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)

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

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


4. Spot US Dollar Exchange Rate Betas: British Pound

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

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

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).