

ICE Data Services Corporate Bond Market Liquidity Tracker

April 2017

ICE Data Services Liquidity Tracker

ICE Data Services has established a means of tracking liquidity conditions in fixed income markets, in response to a request from ICMA.

ICE Data Services Liquidity Indicators

The model is based on ICE Data Services' Liquidity Indicators, which are designed to provide an independent view of near-term relative liquidity, defined as "the ability to exit a position at or near the current value." The indicators use a transparent methodology to assign a liquidity ratio to an individual security, based on the interaction between projected price volatility and trade volume capacities.

ICE Data Services provide estimates of trade volume capacity, future price volatility, days to liquidate, and market price impact. Liquidity ratios for all securities are ranked from least liquid to most liquid, and scored between 0 and 10 (with 10 being the most liquid). These scores, based on ICE Data Services' extensive evaluation and reference data, are updated daily.

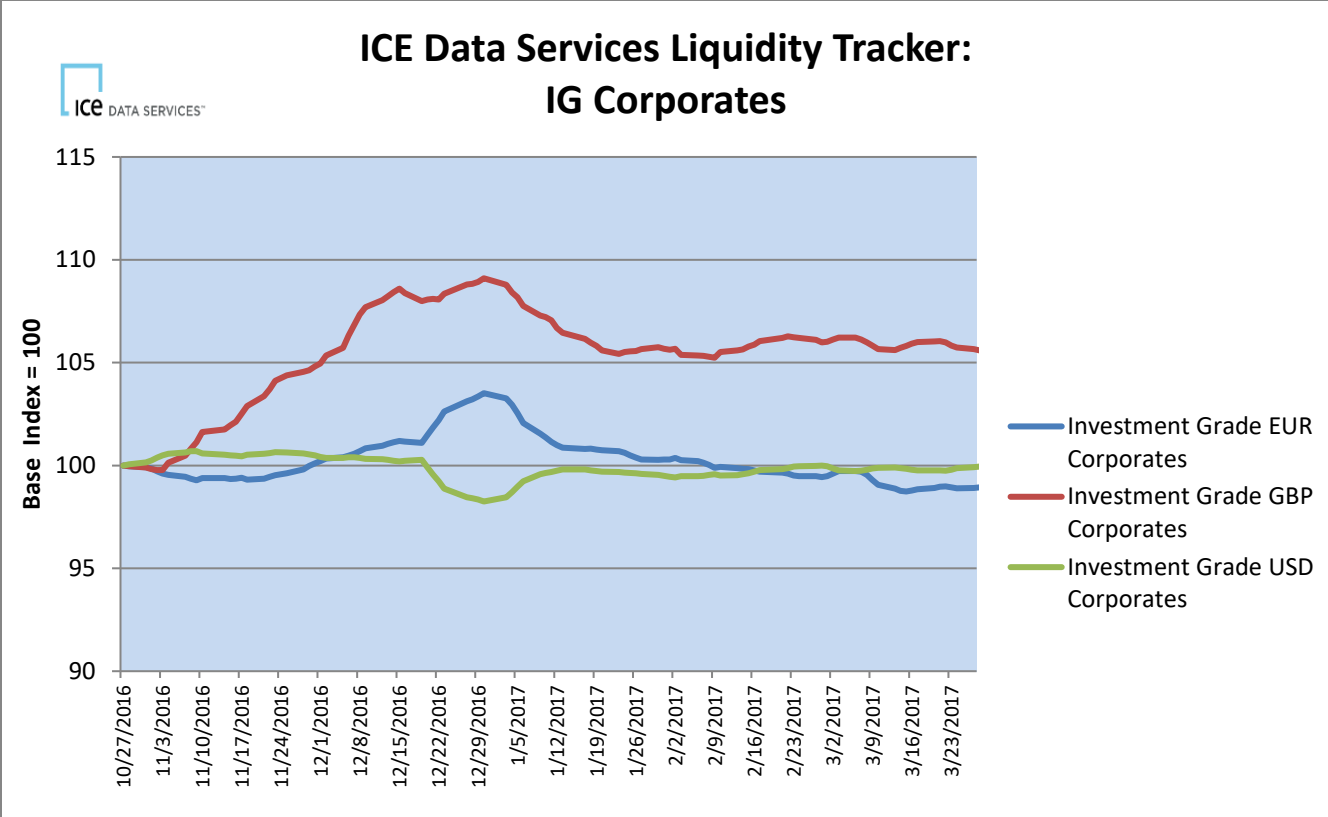
ICE Data Services Liquidity Tracker

The ICE Data Services Liquidity Tracker is based on the average liquidity ratios of an extensive basket of securities for each market segment. The current number of underlying ISINs used to calculate the tracker are: IG USD 16,853; IG EUR 2,580 IG GBP 583; HY USD 12,179; HY EUR 1,983; HY GBP 523. Investment grade is determined by a minimum BBB- rating from one of the three main rating agencies, and includes financials and non-financials.

