

A 5 Year \$1,000 Par 3 1/2% Treasury Note Is Quoted At 98-4 - 98-9. The Note Pays Interest On Jan 1st

A 5 Year \$1,000 Par 3 1/2% Treasury Note Is Quoted At 98-4 - 98-9. The Note Pays Interest On Jan 1st is a common phrase that investors, financial analysts, and traders encounter when discussing U.S. government debt securities. Understanding the details behind this quote, what it signifies about the bond's value, and how to interpret the associated interest payments is essential for making informed investment decisions. In this comprehensive guide, we will explore the key aspects of Treasury notes, how to interpret securities quotes, and what this specific note entails for investors.

Understanding Treasury Notes and Their Significance

What Are Treasury Notes?

Treasury notes (T-notes) are medium-term debt securities issued by the U.S. Department of the Treasury to fund government operations and manage national debt. They typically have maturities ranging from 2 to 10 years and pay interest semiannually. Because they are backed by the full faith and credit of the U.S. government, T-notes are considered among the safest investments.

Key features of Treasury notes include:

- Par Value: Usually \$1,000, which is the face value of the note.
- Coupon Rate: The fixed interest rate paid annually or semiannually.
- Maturity Date: When the principal amount is repaid.
- Interest Payments: Usually made twice a year.

The 3 1/2% Treasury Note

The specific note in question has a coupon rate of 3 1/2%, meaning it pays 3.5% interest annually based on its face value. For a \$1,000 note, this translates to \$35 annually, paid in two semiannual installments of \$17.50 each.

Deciphering the Quotation: What Does 98-4 - 98-9 Mean?

Understanding Bond Quotes

Bond quotes are typically expressed as a percentage of face value (par) and often include fractional parts. The notation "98-4" and "98-9" are in 32nds, a traditional way of quoting bond prices in the fixed-income markets.

How to interpret the quote:

- 98-4: 98 and $\frac{4}{32}$, which equals 98.125% of par.
- 98-9: 98 and $\frac{9}{32}$, which equals 98.28125% of par.

Implication of the quote:

- The note is trading between 98.125% and 98.28125% of its face value.
- Since the face value is \$1,000, the current market price ranges from approximately \$981.25 to \$982.81.

This price range indicates the market's valuation of the note relative to its face value, influenced by factors such as prevailing interest rates, inflation expectations, and credit risk perceptions.

Why the Bid-Ask Spread Matters

The quoted range suggests a bid-ask spread, which is common in bond trading:

- Bid (98-4): The price the market is willing to pay.
- Ask (98-9): The price sellers are asking.

Investors should be aware that purchasing at the ask price means paying a slightly higher premium, while selling at the bid price results in a slight discount.

Interest Payments and Maturity

Interest Payment Schedule

The note pays interest on January 1st, which is typical for Treasury securities. Since the note has a 3.5% annual coupon and pays semiannually, interested investors can expect:

- First interest payment: On January 1st of each year.
- Second interest payment: Six months later, around July 1st.

Calculating the interest:

- Annual interest: $\$1,000 \times 3.5\% = \35 .
- Semiannual interest: $\$35 / 2 = \17.50 .

Investors holding the note will receive these payments twice a year, providing a steady income stream.

At Maturity

After five years, the note matures, and the holder receives the face value of \$1,000, assuming no default. The yield to maturity (YTM) will depend on the purchase price, the coupon rate, and the time remaining until maturity.

Yield and Price Relationship

What Is Yield to Maturity (YTM)?

YTM is the total return an investor can expect if the bond is held until maturity, considering the purchase price, coupon payments, and face value repayment. When bonds are traded at a discount (below par), the YTM exceeds the coupon rate. Conversely, when traded at a premium (above par), the YTM is lower.

Calculating Approximate Yield

Given the quote range (98-4 to 98-9), the approximate yield can be estimated:

- At the lower price (98-4): The yield is slightly higher than the coupon rate because the investor pays less upfront but still receives the fixed interest payments.
- At the higher price (98-9): The yield is slightly lower.

