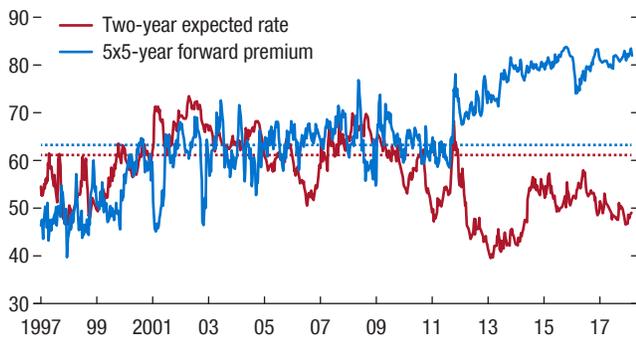


**Figure 1.6. Term Premium Correlations, Spillovers, and Exchange Rate Relationships**

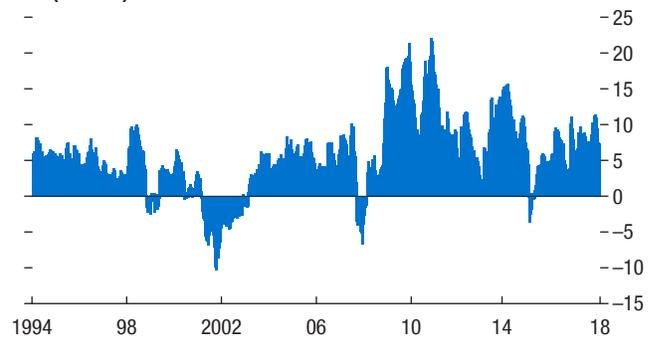
Term premiums in major advanced economies move very closely together even as market expectations of policy rate paths diverge.

**1. Term Premiums and Expected Rate Correlations  
(Percent explained by first principal component)**



Spillovers between G4 term premiums are elevated, with the United States dominating the direction.

**2. Net Pairwise Spillovers between the US Term Premium and German, Japanese, and UK Premiums  
(Percent)**



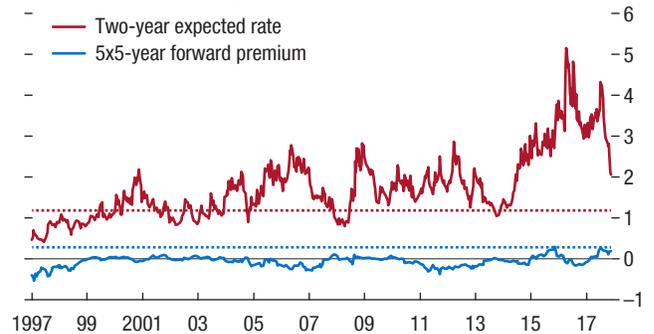
Short rates dominate movements in exchange rates between the euro-US dollar ...

**3. Spot US Dollar Exchange Rate Betas: Euro**



... and the sterling-US dollar cross rates.

**4. Spot US Dollar Exchange Rate Betas: British Pound**



Sources: Bloomberg Finance L.P.; and IMF staff estimates.

Note: The dotted horizontal lines denote unconditional sample estimates. In panel 2, a positive (negative) value indicates that the US term premium is a shock transmitter (receiver) to German, Japanese, and UK term premiums. G4 = Group of Four (Germany, Japan, United Kingdom, United States).