

Safe asset demand and the maturity structure of debt

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Discussion by Franck Portier

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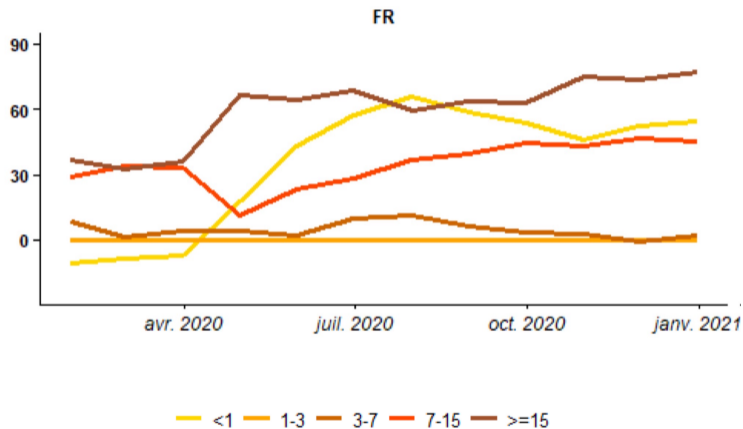
7th AMSE-BdF workshop in Macroeconomics
Marseille

Roadmap

I go through the paper from beginning to end and make some comments

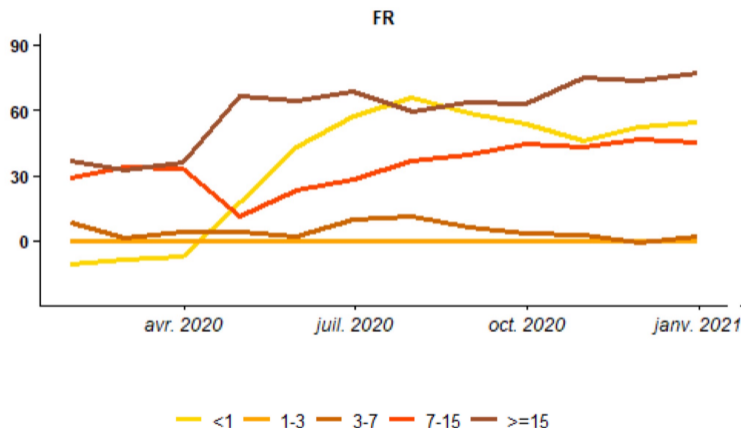
An interesting observation

- Large increase in the French T-Bills issuance during the Covid-19 pandemics



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- Large increase in the French T-Bills issuance during the Covid-19 pandemics



- Perhaps not the best motivating fact as the paper is not about Covid times.

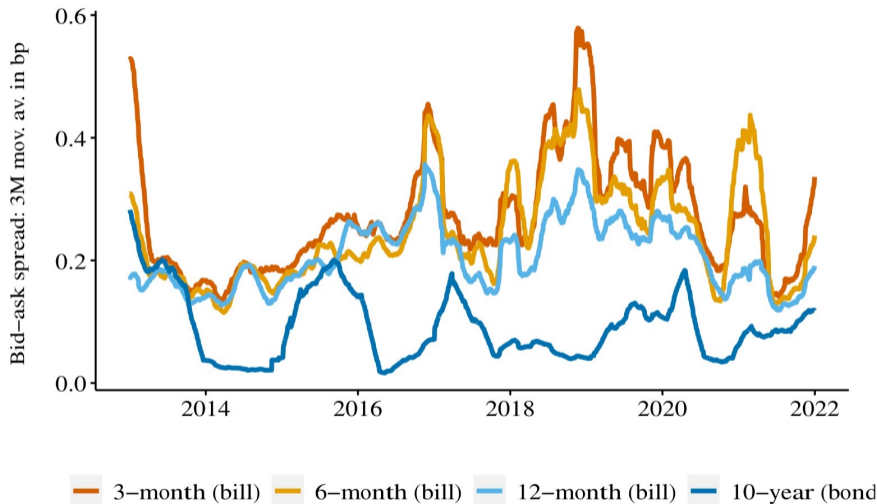
Common wisdom regarding optimal sovereign debt maturity management

- Use long debt because of tax smoothing
- Short debt exposes the government to rollover risk.
- Short debt may optimally exist if, among other things, it provides safety and liquidity.