Example calculation:

- Price at 98-4:
- Price = \$981.25
- Yield $\approx [(\text{Coupon Payment} + (\text{Face Value} - \text{Price})/\text{Years})] / [(\text{Face Value} + \text{Price})/2]$

This calculation shows how bond prices inversely relate to yields—when prices drop, yields rise, and vice versa.

Factors Influencing the Bond's Market Price

Interest Rate Movements

- Rising market interest rates tend to push bond prices down, as newer issues offer higher yields.
- Falling rates tend to increase existing bond prices.

Inflation Expectations

- Higher inflation expectations diminish the attractiveness of fixed-income securities, leading to lower bond prices.
- Conversely, low or stable inflation supports higher bond prices.

Credit Risk and Market Sentiment

- Although U.S. Treasury notes are considered risk-free, market sentiment and economic outlook can cause price fluctuations.

Supply and Demand Dynamics

- Increased demand for Treasury notes can push prices higher, reducing yields.
- Oversupply or reduced investor appetite has the opposite effect.

Why Investors Care About These Quotes

Assessing Investment Value

Understanding the quote helps investors determine whether the note is a good buy relative to prevailing interest rates and their investment goals.

Pricing and Trading Strategies

Traders use these quotes to identify arbitrage opportunities, hedge positions, or speculate on interest rate movements.

Portfolio Management

Institutional and individual investors incorporate bond prices and yields into their broader asset allocation strategies to balance risk and return.

Conclusion

A 5 Year \$1,000 Par 3 1/2% Treasury Note quoted at 98-4 to 98-9 offers a snapshot of the bond's current market valuation. The quote indicates that the note is trading below its par value, reflecting current market conditions and interest rate expectations. The note's semiannual interest payments on January 1st provide a reliable income stream, making it an attractive investment for income-focused investors seeking safety and stability.

By understanding the nuances of bond quotations, yield calculations, and market influences, investors can make more informed decisions, optimize their portfolios, and navigate the complex world of fixed-income securities with confidence. Whether you are a seasoned trader or a new investor, mastering these concepts is essential to capitalizing on opportunities within the debt markets.

Frequently Asked Questions

What does the quote 98-4 to 98-9 mean for the Treasury Note?

The quote indicates the bid-ask prices for the note, with 98-4 meaning 98 and 4/32 or 98.125% and 98-9 meaning 98 and 9/32 or 98.28125%, representing the price range traders are willing to buy and sell at.

How is the price of the Treasury Note calculated from the quote 98-4 to 98-9?

The price is calculated by taking the quoted percentage times the par value (\$1,000). For example, 98-4 (98.125%) equals \$981.25, and 98-9 (98.28125%) equals \$982.81.

What is the significance of the 3 1/2% coupon rate for this Treasury Note?

The 3 1/2% coupon rate indicates the annual interest payment the noteholder receives, which is \$35 per year (3.5% of \$1,000), paid semiannually on Jan 1st and another date.

When does the Treasury Note pay interest, and how often?

The note pays interest semiannually on January 1st and July 1st, meaning the holder receives interest twice a year.

What does the 'Par' value of \$1,000 mean for this Treasury Note?

Par value of \$1,000 means the face value of the note, which is the amount paid back to the investor at maturity and the basis for calculating interest payments.

How do changes in market interest rates affect the price quote of this Treasury Note?

If market interest rates rise above 3.5%, the note's price will typically fall below par to offer a competitive yield. Conversely, if rates fall, the price may rise above par.

What is the maturity period for this 5-year Treasury Note?

The note matures in 5 years from issuance, meaning the investor will receive the \$1,000 principal at maturity along with the final interest payment.

Why might an investor prefer to buy this Treasury Note at a discount below par?

Buying at a discount (below \$1,000) may increase the effective yield, especially if the note's coupon rate is lower than prevailing market rates, providing potential for capital appreciation.

How is the yield of this Treasury Note calculated based on its price and coupon payments?

