



Yields: how low can you go? Erik Britton

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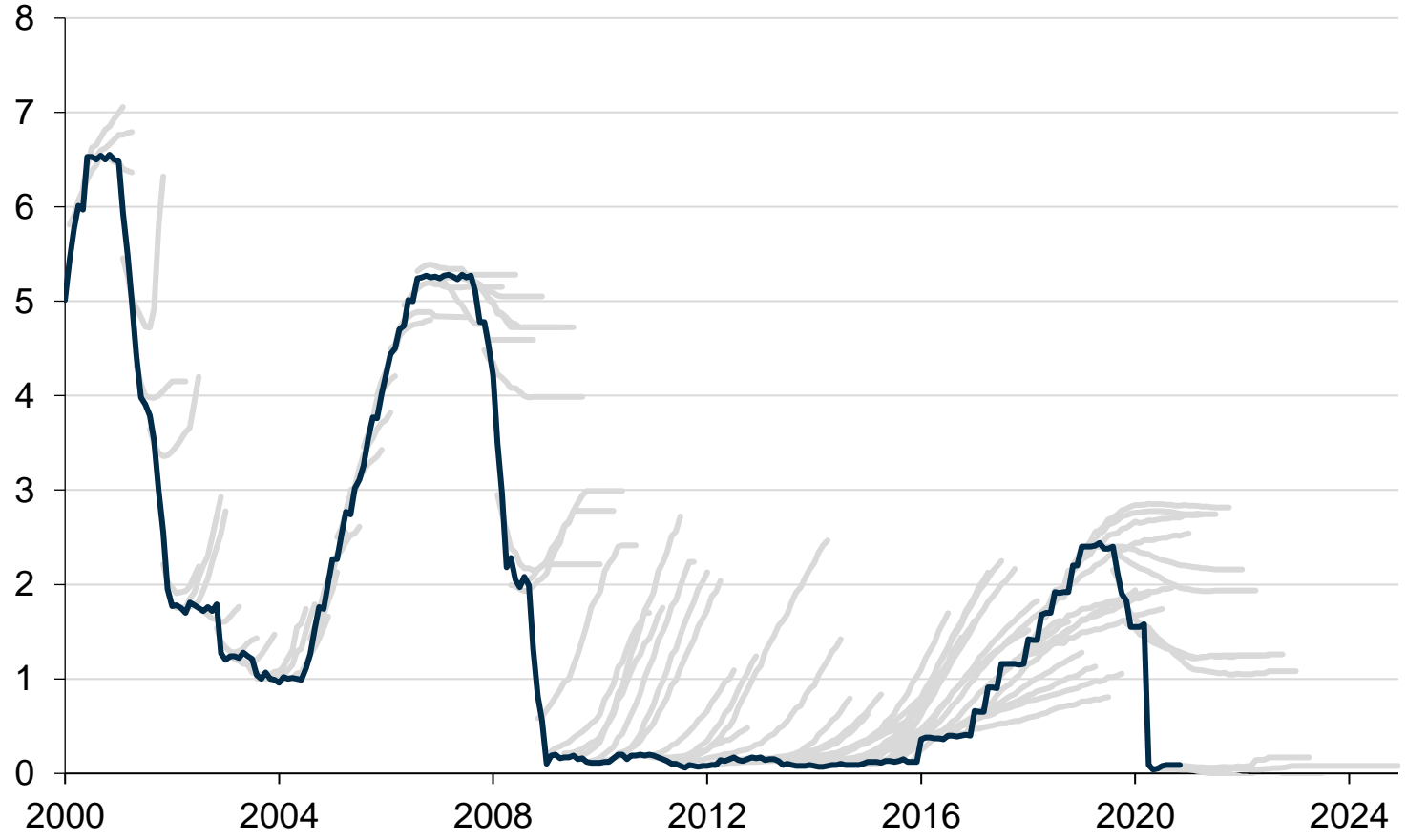
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| What's new?

