

## Staff Q1 2015 report on corporate bond market liquidity

### Summary

This report<sup>1</sup> describes developments in the liquidity and functioning of corporate bond markets from January 1, 2015, through March 31, 2015. In this update, we use the same measures of liquidity used in the previous reports for both primary and secondary market conditions. The main findings are:

- 1) Liquidity in the primary market – as indicated by the pace of primary corporate bond issuance – continued to be robust in the U.S., on balance. Yields on investment-grade corporate bonds declined compared with the time of the last report, on net, and remained near historically low levels. Amid those relatively low interest rates and the strong investor demand for fixed-income securities, nonfinancial corporations continued to issue sizable volumes of bonds, with nearly half of the proceeds from issuance, in aggregate, reportedly being used to refinance existing debt.
- 2) Measures that capture aspects of secondary bond market liquidity – the ease and cost with which investors can buy and sell corporate bonds – changed little, on net, from their levels in early December before the holiday season started. The average daily trading volume for both investment- and speculative-grade bonds recovered from their year-end dip. Accompanying the return to more typical trading volume, bid-ask spreads for both investment- and speculative-grade bonds retraced to a relatively normal level. The

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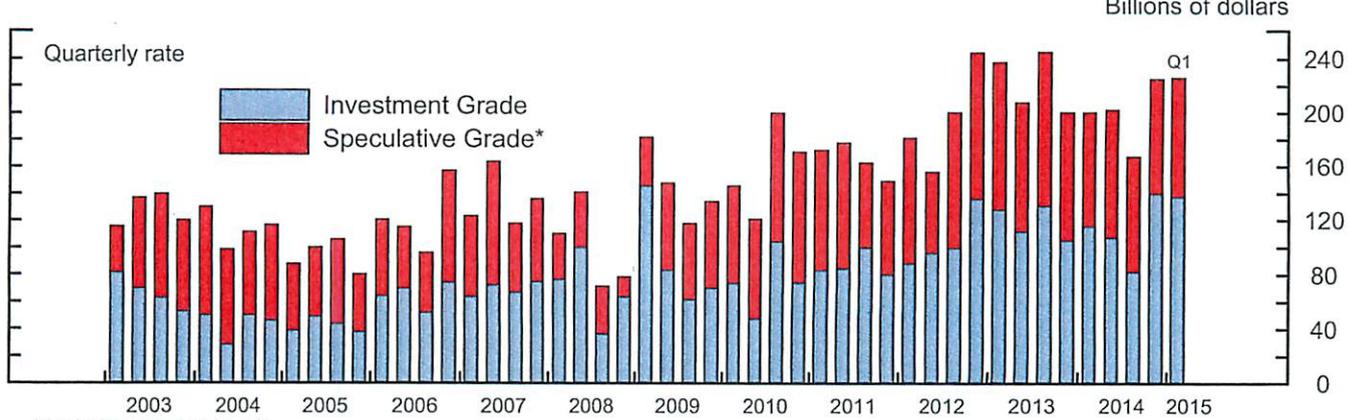
<sup>1</sup> This report has been agreed to by the staff of the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodity Futures Trading Commission (collectively referred to as the Agencies). The Agencies have expressed no view regarding the analysis, findings, or conclusions contained in this report.

current level of average bid-ask spreads for investment-grade bonds is roughly at par with its level in the last few months of 2014. The current level of average bid-ask spreads for speculative-grade bonds is the lowest since 2005 when data became available. The fraction of very large secondary-market trades – trades that are at least \$1 million in face value – remained stable for both investment- and speculative-grade bonds. In addition, dealers' inventories of corporate bonds declined somewhat in the fourth quarter of 2014 (latest available data), likely reflecting dealers positioning away from bonds affected by declining oil prices during the quarter.