Some interesting facts regarding French sovereign debt

Some interesting facts regarding French sovereign debt

- Fact 1 – French bills markets are less liquid than bonds ones

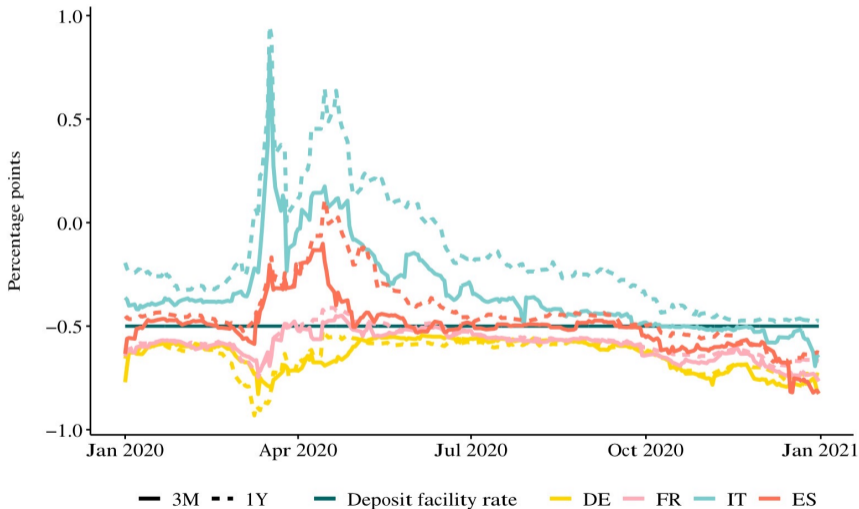


Some interesting facts regarding French sovereign debt

- Fact 2 – French bills markets are deeper than bonds ones (price impact of an action is smaller)
- As of today, documenting this fact is the contribution of the paper.

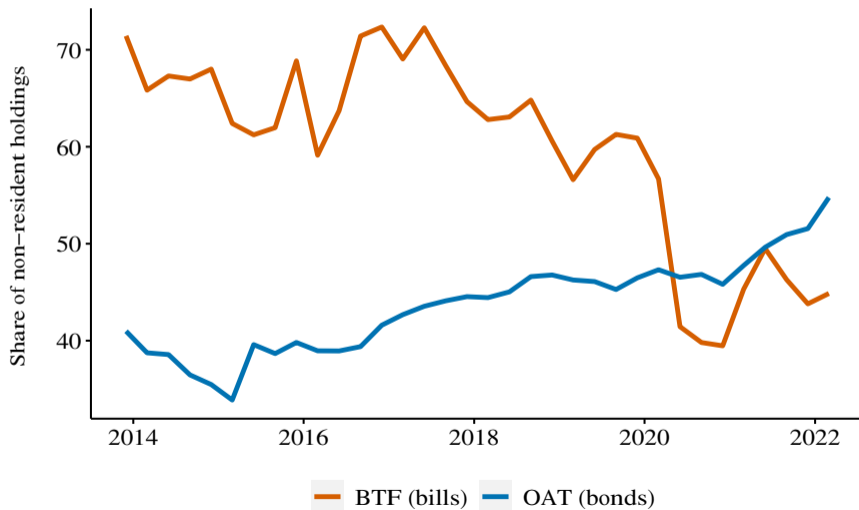
Some interesting facts regarding French sovereign debt

- Fact 3 – Marginal investors on French bills markets are not Eurozone banks.



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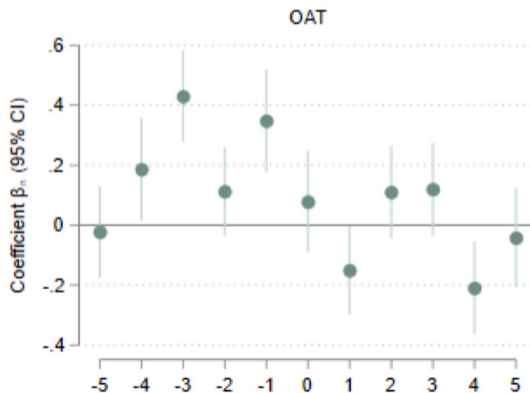
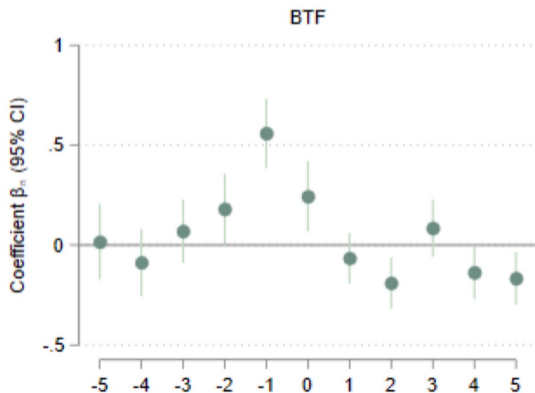


What is going on?