- Markets generally over-estimate the future path for policy rates

Fed funds futures implied rates

Per cent

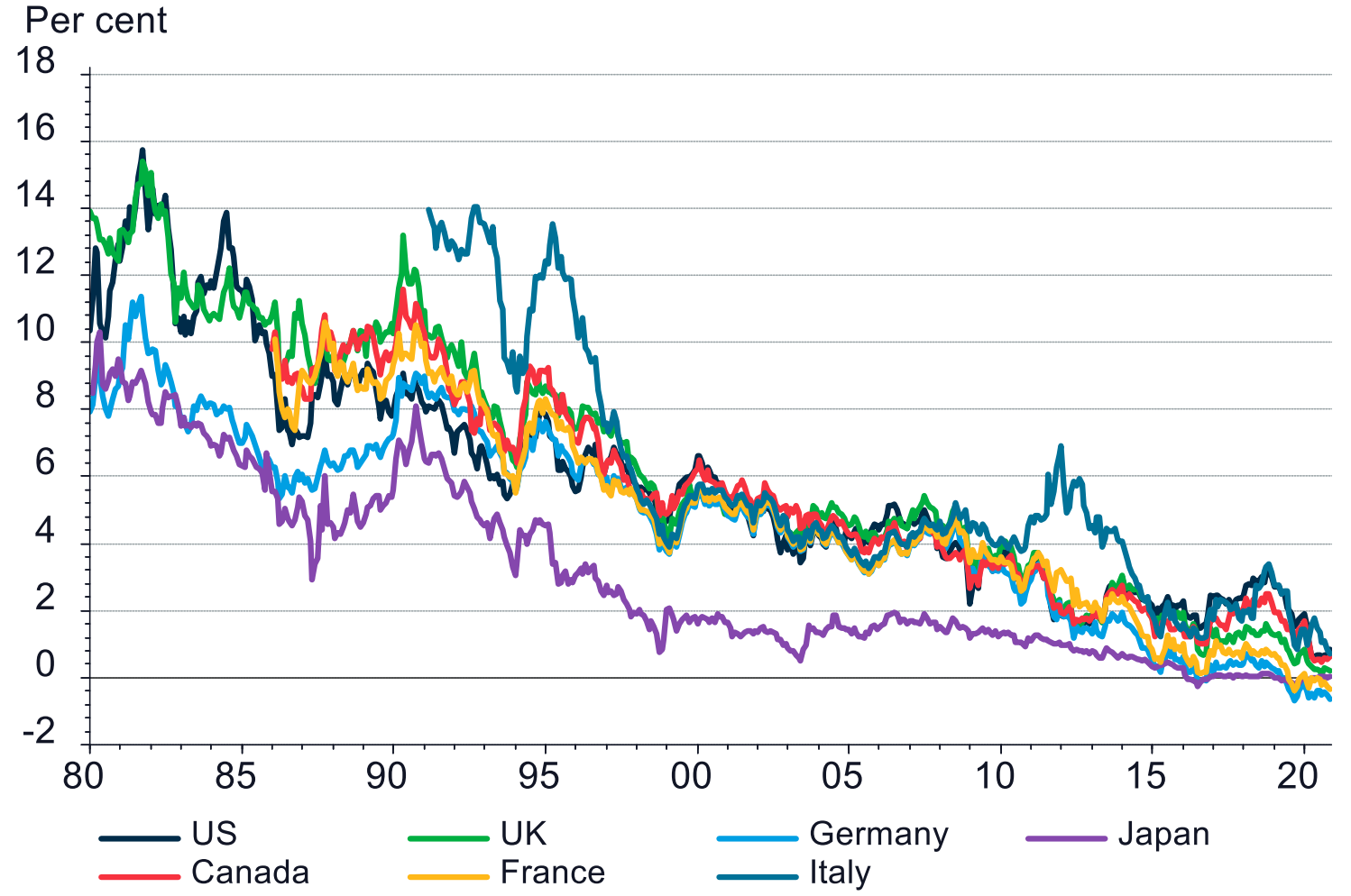


Source: Refinitiv Datastream / Fathom Consulting

Yields: how low can you go?

- Markets generally over-estimate the future path for policy rates
- Government bond yields in secular downward trend

Ten-year government bond yields



Source: Refinitiv Datastream / Fathom Consulting

Yields: how low can you go?

