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 16,643; IG EUR 2,790; IG GBP 638; HY USD 12,633; HY EUR 1,952; HY GBP 456. Investment grade is determined by a minimum BBB- rating from one of the three main rating agencies, and includes financials and non-financials.

The starting reference point for the tracker is July 25 2016, where it is 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.
ICE Data Services Liquidity Tracker:
IG Corporates

Source: ICE Data Services

ICE Data Services Liquidity Tracker:
HY Corporates

Source: ICE Data Services
Interpreting the tracker data

The data suggests relatively stable liquidity conditions since July for both the US IG and HY markets. Perhaps not surprisingly, the GBP IG and HY markets saw a sharp decline in liquidity directly following the outcome of the ‘Brexit’ vote, before stabilizing in late August. Both the EUR and GBP markets then show a steep decline at the beginning of September, before again levelling out, and improving slightly toward the end of the month. While it is difficult to attribute causality with any degree of certainty, this decline in EUR and GBP liquidity conditions seems to coincide with a market sell-off and a widening of credit spreads.

The below chart plots the ICE Data Services EUR IG Tracker against the iTraxx 5-year EUR main index over the same period. Again, perhaps not too much should be inferred in terms of correlation, but the clusters on the top left (higher spreads and lower liquidity) and the bottom right (lower spreads and higher liquidity) seem to suggest not only a relationship between market levels and liquidity, but also a tendency for both credit spreads and liquidity conditions to “gap”.

Data sources: ICE Data Services and Bloomberg/Markit