



**NBP**

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Narodowy Bank Polski

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## ***The impact of Fed's balance sheet unwind on CEE***

*7<sup>th</sup> Annual NBP Conference on the Future of the European Economy (CoFEE)*  
20 October, 2017 Warsaw



*\*The views presented are mine, and not necessarily those of the NBP*

# Effective in October 2017, the Fed is „taking away the punchbowl”

## FEDERAL RESERVE press release



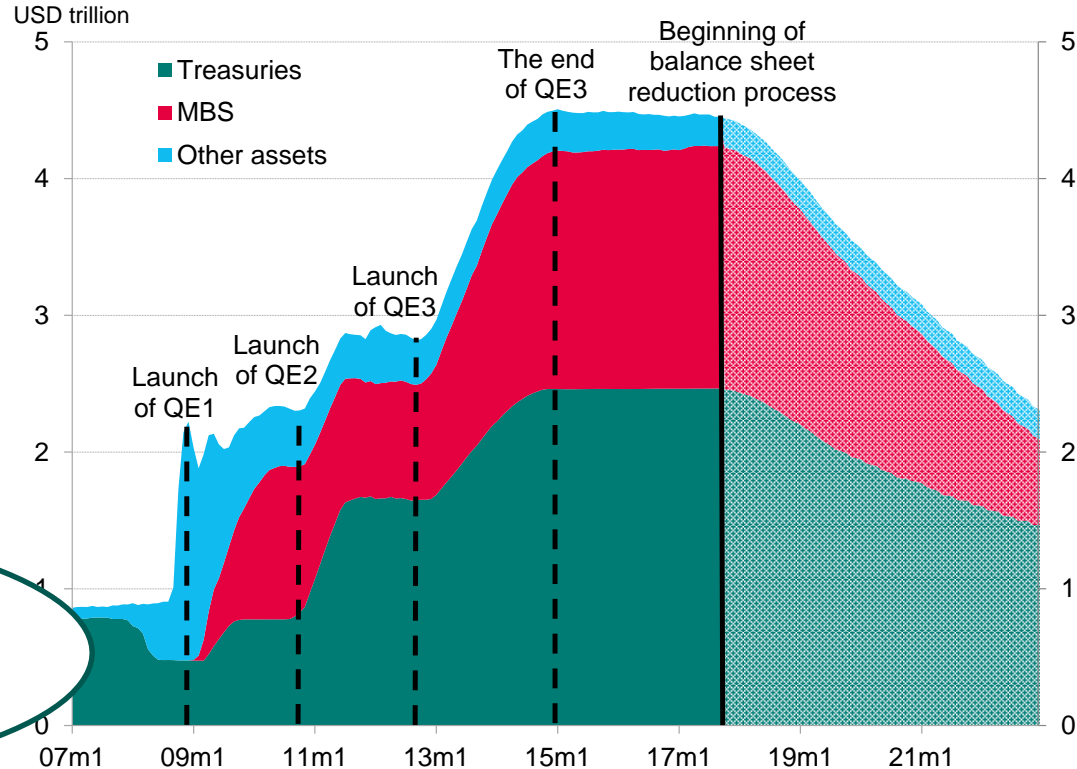
For release at 2 p.m. EDT

September 20, 2017

Information received since the Federal Open Market Committee met in July indicates that the labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have remained solid in recent months, and the unemployment rate has stayed low. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. On a 12-month basis, overall inflation and the measure excluding food and energy prices have declined this year and are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