- Markets generally over-estimate the future path for policy rates
- Government bond yields in secular downward trend — mostly reflects policy rates
- With negative interest rates, the incentive to hold cash increases but there are costs in doing so

Countries and regions with negative rates			
	Policy rate	10Y gov. yield	1Y gov. yield
Switzerland	-0.75	-0.45	-0.76
Japan	-0.10	0.01	-0.15
Denmark	-0.75	-0.47	-0.53*

*Six-month yield

Source: Fathom Consulting

How far below zero can the deposit rate go?



Insurance
25bps



Cost of storage
25bps



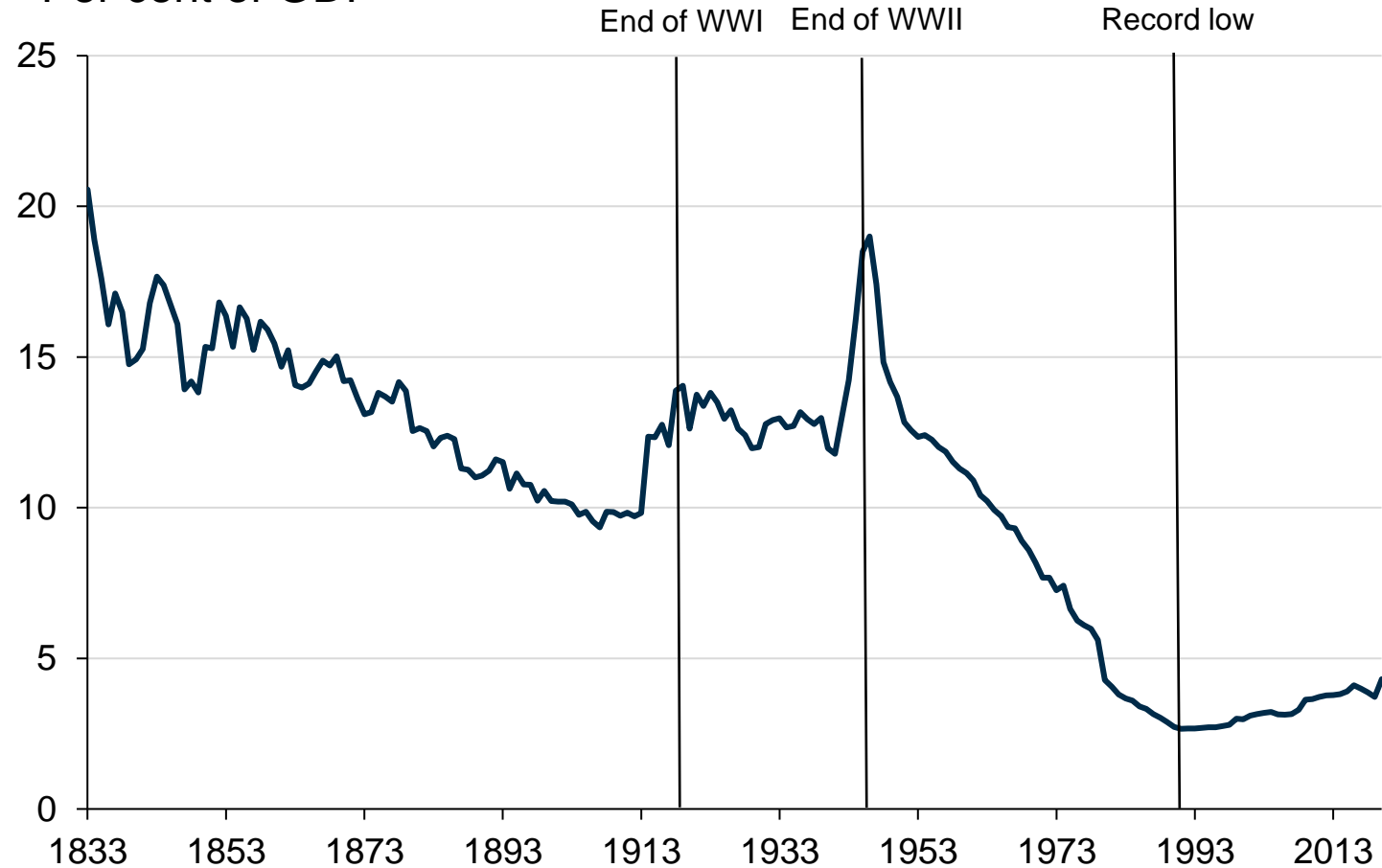
Convenience
200bps?

