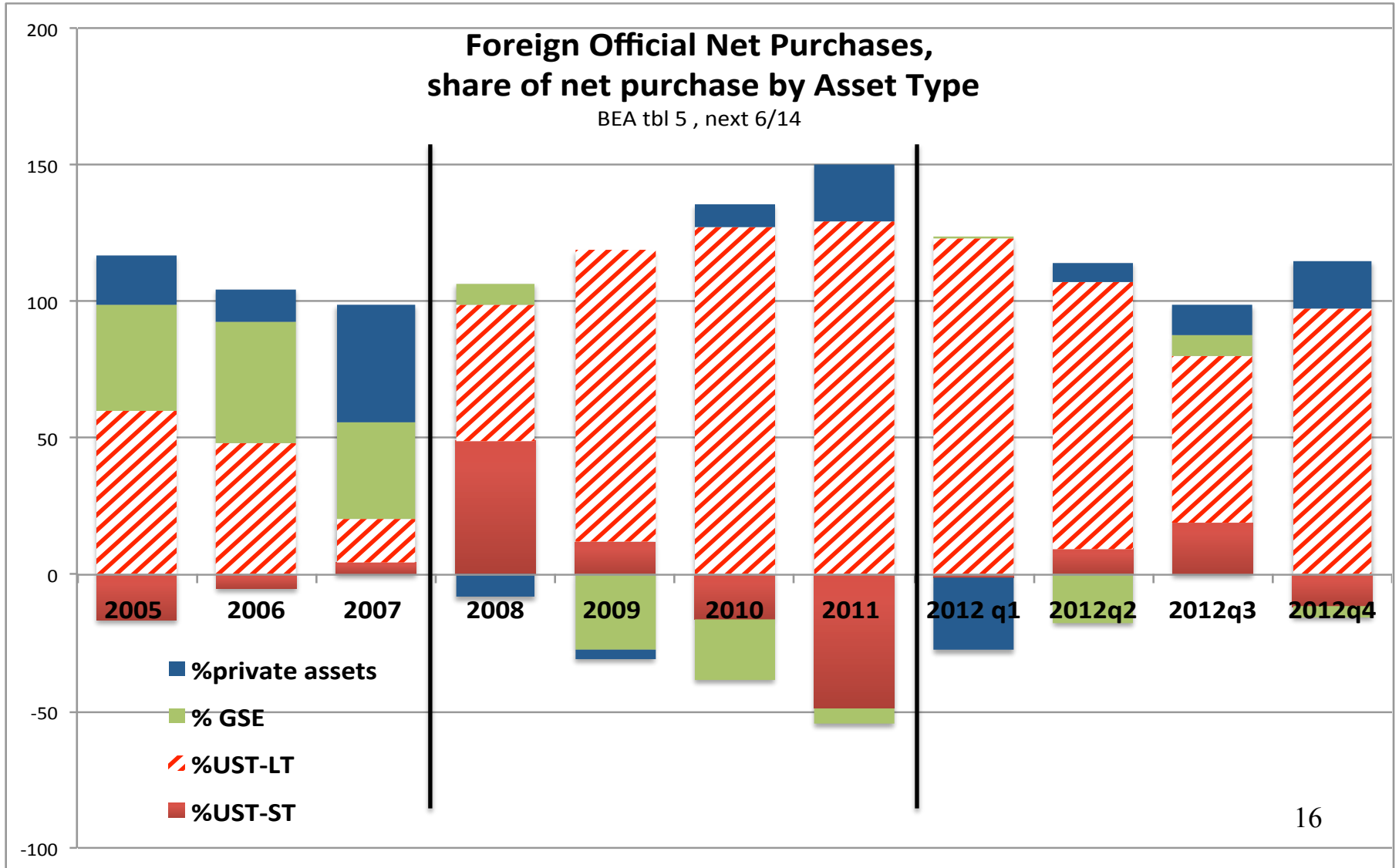
(share, remaining years to maturity)

one year or less	na	19.6	19.2	18.9	17.4	15.7	16	10.6	12	na
1 to 3 years	na	35.4	35.8	34.9	36.3	31.1	34.5	34.5	34.5	na
1 to 6 years	na	60.3	60.9	57.5	57	56.2	61	62.3	66.9	na
over 6 to 30 years	na	20.1	19.8	23.6	25.5	28.1	23	27.1	21	na

/1/ Calculated from Report on Foreign Portfolio Holdings of U.S. Securities

Foreign Official Net Flows

previous preference for risk and yield... will appetite return?



EME Perspectives on QE

- Currency concerns
 - .. can't depreciate against all the big-three.
- Hot money concerns
 - ... are realistic
- Growth vs. competitiveness
 - Growth easier to respond to
 - Exchange volatility more challenging

U.S. Perspectives on QE

- Fed purchases of US Treasuries
 - Fed has been a big buyer
 - Not just balance sheet size, ‘twist’ impact
- Which foreigners purchase US Treasuries
 - Private investors increasingly at auction
 - And key in cross-border, gross flows arbitrage
 - Foreign official still are net holders
 - But decreasingly China, Japan purchases