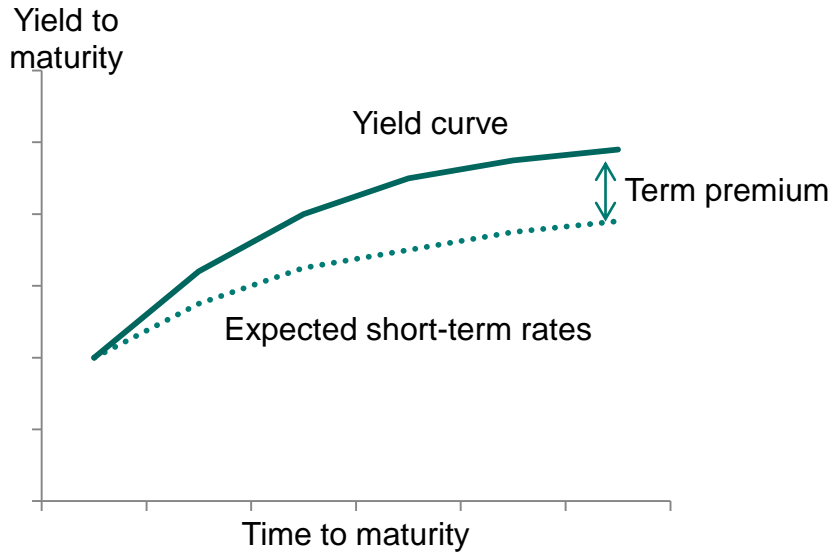
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Hurricanes Harvey, Irma, and Jose have devastated many communities, inflicting severe hardship. Storm-related damage and rebuilding will affect economic activity in the near term, but past experience suggests that the storms are unlikely to materially alter the course of the economy over the medium term. Consequently, the Committee expects to continue its gradual adjustments in the monetary policy tools.

*„...In October, the Committee will initiate the balance sheet normalization program...”*