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- In order to get policy rates deeply negative, cash would need to be banned or taxed

UK currency in circulation

Per cent of GDP

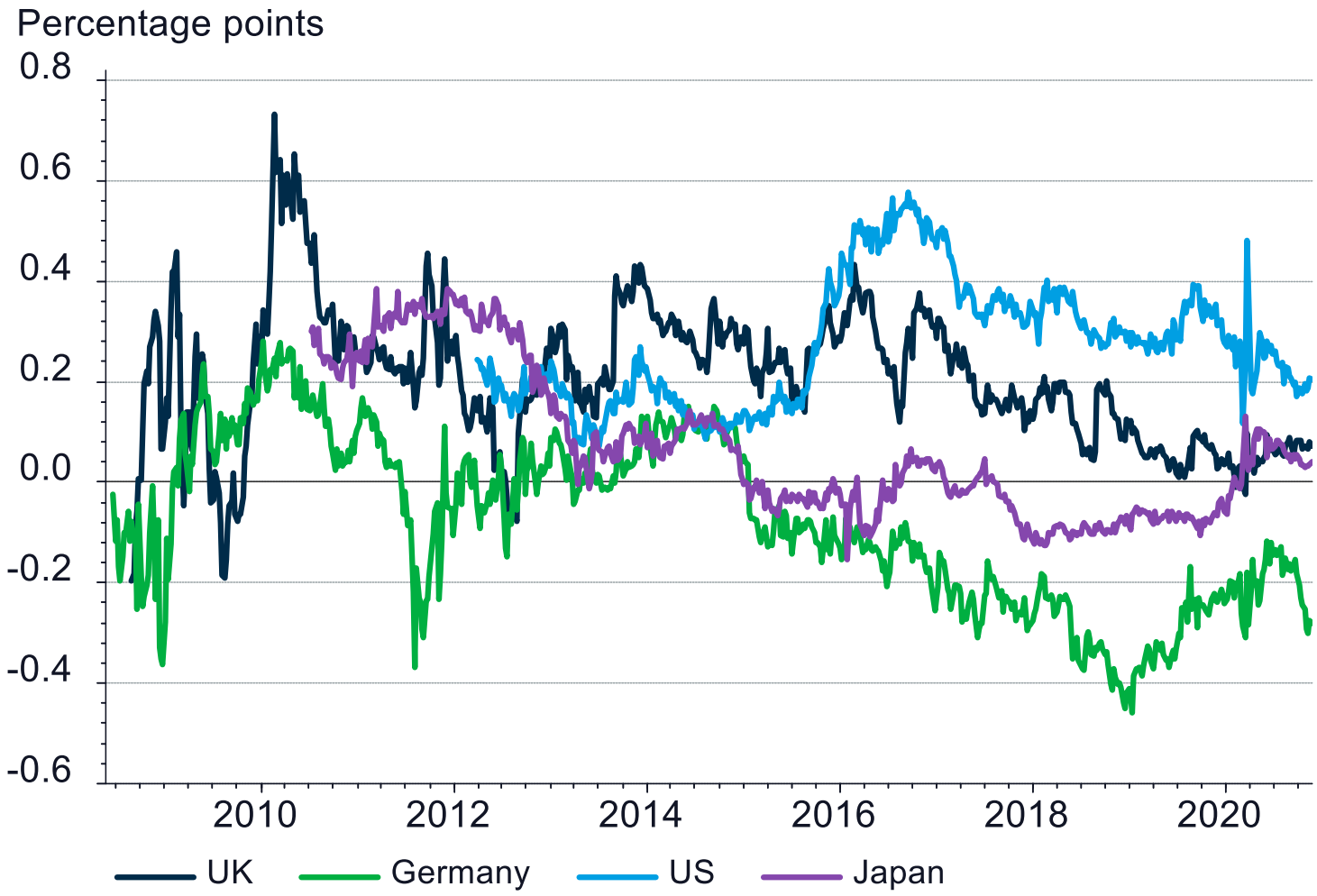


Source: Bank of England / Fathom Consulting

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- Effective lower bound on yields is lower still due to term premia