- Market for French bills is less liquid than bonds, but demand elasticity is lower than for bonds.
- Marginal investor in non Eurozone.
- It seems that this marginal investor is looking for safety, not liquidity.

Core of the paper

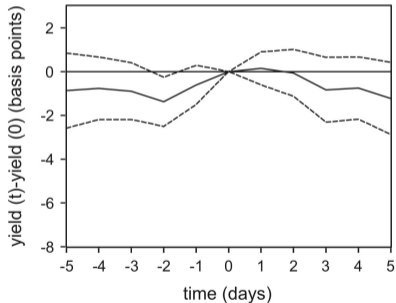
- Documenting the price impact of auctions
- First an event study



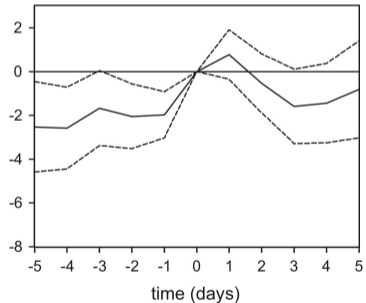
Core of the paper

- This is reminiscent of BEETSMA ET ALII [2014] “auction cycle”

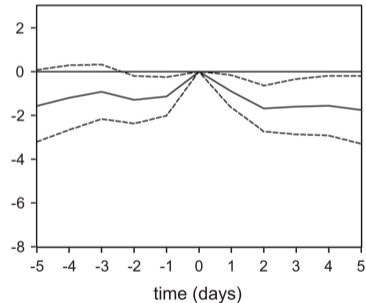
2-year maturity - Germany



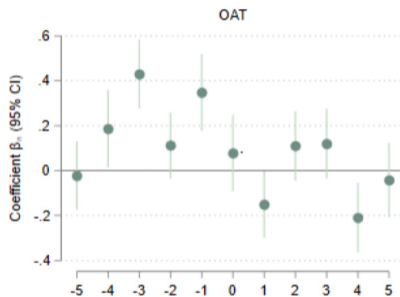
5-year maturity - Germany



10-year maturity - Germany

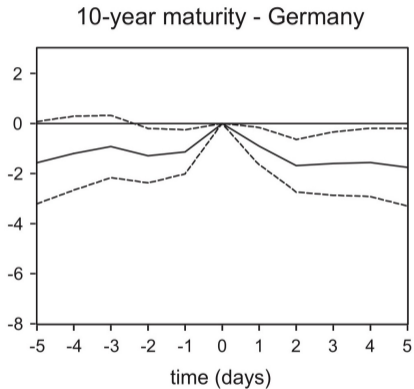
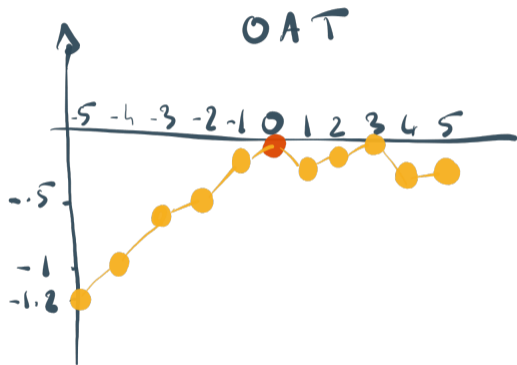


Core of the paper



i	-5	-4	-3	-2	-1	0	1	2	3	4	5
Δ_i	0	0.2	0.4	0.1	0.4	0.1	-0.2	-0.1	-0.1	-0.2	0.05
$\Sigma \Delta_i$	0	0.2	0.6	0.7	1.1	1.2	1.1	1.1	1.2	1.1	1.05
$\Sigma \Delta_i^2$	0	0.2	0.6	0.5	0.1	0	0.2	0.1	0	0.2	0.15