# Corporate Bond Liquidity Monitor

## Exhibit 1

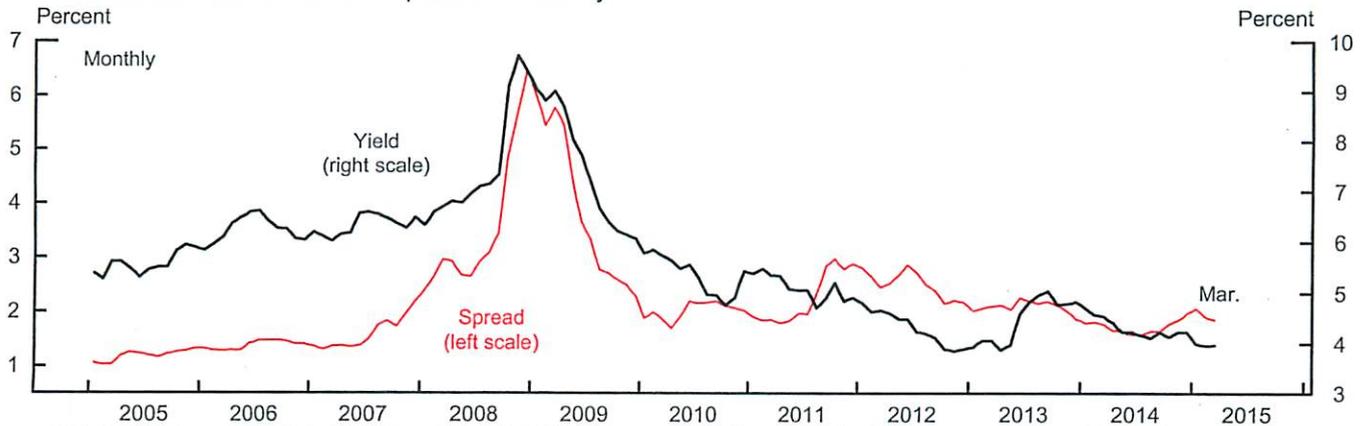
Gross Issuance of Nonfinancial Corporate Bonds



\* Includes unrated bonds.

Source: Mergent.

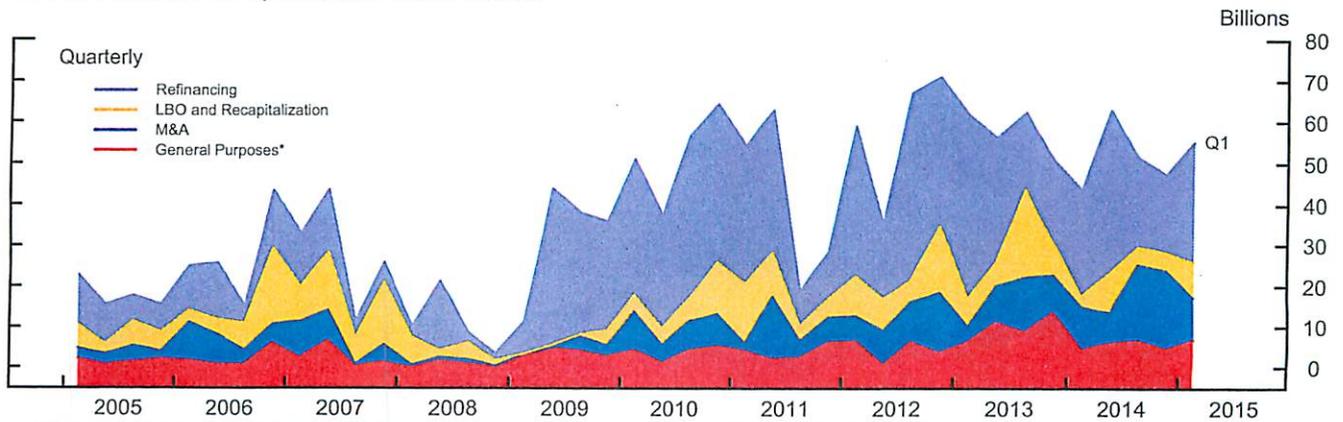
Ten-Year BBB Bond Yield and Spread to Treasury\*



\* Estimated from curve fit to Merrill Lynch bond yields. Treasury yields from smoothed yield curve estimated from off-the-run securities.

Source: Staff Calculations.