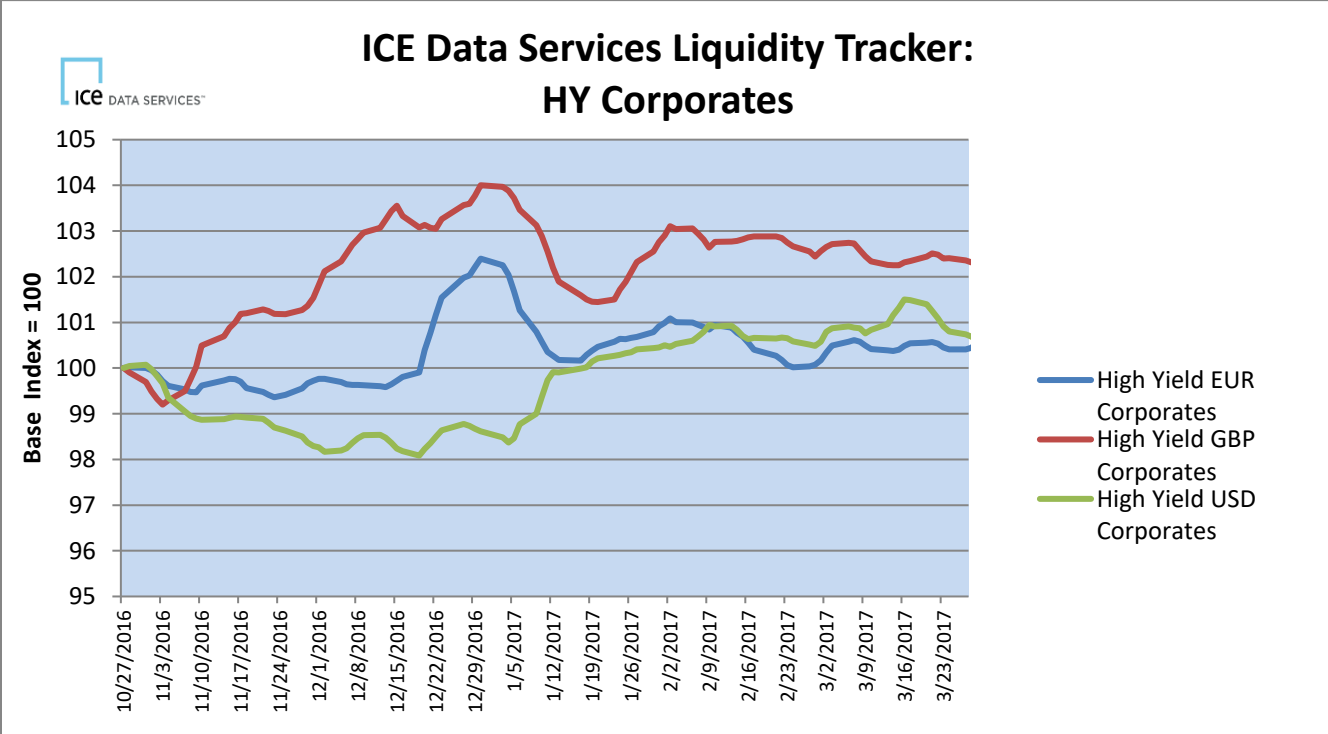
The original starting reference point for the tracker was April 27 2016. However, this was reset on October 27 2016 when the underlying baskets were updated and the trackers were re-assigned a value of 100. Data is then run on a look-back basis to determine relative changes in market liquidity since the reference date. To ensure continuity in the data series, only issues active at the reference date are included in the ICE Data Services Liquidity Tracker.

Using the Tracker

With the permission of ICE Data Services, ICMA intends to publish and monitor the ICE Data Services Liquidity Tracker on a quarterly basis. There is also the possibility of extending the ICE Data Services Liquidity Tracker to other asset classes, including sovereign bonds, as well as creating a more granular sector based tracker.



