Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio (AOFM)

Supplementary Budget Estimates

20-21 November 2013

Question: **SBT 80**

Topic: **Investment Sell-off (in US Treasuries)**

Hansard Page: **Page 8, 21 November 2013**

Senator HEFFERNAN asked:

80. CHAIR: Have you noticed any change at all in that, or is it too short of a period since the discussions about the debt limit occurred?

Mr Nicholl: What I can say is that we saw a sell-off in our market. That was largely due, we think, to two driving factors. One was the sell-off in the US Treasuries market after the Fed chairman made comments about the Fed starting to unwind their accommodative monetary policy.

Senator HEFFERNAN: At what point was the sell-off?

Mr Nicholl: I cannot remember what the US Treasury yields were, but we could take that on notice.

Answer:

80. US 10 year Treasury yields reached multi-decade lows of sub 1.5 per cent per annum in mid-2012. In 2013, a low in yields of around 1.62 per cent per annum was reached in the first few days of May 2013. Since that time, the yields on 10 year US Treasuries have trended higher, reaching a peak of just under 3.00 per cent in early September, before rallying to around 2.50 per cent per annum in late October. Through November US Treasuries again sold off, with yields reaching a high of around 2.80 percent in the third week of November.

While it is difficult to say that a sell-off began or ended at a specific point, it is clear that the trend in US Treasury yields (and thus Australian Government bond yields) has been higher since early May. Broadly speaking, rises and falls in US Treasury yields since that time have coincided with market expectations factoring in (and out) a so-called ‘tapering’ in the US Federal Reserve’s purchases of US Treasuries and mortgage backed securities.