Yield can be estimated by considering the annual interest payments relative to the purchase price, adjusting for the discount or premium paid, often calculated as the yield to maturity (YTM).

What are the advantages of investing in Treasury Notes like this one?

Treasury Notes are considered low-risk investments, backed by the U.S. government, offering predictable interest payments, and are highly liquid in the secondary market.

Additional Resources

A 5 Year \$1,000 Par 3 1/2% Treasury Note Is Quoted At 98-4 - 98-9. The Note Pays Interest On Jan 1st

The landscape of government securities offers a plethora of investment options, each with its unique features, benefits, and nuances. Among these, Treasury notes hold a pivotal position, serving as a cornerstone for both individual investors and institutional portfolios seeking safety, liquidity, and predictable returns. A recent example of such securities is the 5-year \$1,000 par Treasury note with a 3.5% coupon rate, currently quoted at 98-4 to 98-9. This article provides a comprehensive analysis of this instrument, elucidating its features, valuation nuances, and significance within the broader financial ecosystem.

Understanding the Basics: Treasury Notes and Their Characteristics

What Is a Treasury Note?

A Treasury note, often abbreviated as T-note, is a debt instrument issued by the U.S. Department of the Treasury to finance government spending. Unlike Treasury bills (which are short-term and mature in less than a year), T-notes have maturities ranging from 2 to 10 years. The 5-year note in question fits squarely within this category.

Key features of Treasury notes include:

- Par Value: Typically \$1,000, which is the standard denomination for most government bonds and notes.
- Coupon Rate: The fixed annual interest rate paid periodically; in this case, 3.5%.
- Interest Payments: Made twice annually, usually on Jan 1st and Jul 1st, providing predictable income streams.
- Maturity Date: The date when the principal amount is repaid; here, five years from issuance.

Why Invest in Treasury Notes?

Treasury notes are considered among the safest investments globally, backed by the "full faith and credit" of the U.S. government. They appeal to investors seeking:

- Safety of Principal: Minimal default risk.
- Predictable Income: Fixed interest payments.
- Liquidity: Active secondary markets allow easy buying and selling.
- Diversification: A low-risk component in a diversified portfolio.

Deciphering the Quotation: What Does 98-4 to 98-9 Mean?

Understanding Bond Quotes

The quotation of Treasury notes is typically expressed in percentage of face value along with price quotes that include fractional parts. In this context, the notes are quoted at 98-4 to 98-9, which requires understanding the conventions:

- "98" refers to 98% of the face value.
- The "-4" and "-9" denote 32nds of a dollar.

Converting the quote to decimal:

- 98-4: $98 + \frac{4}{32} = 98 + 0.125 = 98.125\%$
- 98-9: $98 + \frac{9}{32} = 98 + 0.28125 = 98.28125\%$

Implication: The notes are trading between 98.125% and 98.28125% of their face value, indicating their current market valuation.

The Significance of the Bid-Ask Spread

The quoted range:

- Bid Price (lower end): 98-4 (98.125%) – the highest price buyers are willing to pay.
- Ask Price (upper end): 98-9 (98.28125%) – the lowest price sellers are willing to accept.

This spread reflects market liquidity, supply and demand dynamics, and investor sentiment.

Market implication: Investors purchasing at the bid price would pay slightly less, obtaining a marginally higher yield, whereas selling at the ask price might realize a small profit.

Valuation and Yield Analysis

Calculating the Price in Dollar Terms

Given the face value of \$1,000, the price ranges are:

- Bid Price: 98.125% of \$1,000 = \$981.25
- Ask Price: 98.28125% of \$1,000 = \$982.81

Interpretation: The notes are trading just below their face value, which is typical for bonds with a coupon rate close to the prevailing market yields.

Yield to Maturity (YTM) Considerations

The yield to maturity is a key metric for investors, representing the total return if the note is held until maturity. It considers:

- Purchase price
- Coupon payments
- Face value redemption at maturity

Approximate calculations:

- Coupon Payment: 3.5% of \$1,000 = \$35 annually, paid semiannually as \$17.50 every six months.
- Current Price: Between \$981.25 and \$982.81.