Use of Proceeds for Speculative Grade Issues



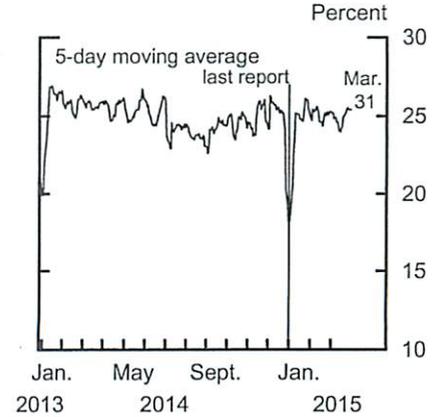
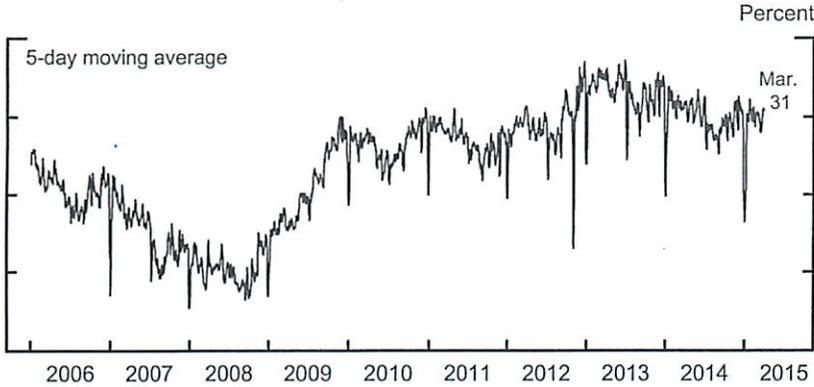
\* General Purposes includes capital expenditures and other purposes not included in the designated breakdown.

Source: Standard and Poor's.

# Corporate Bond Liquidity Monitor

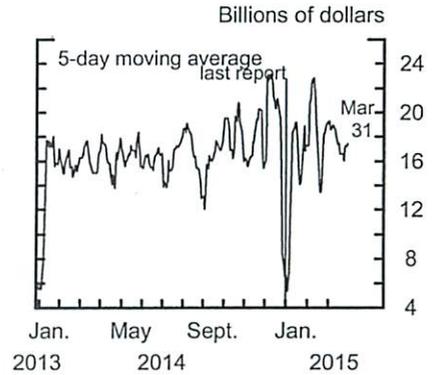
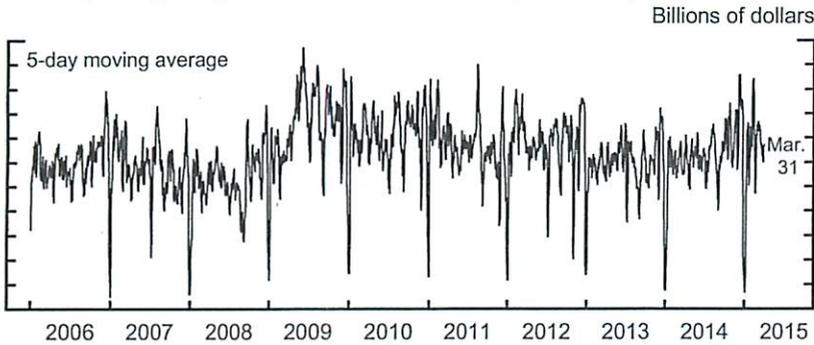
## Exhibit 2

Number of Traded Bonds as a Fraction of Total Disseminated\*



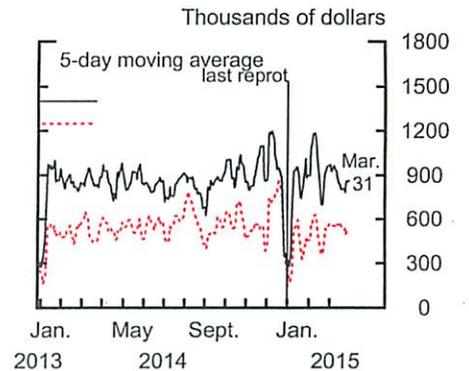
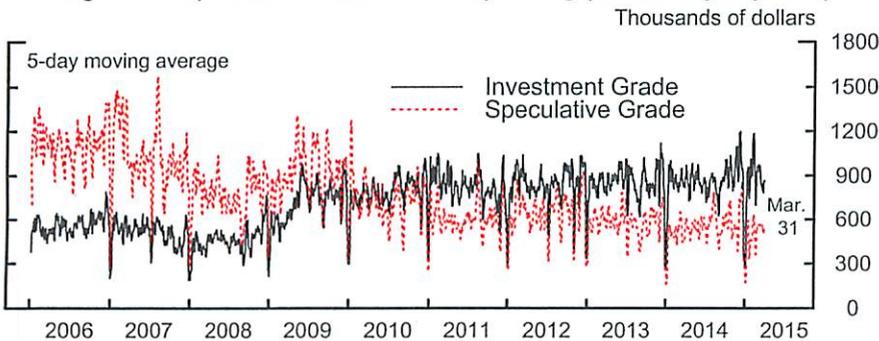
\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds.  
Source: FINRA, Mergent, Moody's DRD.