Ten-year bond–OIS spreads



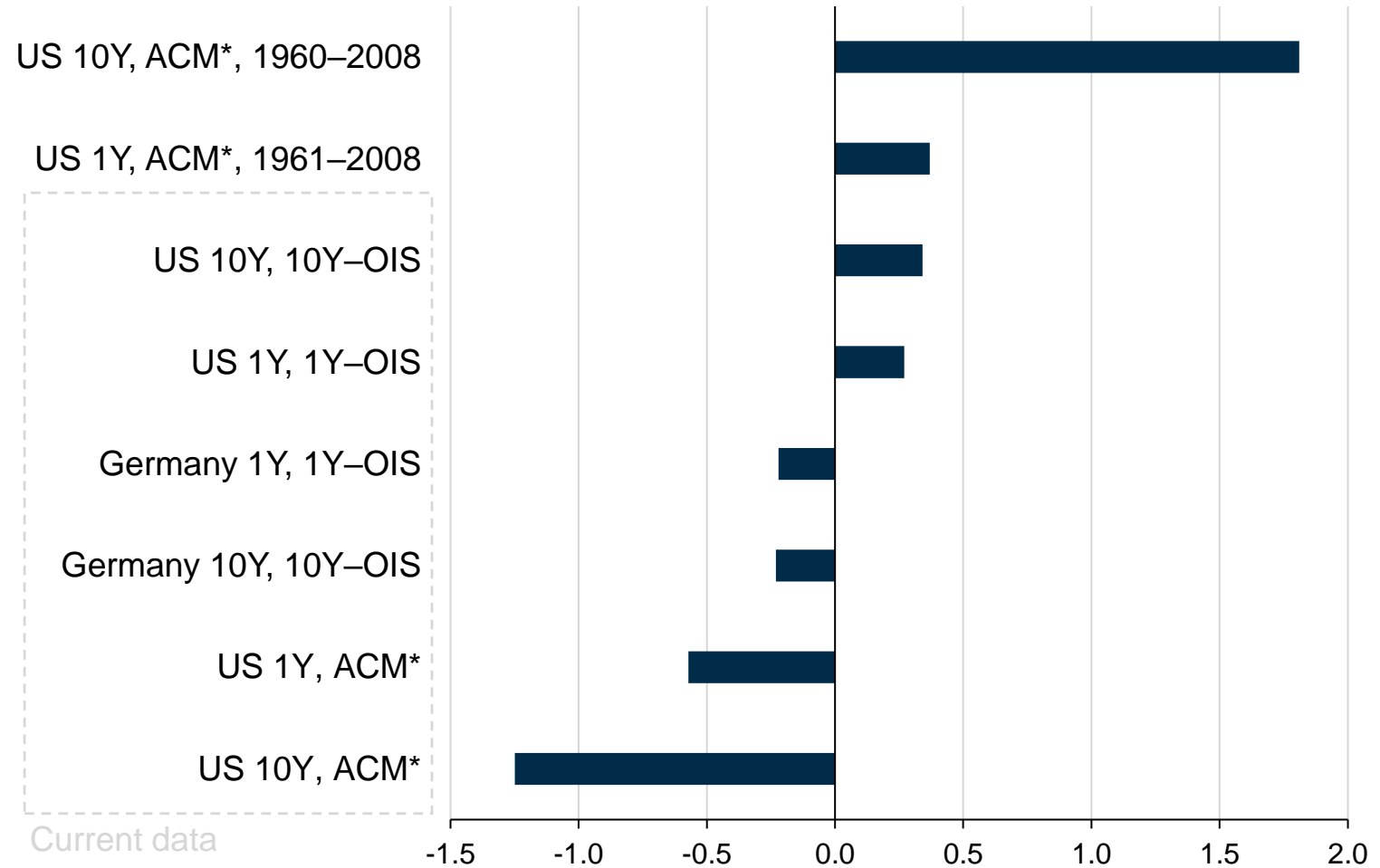
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- Term premia used to be positive, but are now negative — investors want disaster insurance

