News analysis
Rise in issuance of funds as ‘taper’ looms

There is certainly more than one way of looking at this US bond market. The 1-year Treasury yields are well below the levels that prevailed just a couple of years ago. But it is now appearing that a much higher level of issuance of US government bonds than previously expected, and that the portfolio of US government paper is well diversified. The Federal Reserve and bond buyers (including foreign central banks) have taken up more of the issuance in recent months, with the yield curve continuing to steepen up and Treasuries of different maturities being bought up. But there is a second important point about the US bond market: the Federal Reserve has a number of tools at its disposal to affect the yields on Treasury bonds. The Federal Reserve has been careful not to signal that it is planning to take any steps to cut back on its purchases of Treasury bonds, and it has not announced any plans to do so.

In the current fiscal year, the Federal Reserve has purchased $57.2bn in Treasury bonds. This is the highest level of purchases by the Federal Reserve in its long history. The Federal Reserve has previously purchased $15.5bn in Treasury bonds in its first year of operations in 1933, and $31.3bn in its second year of operations in 1934. The Federal Reserve has also purchased $20.9bn in Treasury bonds in its third year of operations in 1935, and $36.5bn in its fourth year of operations in 1936.

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