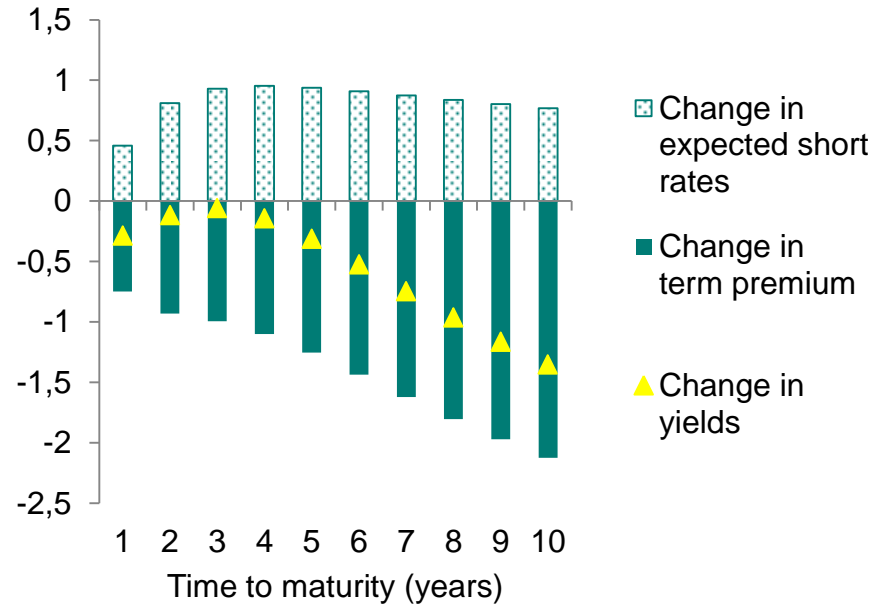


# Asset purchases lower yields by compressing „term premium”

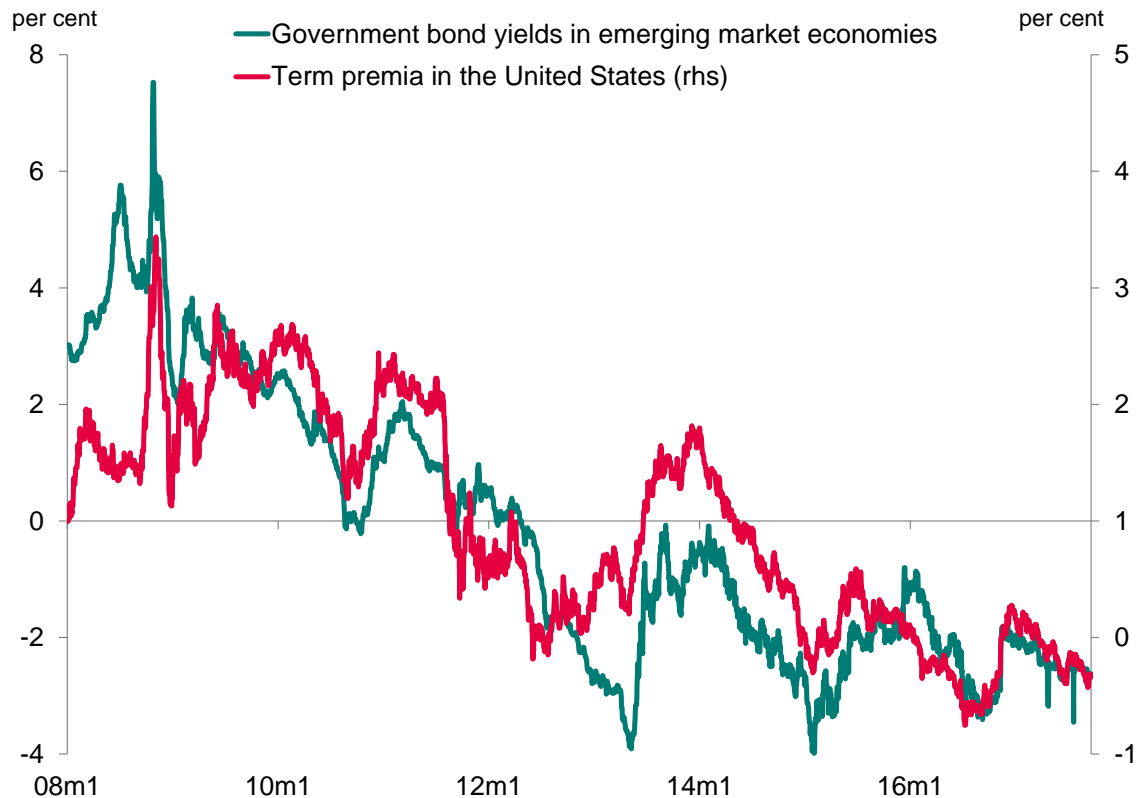
Nominal yield = Expected short-term rate + term premium



US yield curve changes 2009-2015 (percentage pts.)