Term premium estimates, selected bonds

Percentage points



*ACM: Tobias Adrian, Richard Crump, and Emanuel Moench from the NY Fed

Source: Refinitiv Datastream / ACM / Fathom Consulting

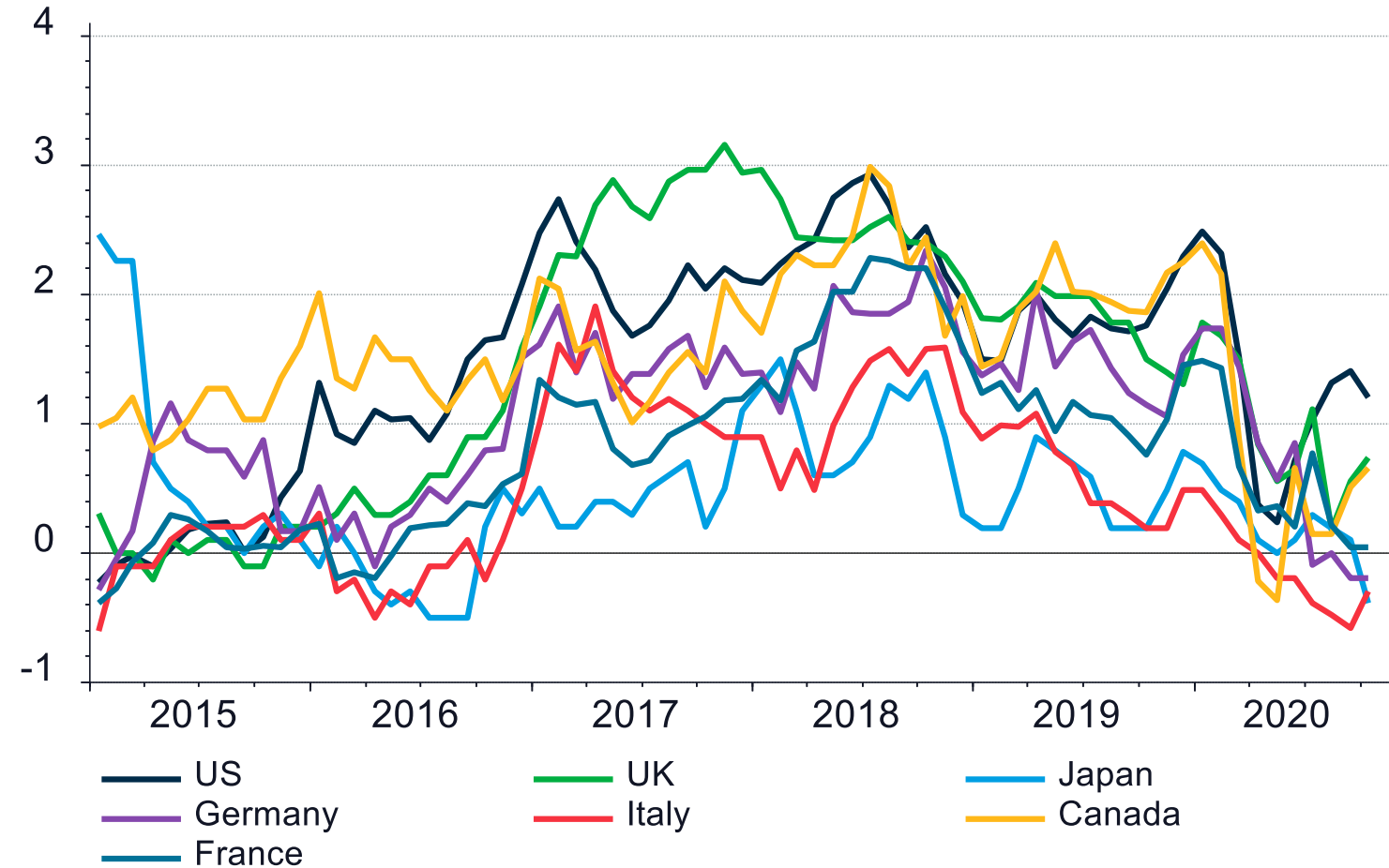
Inflation is the key

And there is none – for now

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- Term premia used to be positive, but are now negative — investors want disaster insurance
- Higher inflation would turn this around – and might be coming...

G7 inflation

Twelve-month percentage changes



Source: Refinitiv Datastream / Fathom Consulting