Trading Volume for All Disseminated Bonds (Seasonally Adjusted)\*



\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds. Series adjusted for monthly seasonality.  
Source: FINRA, Mergent, Moody's DRD.

Trading Volume per Disseminated Bond by Rating (Seasonally Adjusted)\*

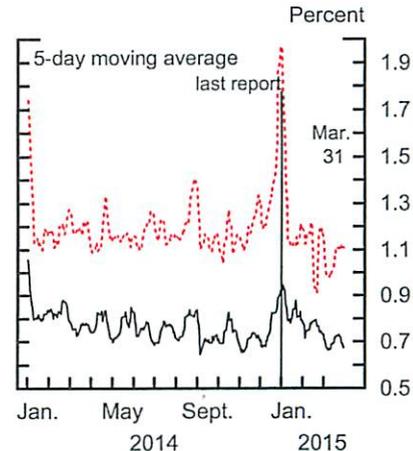
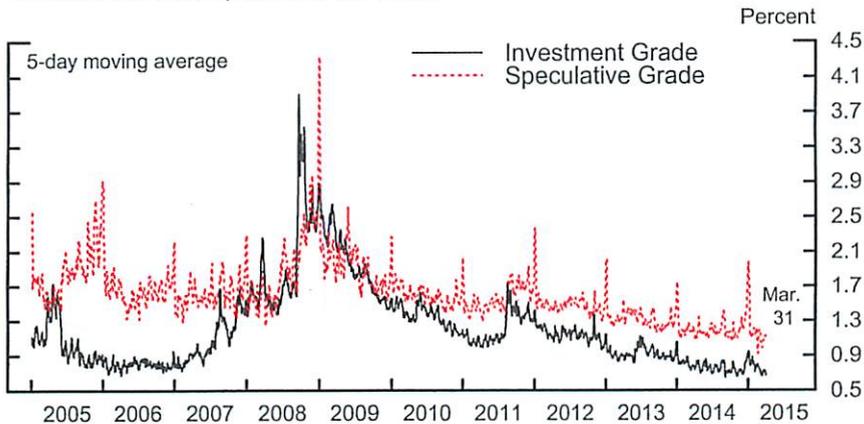


\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds. Series adjusted for monthly seasonality.  
Source: FINRA, Mergent, Moody's DRD.

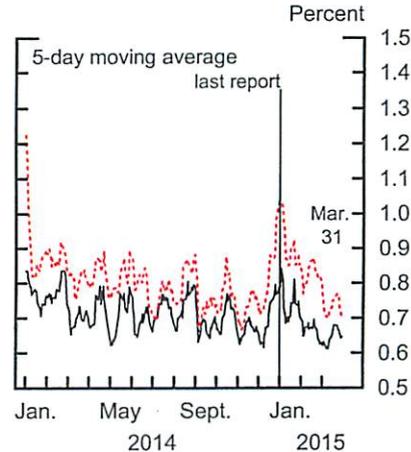
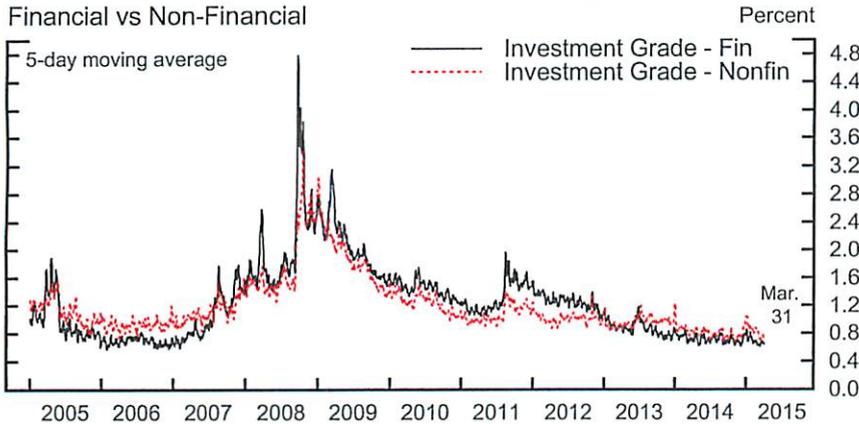
# Corporate Bond Liquidity Monitor