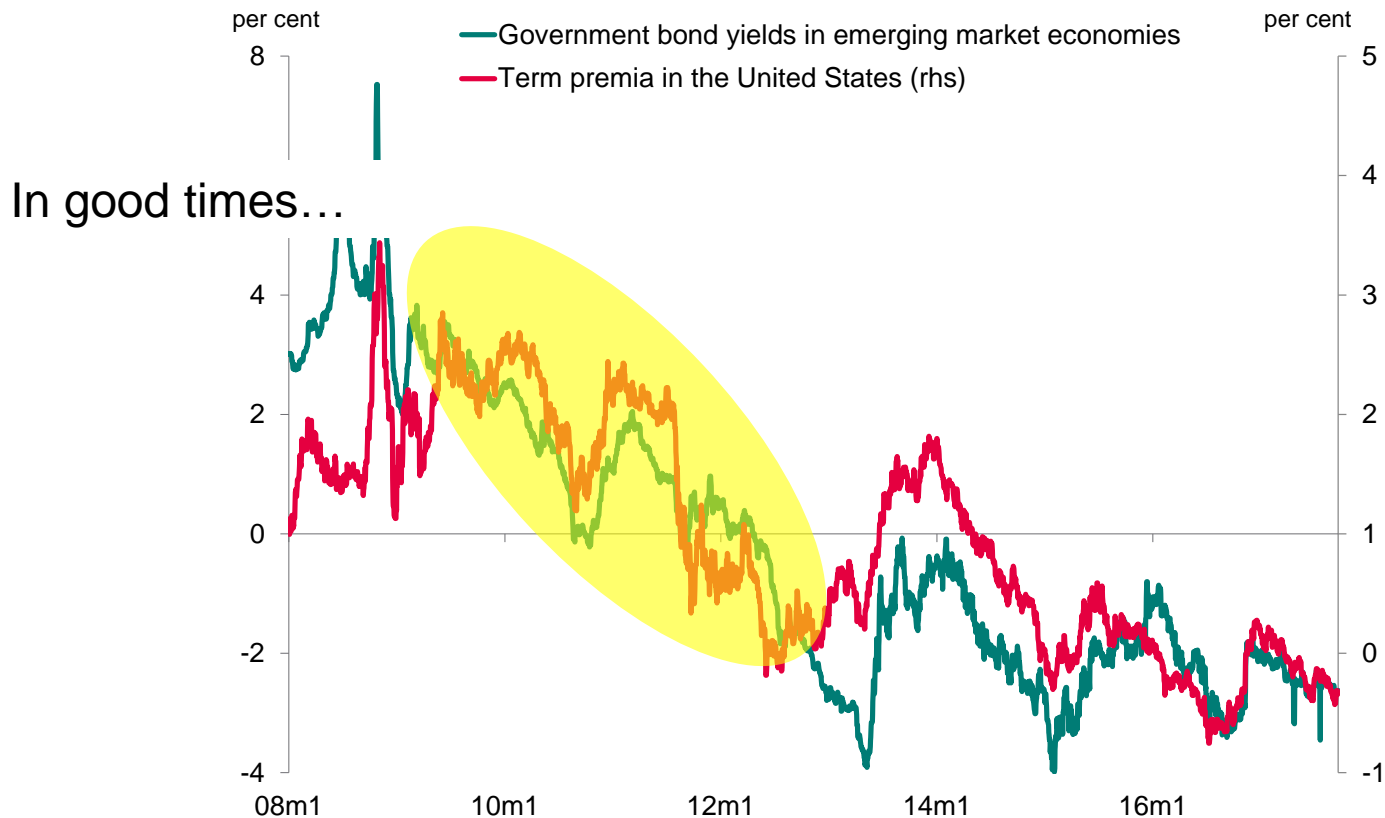


## US term premium developments spill over to emerging markets...

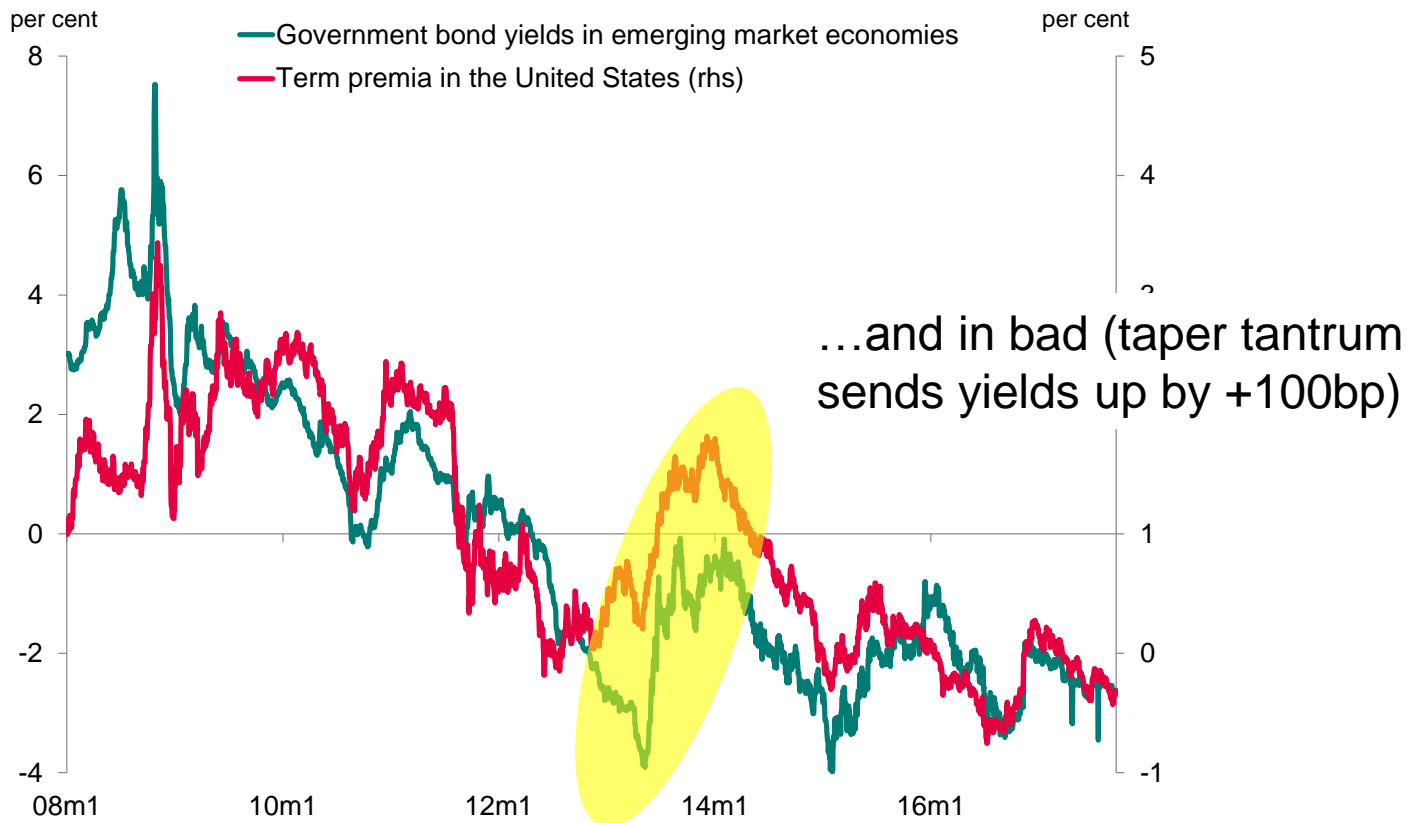


Bond yields in EM: 1st principal component of bond yields in CEE and Brazil, Columbia, Mexico, Korea, Turkey and South Africa.