Source: ICE Data Services



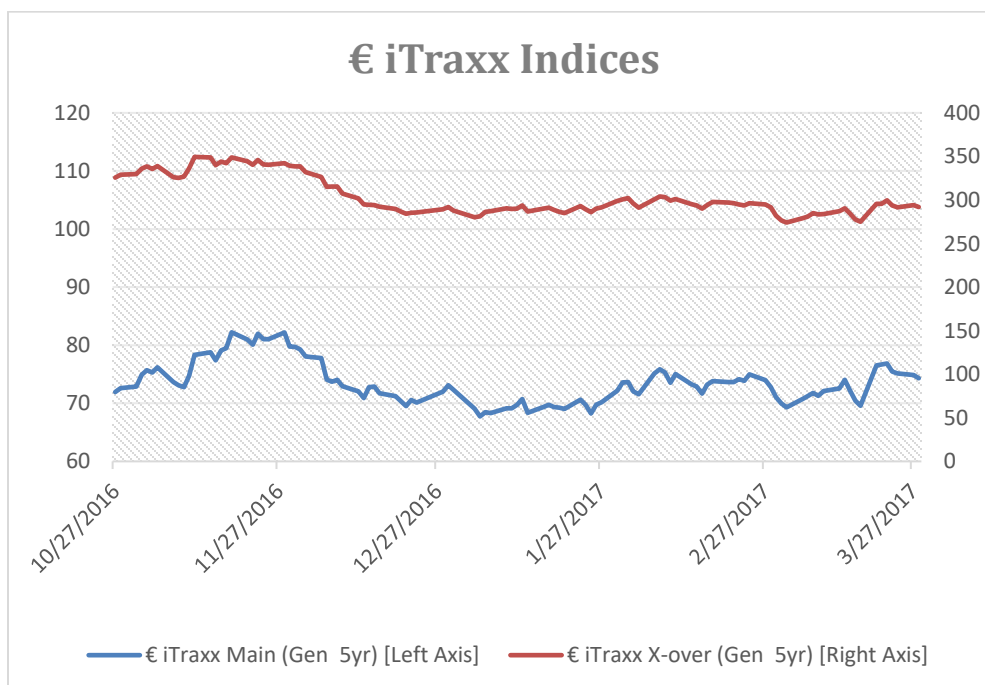
Source: ICE Data Services

Interpreting the tracker data

The data suggests that since resetting the underlying basket of bonds at the end of October, the GBP IG experienced an improvement in liquidity conditions through to the start of January, after which it tailed-off a little, and has remained relatively steady since. There is no obvious indication of causality, but anecdotally this could be attributed to the positive impacts of the Bank of England's Corporate Bond Purchase Scheme (CBPS), which is now reaching its expected conclusion. Liquidity in the GBP HY market seems to mirror this pattern, with a more pronounced decline, then improvement at the start of 2017.

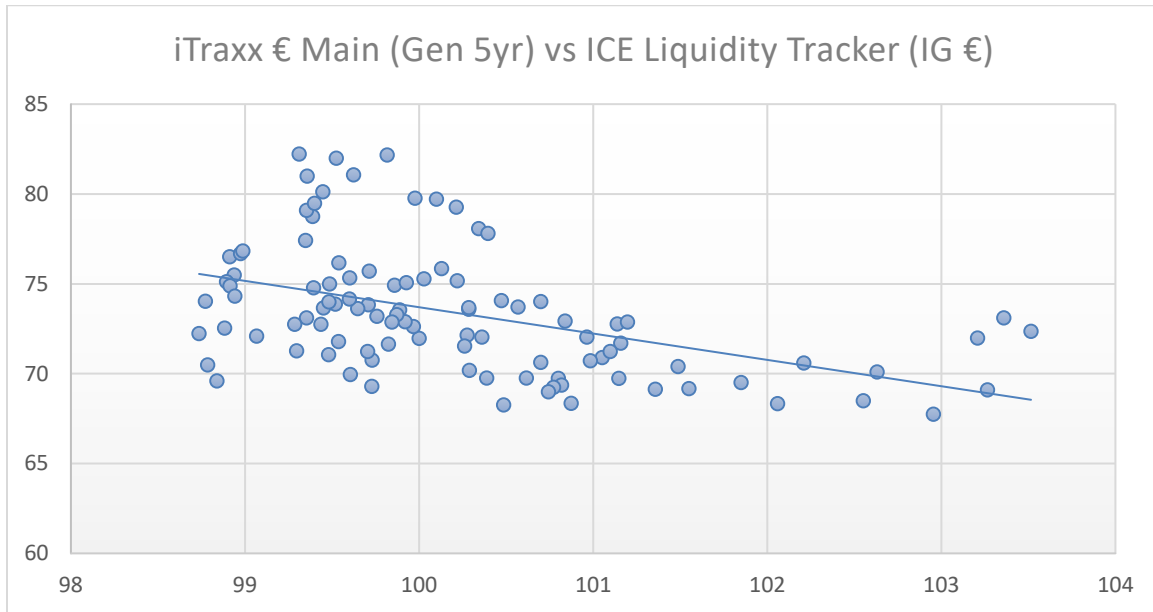
Meanwhile, the data suggests that liquidity in both the EUR IG and USD IG markets has remained relatively steady over the period with a slight improvement in the former observed around year-end. It is difficult to tell whether this could be driven by a step-up in the ECB's Corporate Sector Purchase Programme (CSPP) ahead of a year-end pause, whether it represents dealers squaring-off their books ahead of the December 30 statement date, or other factors. Again, liquidity in the respective HY markets appears to mirror these patterns.