## Exhibit 3

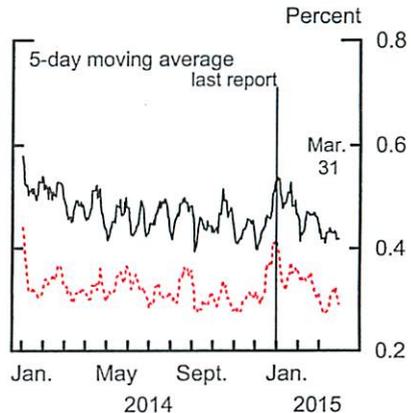
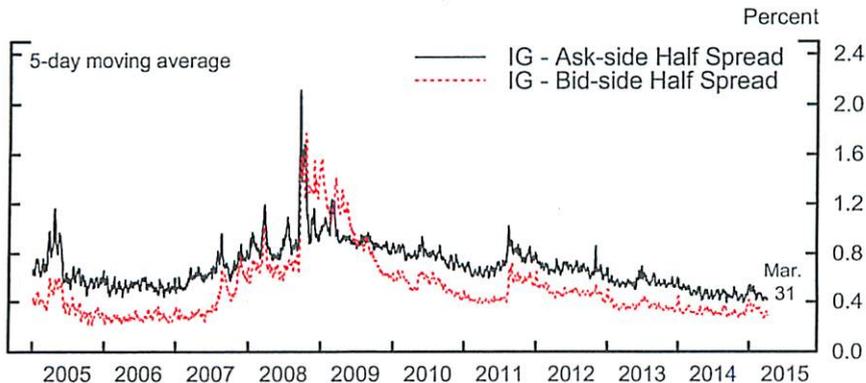
Effective Bid-Ask Spread for All Bonds



Effective Bid-Ask Spread for Investment Grade Bonds:  
Financial vs Non-Financial



Effective Bid-side and Ask-side Half Spread for Investment Grade Bonds

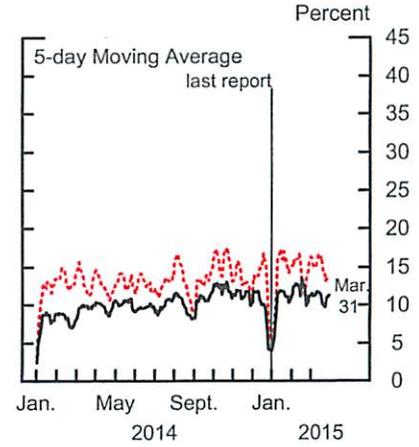
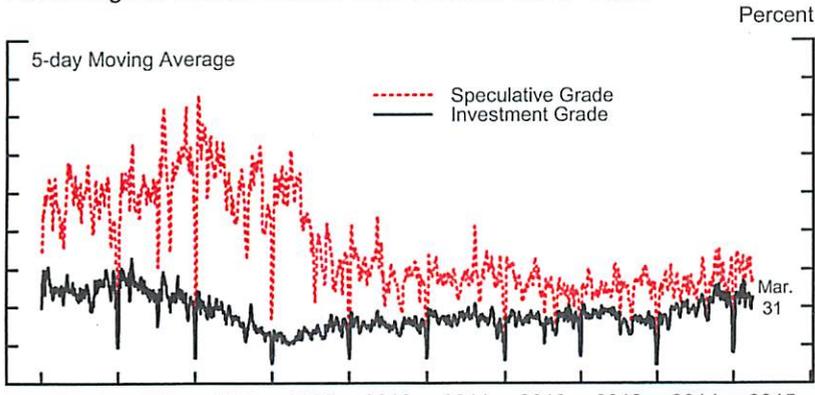


\*All measures are computed for non-defaulted bonds on the secondary market that have traded at least 10 times between 10:30am and 3:30pm. Excluding 144a bonds.