# US term premium developments spill over to emerging markets...

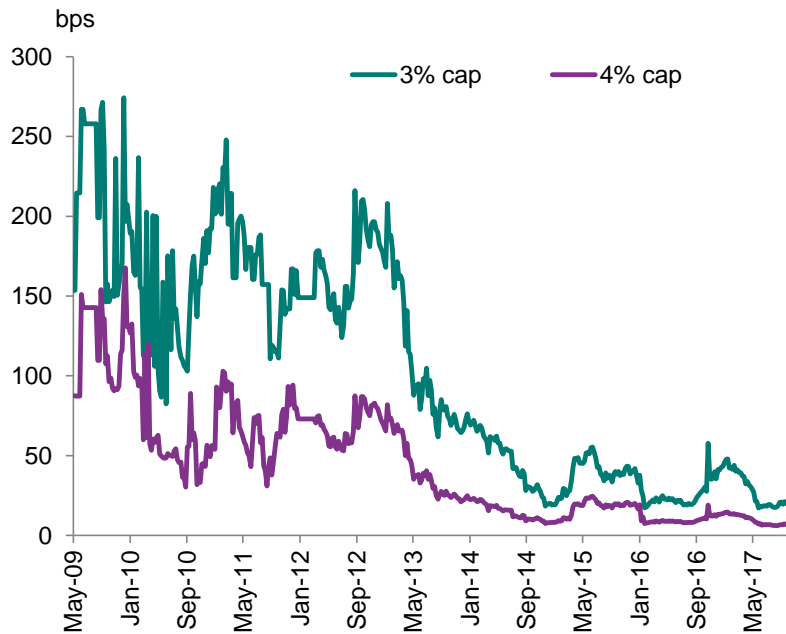


# US term premium developments spill over to emerging markets...



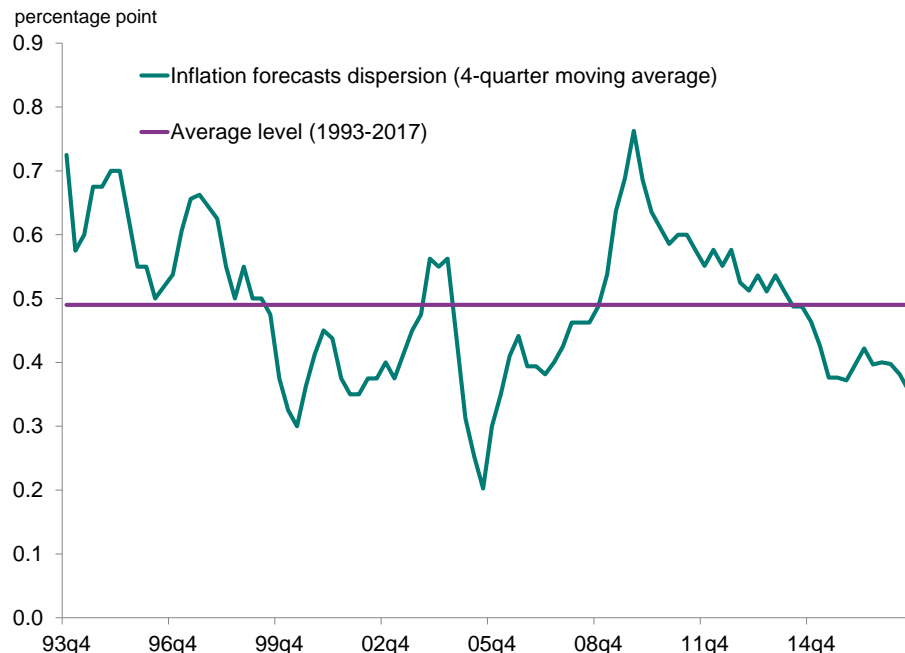
# Historically low inflation premium... unlikely to go up any time soon

The cost of hedging against US inflation averaging above 3% and 4% in the next 5Y



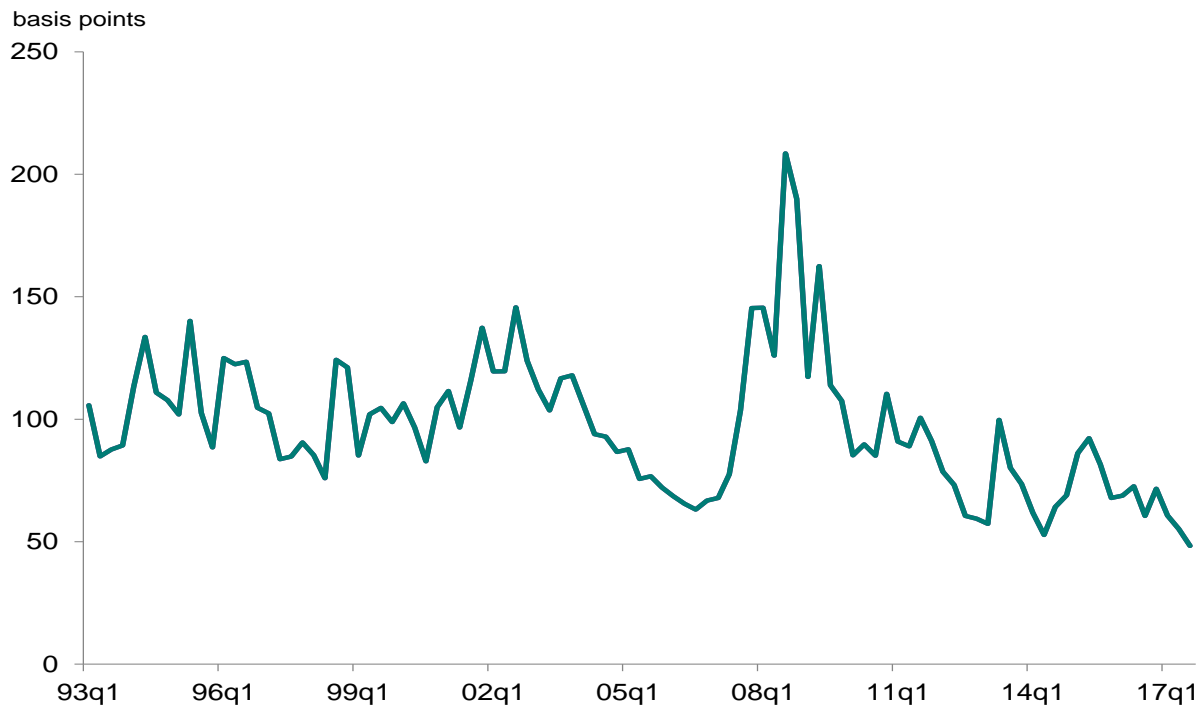
5Y zero-coupon CPI cap premiums. Source: Bloomberg