It is often interesting to view the trends in market liquidity with directional market moves. The below chart shows the Generic 5 year iTraxx Main (IG) and X-over (HY) indices over the same period. After a little initial widening, there is a slight tightening trend heading into early January 2017, and then spreads remain in a relatively narrow spread through the remainder of the period.



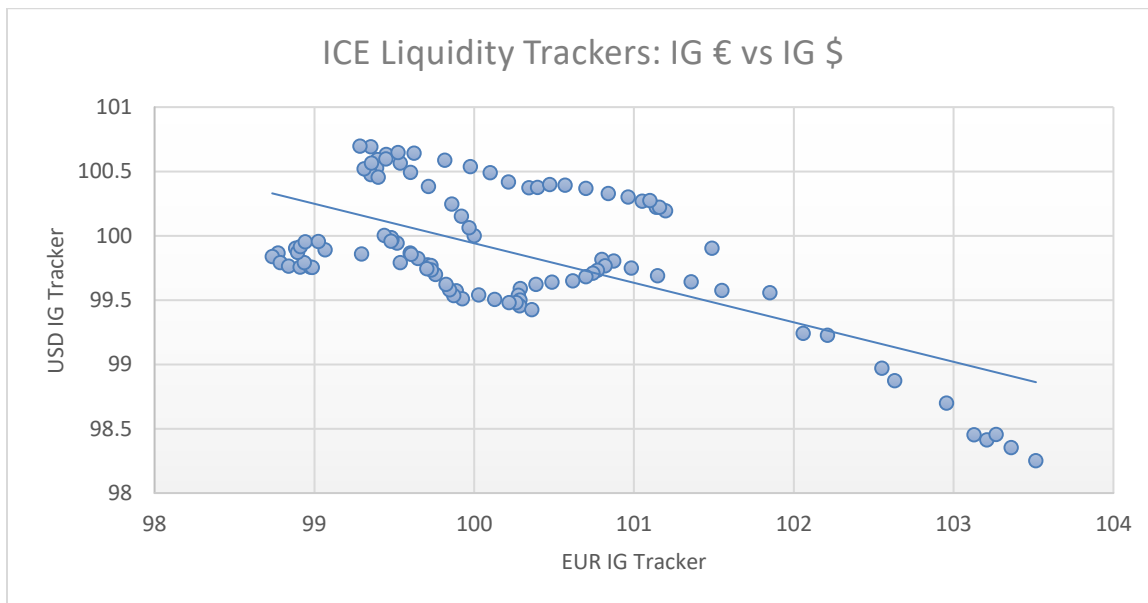
Source: Bloomberg/Markit

Plotting the tracker levels against market levels helps to identify more clearly whether this directional-liquidity relationship. While there does not appear to be a particularly strong correlation, it would seem to be reasonable to say that as spreads tighten, liquidity appears to improve.



Data source: ICE Data Services and Bloomberg/Markit

Another pattern we have questioned in the past is an apparent inverse relationship in the liquidity levels between the US and European corporate bond markets, perhaps suggesting ‘flights of liquidity’ in and out of these markets. The below plot (using the USD and EUR IG Trackers) suggests that this observation still seems to hold.



Source: ICE Data Services

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For more information on ICE Data Services, visit: <https://www.theice.com/market-data>

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