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

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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.

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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 in	formation and expectations of
future sp	🗙 cor of the
future sp	to
speculat	en and
Hodrick	
³ Neftci (ation set as
'the sim	
⁴ In f	ge on 15
April 200	
⁵ Articles	, 'Would a
Pinch of	hough it's a
Real Lon	n Sound
Money, 4	February
2002.	

⁶ As a practical matter, so that the BLS has enough time to compile price data, there is a 3-month lag in indexing CPI.

⁷ This issue is a 5-year TIPS note with a coupon rate of 3–5/8%, auctioned on 9 July 1997 and reopened on 8 October 1997. A 10-year TIPS note with a coupon rate of 3– 3/8%, auctioned on 29 January 1997 and reopened on 8 April 1997, will be the next to mature on 15 January 2007.

⁸ Amihud and Mendelson (<u>1991</u>) use the same linear approximation approach to derive the price of a hypothetical Treasury security with a maturity date lying between two actual Treasury bill maturity dates.

⁹ These two statistical properties of a martingale difference sequence are derived in Hayashi (2000), p. 104.

 10 Hayashi (2000) observes that expression (17) should be asymptotically chi-squared distributed.

¹¹ A common measurement of liquidity is the bid-ask spread. During the entire study period, the bid-ask spread for TIPS remains virtually the same. The stable bid-ask spread does not support the argument that the large and gradually decreasing difference between the forecast and actual CPI in period I is due to a time-varying



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