Dispersion of forecasts of US inflation in the next 10Y



Difference between 75-25 percentiles of SPF forecasts distribution. Source: Philadelphia Fed

## Historically low „expected” volatility of long-term yields

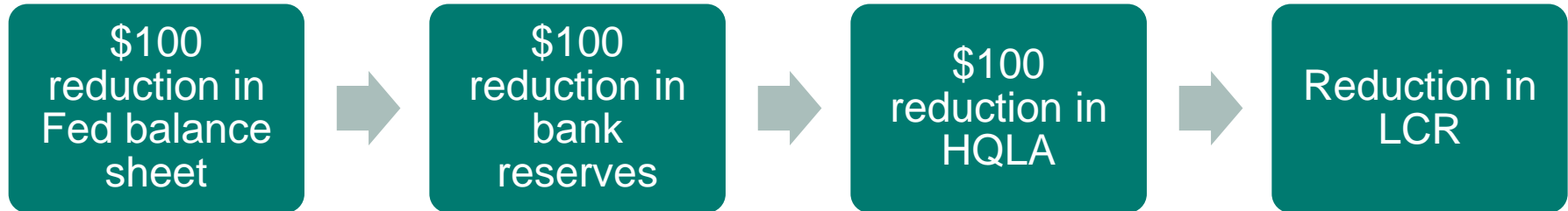


Merrill Lynch Option Volatility Estimate; weighted average of normalized implied volatility on 1-month Treasury options; Source: Bloomberg



## Regulatory pressure boosting banks' demand for US treasuries

$$\text{LCR} = \frac{\text{High-quality liquid assets (HQLA)}}{\text{Stressed net cash outflow}} > 100\%$$

