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?
US Transactions in Foreign Assets By Type

Not Hot; Probably Hot; Probably Very Hot
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

Probably Hot; Probably Very Hot
US Transactions by Bank/Brokers: Both Ways

US Purchase of Foreign Assets; Foreign Purchase of US Assets via Banks and Brokers

(-) is increase US purchase of foreign BEA 10a; (+) is increase foreign purchase of US BEA 11a,
millions, nsa, BEA tbl 1 nxt 6/14

- Sloshing both ways

- 69 U.S. liabilities reported by U.S. banks and securities brokers /15/

- 68 U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns

- 54 U.S. claims reported by U.S. banks and securities brokers /14/

- 53 U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns
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

- Business services, IP services
- Travel and transport
- Consumer goods, except automotive
- Automotive vehicles, engines, and parts
- Capital goods, except automotive
- Industrial supplies and materials
- Petroleum and products
- Imports of goods and services

2010

2011

2012

2013:q1
Quantitative Easing: Zero Lower Bound

US Treasury yield curve: 2003-2012
Who Holds US Treasury Securities?

Holders of US Treasury Securities
($ billions)

US Treasury MSPD, US Treasury Major Foreign Holders, Federal Reserve H.4.1

- Debt Held by Federal Reserve
- Debt Held by Foreigners
- Debt Held by US public
- Share foreign of public

Graph showing the amount of debt held by different entities from 2002 to 2012.
Quantitative Easing: The Tool

US Treasury Securities: Change in Holdings
million, Dec-Dec

USTR MSPD, FRB avg.wk.Dec, USTR. MajForHold

- US public
- Fed
- Foreign
- Foreign Official
QE and the Bond Auction: Falling share international/rising investment fund

Bond Issues: Investor Allocation
millions; total for year
US Treasury

US Treasury Auction Allotments: Share Selected Investor
Investor Class, U.S. Treasury, auctions through April 3, 2013

- foreign bonds
- investment funds -- bonds

- pension/insurance
- Deposit institution
- Individual
- Foreign/International
- Investment Funds
- Dealer/Broker
- SOMA
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 |
|---------------------------------|---|---|---|---|---|---|---|---|---|
| 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

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Foreign Official Net Flows

previous preference for risk and yield… will appetite return?

Foreign Official Net Purchases,
share of net purchase by Asset Type
BEA tbl 5, next 6/14

2005 2006 2007 2008 2009 2010 2011 2012 q1 2012q2 2012q3 2012q4

-100 -50 0 50 100 150 200

%private assets
% GSE
%UST-LT
%UST-ST
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