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Inflation or disinflation? Evidence from maturing US Treasury Inflation-Protected Securities

Quentin C. Chu, Deborah N. Pittman & Jeng-Hong Chen

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Abstract

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movement of the CPI forecasts toward the actual target CPI during the first quarter of

2002 implies the market was then anticipating a disinflationary regime. One policy implication is that time series behaviour of CPI forecasts can provide timely feedback to the Federal Reserve Open Market Committee.

Acknowledgements

This work was supported in part by a grant from the Fogelman College of Business & Economics at the University of Memphis. The authors are grateful for the input of seminar participants at the 2004 Financial Management Association Meetings, Nanyang Business School, TamKang University and Yuan Ze University. Any remaining errors are our own.

Notes

¹ Wall Street Journal, 13 August 2002, p. D1, column 5.

² In the foreign exchange market, assuming rationality and risk-neutrality of market participants, forward rates should reflect all available information and expectations of future spot rates. In the presence of speculation, forward rates may deviate from the expected future spot rate. Hodrick (1997) shows that forward bias puzzles can be explained by speculation.

³ Neftci (1994) shows that the forward bias puzzle is not supported by the data. The data are based on the simulation of the forward bias puzzle.

⁴ In fact, the forward bias puzzle is not supported by the data. The data are based on the simulation of the forward bias puzzle.

⁵ Articles such as 'Would a Pinch of Real Long Money, 4 February 2002.



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