Core of the paper

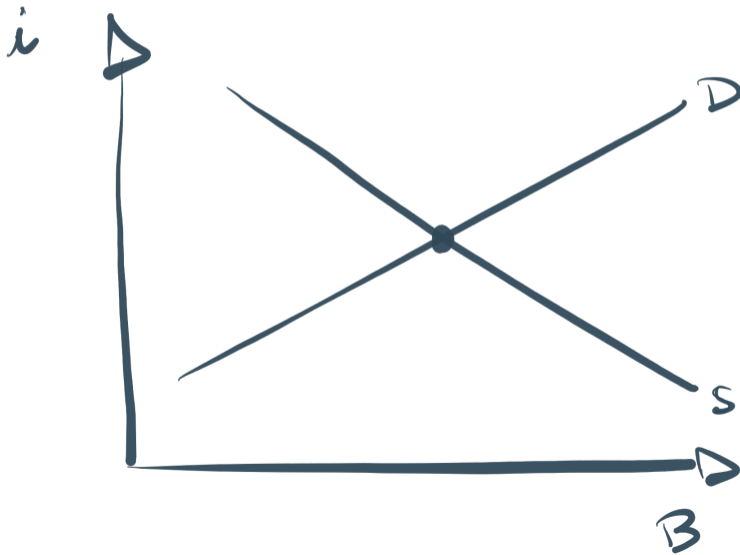


Core of the paper

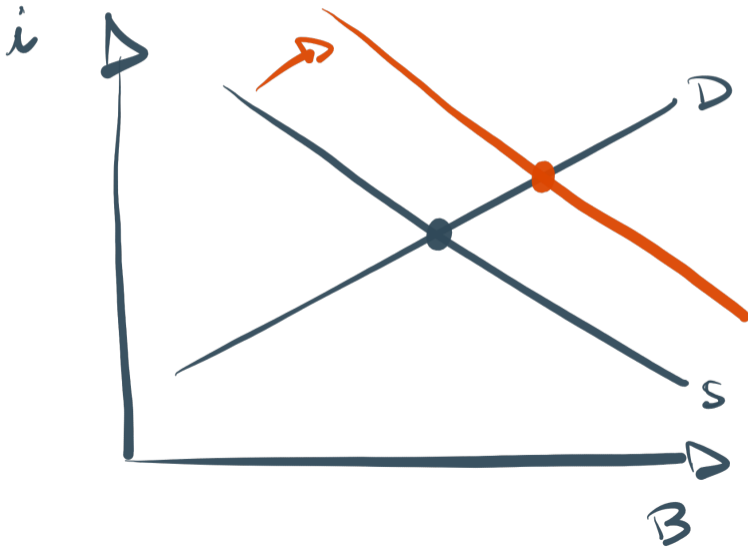
- Is the dynamics around the auction important here?
- I don't think so. Overall effect is enough.

	(1) All ISIN
Issued _t × BTF	0.109 [0.155]
Issued _t × OAT	0.225*** [0.000]
Observations	162800
R^2	0.47
Adjusted R^2	0.46
ISIN FE	yes
Time FE	yes