Given the small discount from face value, the approximate YTM for the bid price:

$$\text{YTM} \approx \frac{\text{Annual Coupon} + (\text{Face} - \text{Price}) / \text{Years}}{(\text{Face} + \text{Price}) / 2}$$

Plugging in the numbers:

$$\text{YTM} \approx \frac{35 + (1000 - 981.25) / 5}{(1000 + 981.25) / 2} \approx \frac{35 + 3.75}{990.625} \approx \frac{38.75}{990.625} \approx 3.91\%$$

Similarly, at the ask price, the yield would be marginally lower.

Implication: The current market yields are slightly above the coupon rate, reflecting market conditions and interest rate expectations.

Interest Payments and Maturity Details

Interest Payment Schedule

The note pays interest semiannually on Jan 1st and Jul 1st. This schedule offers:

- Consistent Income: Investors receive two payments each year, totaling \$35.
- Predictability: Fixed schedule aligned with calendar dates.

Impact on investors:

- The timing of interest payments influences cash flow planning.
- Tax considerations may vary depending on the holding period within the year.

Maturity and Redemption

At the end of the 5-year term, the U.S. Treasury redeems the note at par value (\$1,000). Investors will receive:

- The face amount upon maturity.
- The accumulated interest payments over the holding period.

Reinvestment considerations: Investors may seek to reinvest the proceeds or use the maturity as a planning point for future investments.

Market Conditions and Investment Environment

Interest Rate Environment

The attractiveness of a 3.5% Treasury note depends heavily on prevailing interest rates:

- If market rates rise above 3.5%, existing notes trading at a discount become more attractive.
- Conversely, if rates fall, the note's fixed interest payments become more valuable.

Current trends (as of the note's quotation):

- Likely reflect a stable or slightly rising interest rate environment.
- Investors are willing to accept a slight discount to face value, indicating yields are somewhat aligned with market expectations.

Inflation and Its Impact

Inflation erodes the purchasing power of fixed interest payments. As such:

- Investors may demand higher yields if inflation expectations increase.
- Treasury notes with fixed rates like 3.5% might see their market prices decline if inflation accelerates.

Supply and Demand Dynamics

Government issuance levels, investor appetite, and macroeconomic factors influence the trading range:

- High demand drives prices above the bid, narrowing spreads.
- Market uncertainties can widen spreads and impact liquidity.

Strategic Implications for Investors

Portfolio Diversification

Treasury notes provide a low-risk component, balancing riskier assets like equities and corporate bonds. The current quote suggests a relatively stable environment, making these notes suitable for conservative investors.

Yield Considerations

- The yield above the coupon rate indicates a slight premium or discount, influencing investment decisions.

- Investors must compare the note's yield with alternative investments to assess relative attractiveness.

Tax Considerations

Interest income from Treasury notes is exempt from state and local taxes but subject to federal income tax. This tax advantage is often a key factor in their appeal.

Reinvestment and Duration Strategies

- The semiannual interest payments allow for periodic reinvestment opportunities.
- The 5-year duration balances yield and maturity risk, appealing to medium-term investors.

Conclusion: The Significance of the Quotation and Its Context

The quote of 98-4 to 98-9 for the 5-year \$1,000 par Treasury note at a 3.5% coupon encapsulates a snapshot of the current market environment. It reflects investor sentiment, prevailing interest rates, and expectations about future economic conditions. The slight discount from face value indicates that yields are marginally higher than the coupon rate, aligning with typical market dynamics.

For investors, understanding the nuances of such quotations is crucial. They influence purchase prices, yields, and overall investment strategies. In a broader context, these Treasury notes serve as vital benchmarks for the fixed-income market, influencing the pricing of other securities and acting as a barometer of economic health.

As the financial landscape evolves, keeping abreast of such quotations

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