Effective Bid-Ask spread is the difference between weighted average dealer bid prices and ask prices

## Corporate Bond Liquidity Monitor Exhibit 4

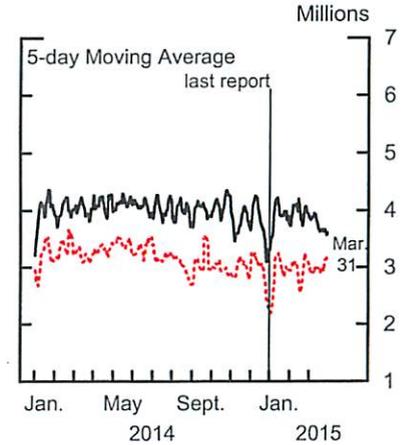
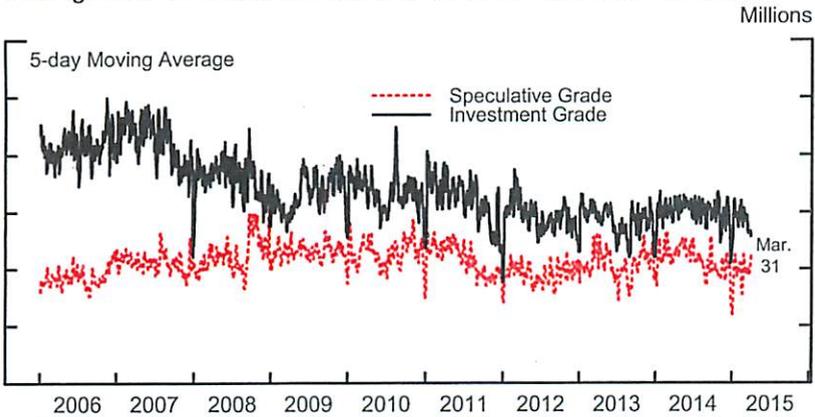
Percentage of Trades Greater than 1 Million in Par Value\*



\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds.

Source: FINRA, Mergent, Moody's DRD.

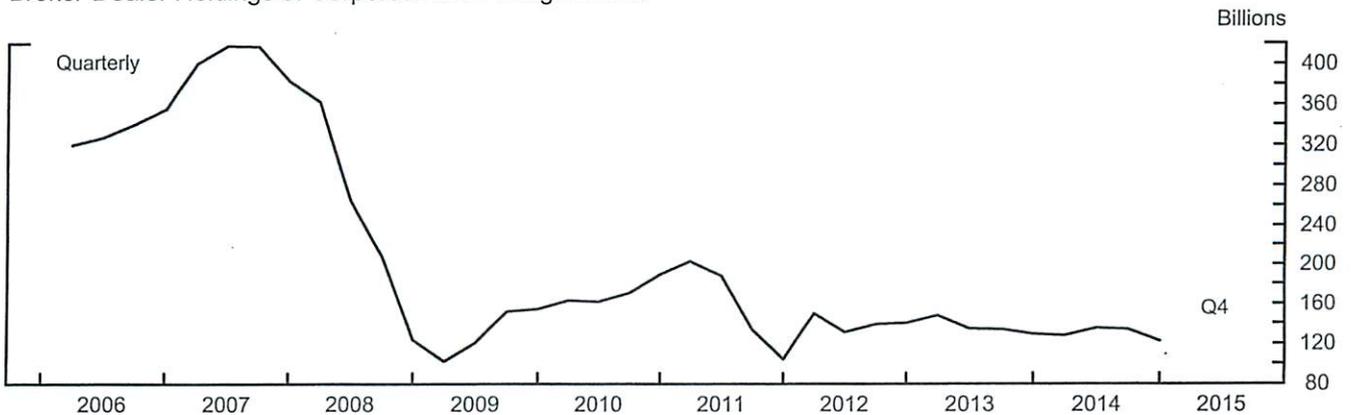
Average Size of Trades that are Greater than 1 Million in Par Value\*



\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds.

Source: FINRA, Mergent, Moody's DRD.

Broker-Dealer Holdings of Corporate and Foreign Bonds\*



\*Series FL663063005.Q is plotted.

Source: Federal Reserve Flow of Funds Account.