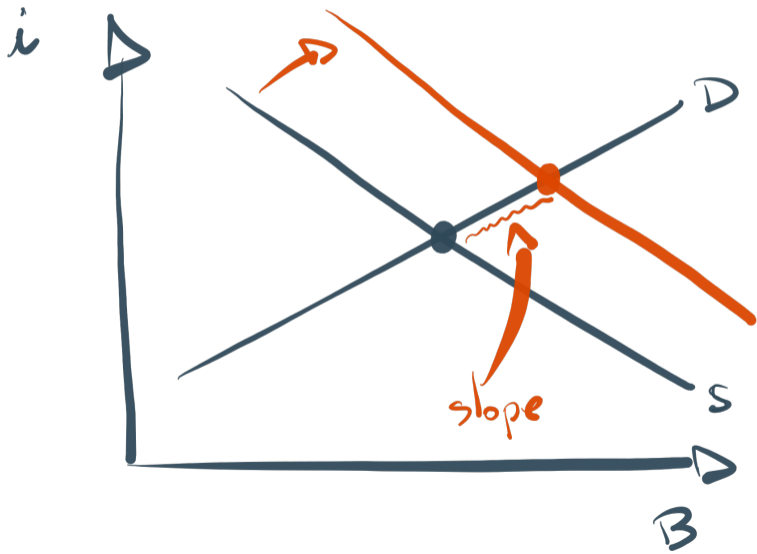
Core of the paper
Endogeneity



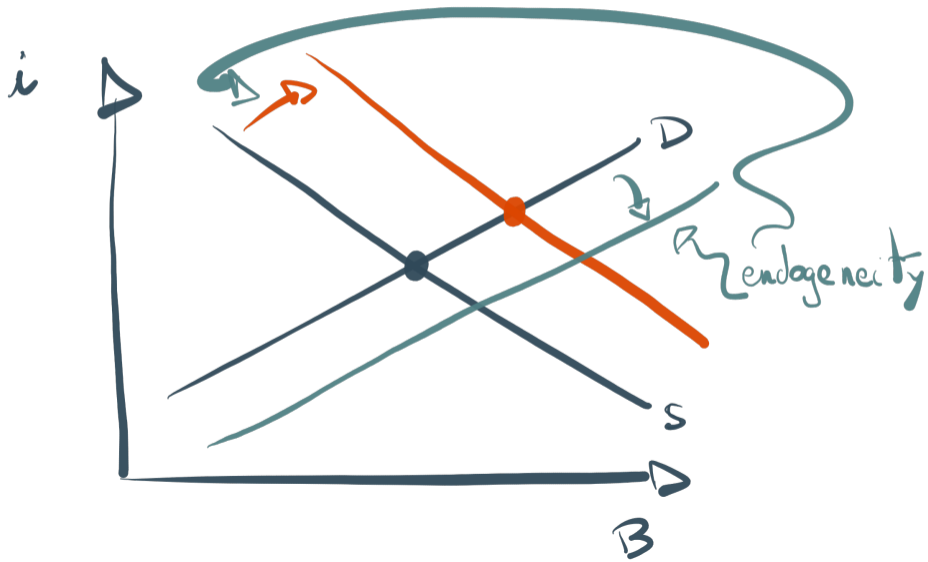
Core of the paper
Endogeneity



Core of the paper
Endogeneity



Core of the paper
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Core of the paper

Endogeneity

$$\text{Interest rate} = \alpha + \beta \times \text{Supply of sovereign debt} + \varepsilon$$

- JULIA ET ALII use instruments. Instruments should be
 - × Exogenous : not correlated with demand shifters of sovereign debt
 - × Relevant: must move the supply for sovereign debt
- Choice:
 - × Revisions to the annual budget
 - × Financial needs to reimburse past debt that reaches maturity (redemption)

Core of the paper

Endogeneity

- Stronger results

	(1) All ISIN
Issued _t × BTF	0.568*** [0.009]
Issued _t × OAT	1.114*** [0.001]
Observations	162800
R^2	0.47
Adjusted R^2	0.46
ISIN FE	yes
Time FE	yes

Core of the paper

Endogeneity

- I was quite convinced that endogeneity was not an issue
- Agence France Trésor is aiming at predictability.
- But then why IV estimates so much stronger?

Beyond documenting the differential price effect

- Why is the bills market less liquid?
- Any impact of auctions on bid-ask spread (transaction data needed)
- Micro structure is important (primary dealers inventory management explain the price cycle according to BEETSMA ET ALII [2014])

Beyond documenting the differential price effect

The SVTs are the institutions located in the European Union of 15 banking groups from diverse areas of the world, including four French institutions, two German institutions, three British, five North American institutions and one Japanese institution. This diversity underlines the central role and appeal of French Treasury securities on the euro deb market.

Following the selection process launched in September 2021, the list of SVTs selected for the 2022-2024 mandate was published on 13 December 2021:

- › BANK OF AMERICA SECURITIES (BofA Securities Europe SA),
- › BARCLAYS (Barclays Europe Plc),
- › BNP PARIBAS (BNP Paribas SA),
- › CITI (Citigroup Global Markets Europe AG),
- › COMMERZBANK (Commerzbank AG),
- › CRÉDIT AGRICOLE - CIB (Crédit agricole - CIB SA),
- › DEUTSCHE BANK (Deutsche Bank AG),
- › GOLDMAN SACHS (Goldman Sachs Bank Europe SE),
- › HSBC (HSBC Continental Europe SA),
- › JP MORGAN (J.P. Morgan SE),
- › MORGAN STANLEY (Morgan Stanley Europe SE),
- › NATIXIS (Natixis SA),
- › NATWEST MARKETS (Natwest Markets NV),
- › NOMURA (Nomura Financial Products Europe GmbH),
- › SOCIÉTÉ GÉNÉRALE (Société générale SA).

It is the primary dealers' responsibility to participate in auctions and syndicated operations, place Treasury securities and ensure the liquidity of the secondary market.

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Beyond documenting the differential price effect

- I would suggest to dig into micro structure of bills and bonds markets
- Perhaps also focus (once price effect is documented) on the pandemics period.

