Changes in provision of liquidity

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Changes in the provision of liquidity

Observations

Volatility Spikes

Germany 10 Year government bond yield
Changes in the provision of liquidity

**Observations**

*Price discovery process is under pressure*

*Higher new issuance premia in syndicated issues even for standard maturities*
Changes in the provision of liquidity  Evidence  
Secondary Market Turnover  (9 € zone sov + 2 supra’s)

Period 2014 → 2016

Substantial decrease of overall yearly volumes and of monthly av.volumes except end 2016. 19% decrease in volume before inclusion of PSPP, as compared to 11% change after inclusion.

![Monthly average secondary market volumes](chart)

Change since beginning of 2014
- Customers: -13.5%
- Interdealer: -24.1%
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Evidence

Analysis of customer volumes by issuer (excl. QE)

Issuers divided in 2 categories: big 4 EUR - other EUR

Analysis per issuer clearly shows a decline across all issuers as from 2014.

Including QE, customer volumes are almost unchanged when comparing 2014 to 2016.

Monthly average volumes traded with customers

Change since beginning of 2014

'Big4' EUR: -14.5%  
Including PSPP: -1.5%

Other EUR: +1.3%  
Including PSPP: +2.7%
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Evidence

Analysis of interdealer volumes by issuer

“Big 4”: steady decline as from 2015 onwards, totalling 25% for period under review. Change in ID volumes for small issuers remains almost constant over 2 years i.e. around 8%/yr

Monthly average volumes traded between dealers

- 'Big 4' EUR: -20.7%
- Other EUR: -5.3%
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Evidence
Number of tickets and ticket size with customers

Volume decline over the year is translated in a **decrease in the overall number of tickets.**  
For the period 2014-2016 the change for the “big 4” is 23%, twice the % decrease of all tickets.  
The decline in number of **large tickets in 2016 was remarkably lower as compared with 2015.**
**Changes in the investor base**

Notwithstanding the reduction in customer volumes, we observe a relative increase of volumes with **fund managers and hedge funds** at the expense of bank customers. Hence, important **concentration** of bonds with large, ever growing fund managers.

![Market shares secondary market volumes per customer type](chart)

- **Corporate**: 2.3% (2015), 2.2% (2014)
- **Retail**: 0.8% (2015), 1.0% (2014)
- **Hedge Fund**: 8.0% (2015), 10.0% (2014)
- **Fund Managers**: 43.1% (2015), 37.8% (2014)
- **Insurance Companies**: 2.7% (2015), 2.5% (2014)
- **Pension Funds**: 2.0% (2015), 2.1% (2014)
- **Public entities**: 15.8% (2015), 15.2% (2014)
- **Banks**: 23.4% (2015), 31.2% (2014)
Changes in provision of liquidity
What factors have been impacting liquidity?

- **Liquidity** has been impacted by the cumulative effect:
  - Quantitative Easing – buying of sovereign bonds
  - already implemented or frontloaded regulation
  - low yield environment.

- **Regulatory changes** impacting liquidity in sovereign debt markets:
  - affect the investor base
    - **LCR** Liquidity Coverage Ratio
    - Insurers and the new rules on concentration risk
  - affect the warehousing capacity of banks of bonds
    - **Leverage ratio** (CRD IV and CRR)
      - level of the leverage ratio - Asset base
      - Regulatory treatment of sovereign exposures?
Changes in provision of liquidity
What factors have been impacting liquidity?

- affect **Repo markets** and **Secondary Markets**
  - **Repo** are the GLUE in the sovereign debt markets.
    Repo is at the crossroads of various regulations
    - EMIR: increased collateral requirements
    - Leverage ratio: calculation in the asset base
    - LCR: influence the availability of bonds
    - NSFR: un equal treatment of repo and reverse repo’s
  
  - **Secondary markets**
    - MIFID: pre-and post-trade transparency: if not well calibrated it will adversely affect liquidity and the cost of sovereign debt
    - NSFR: financing of sovereign debt
    - New banking regulation: **Loi bancaire Française**: prévoit la séparation des opérations spéculatives des banques et de leurs activités utiles à l'économie ».