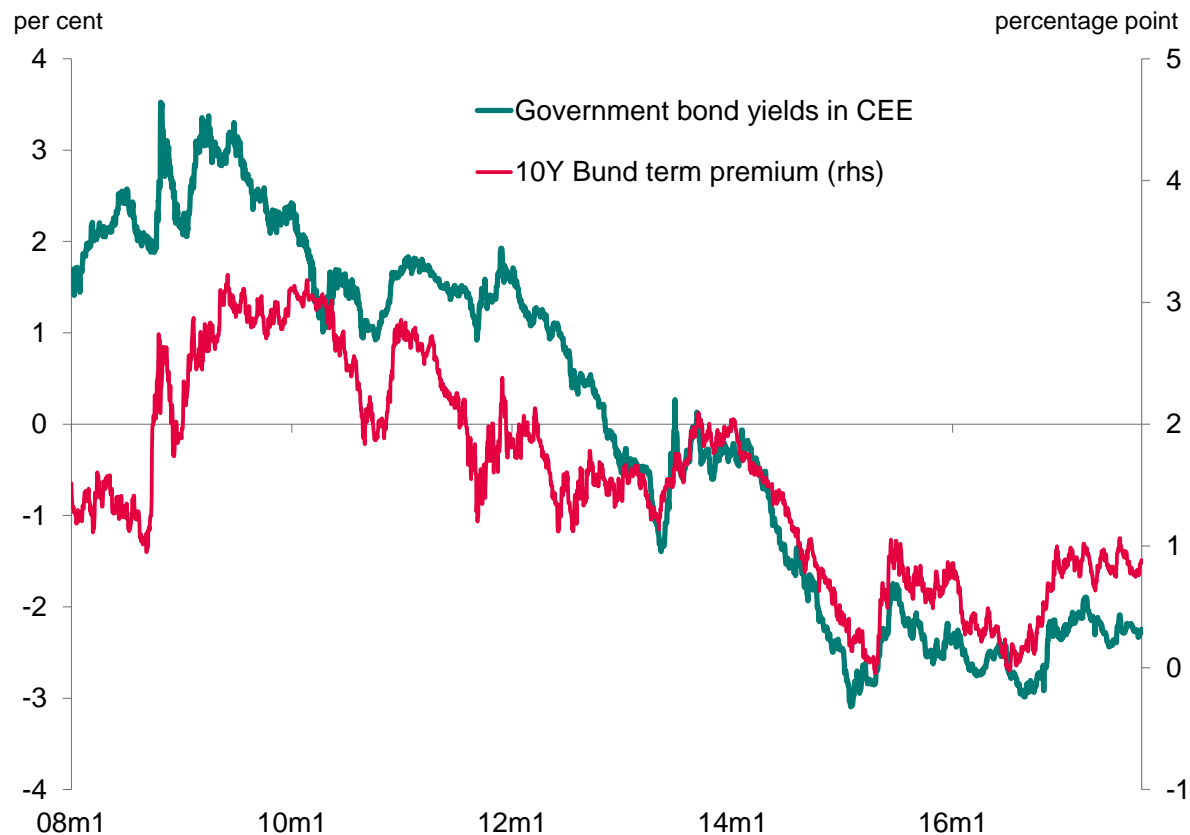


## **Supplementary slides**

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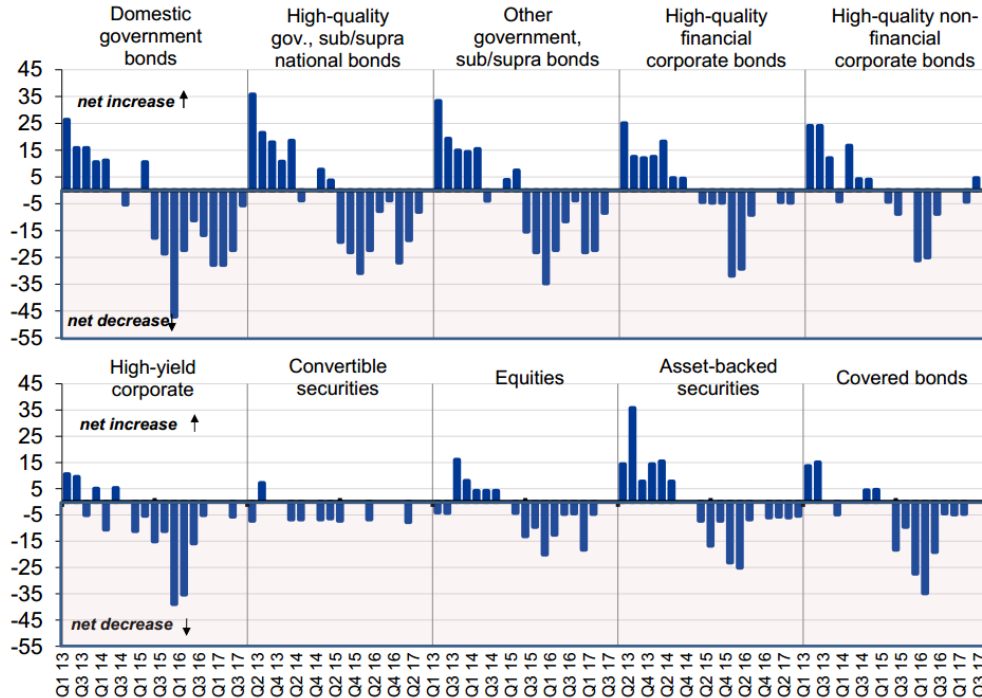
### **The impact of ECB APP on CEE**

## CEE yields and DE term premium



# Are ECB asset purchases „destroying” fixed income markets?

Changes in liquidity and functioning of markets (net percentage of survey respondents)



Source: ECB survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets