

## Staff Q2 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 April 1, 2015, through June 30, 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 rose substantially since the time of the last report, following the rise in longer-term Treasury yields. Despite the recent increase in yields, borrowing costs for nonfinancial businesses remained low by historical standards. Corporations raised a substantial volume of funds in the bond market, particularly for the refinancing of existing debt and the funding of M&A activity.
- 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 the first quarter. The average daily trading volume for both investment- and speculative-grade bonds fluctuated around a level typical for the past five years. Average effective bid-ask spreads for both investment- and speculative-grade bonds remained at levels similar to or lower than the pre-crisis level, suggesting healthy secondary market

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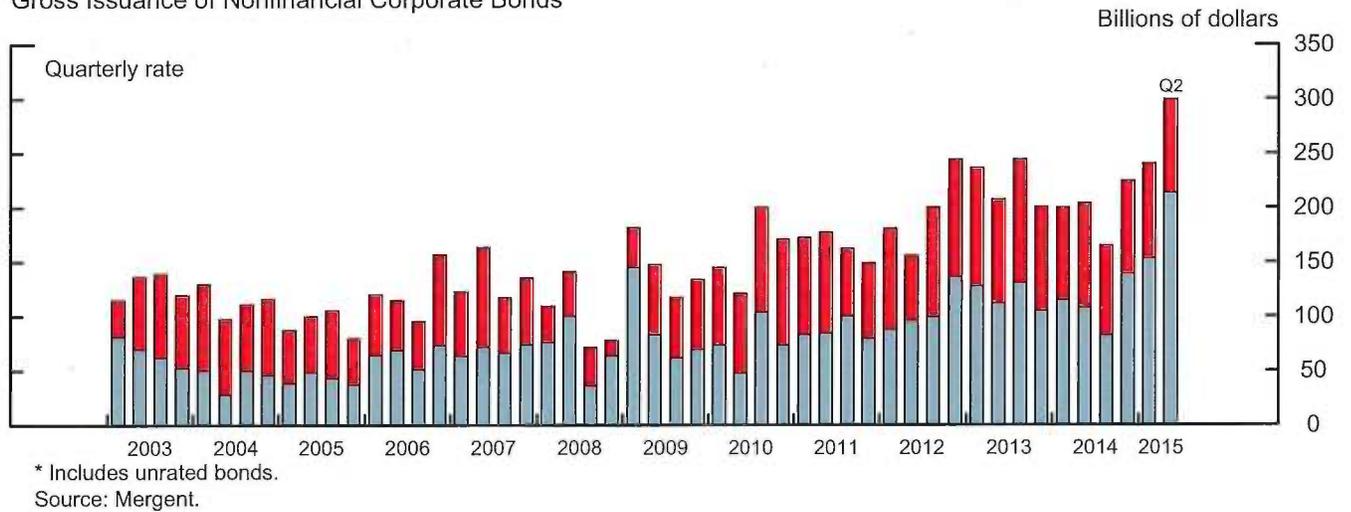
<sup>1</sup> This report has been agreed to by the staff of the Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodity Futures Trading Commission (collectively referred to as the Agencies).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

trading liquidity. 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, while some data indicate that dealers' inventories of corporate bonds declined a bit further in the first quarter of 2015, other data sources indicate that corporate bond inventory held by primary dealers was flat to slightly higher during the first and second quarter of 2015.

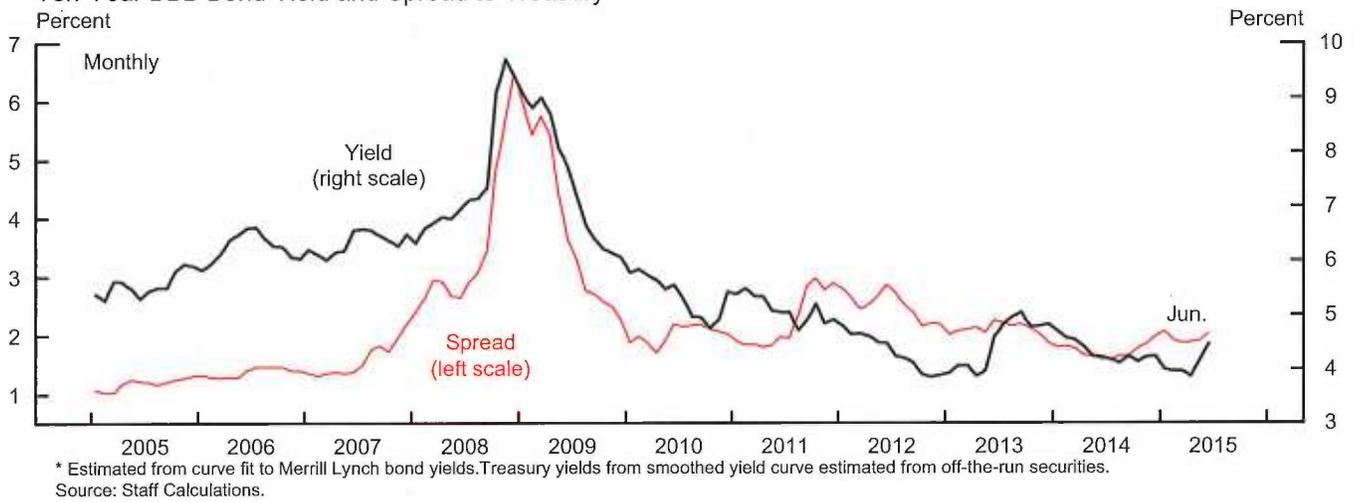
# Corporate Bond Liquidity Monitor

## Exhibit 1

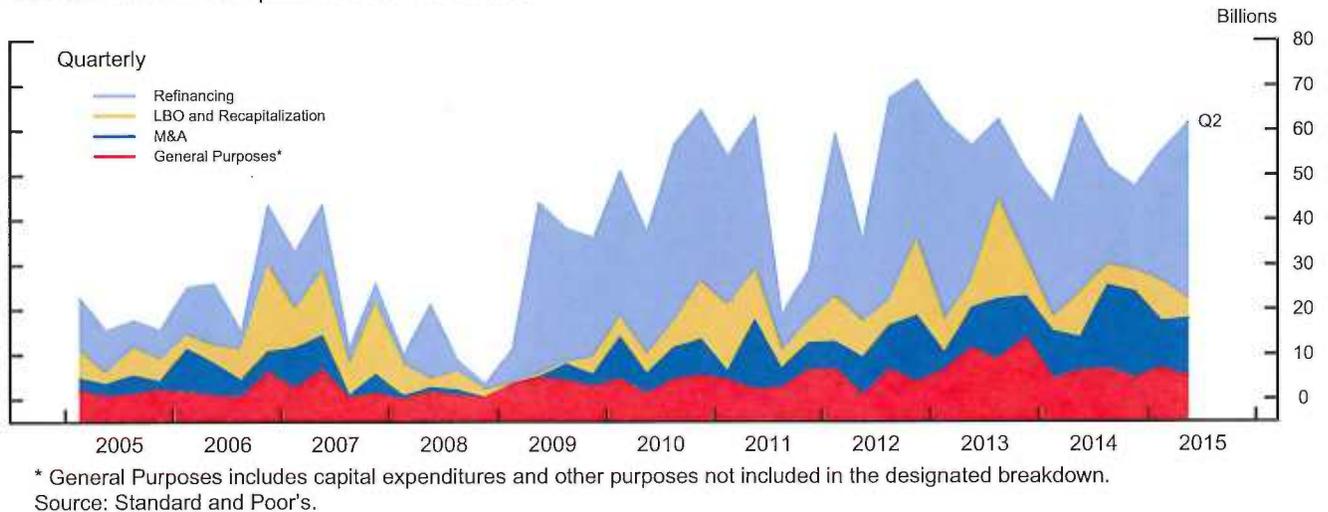
Gross Issuance of Nonfinancial Corporate Bonds



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



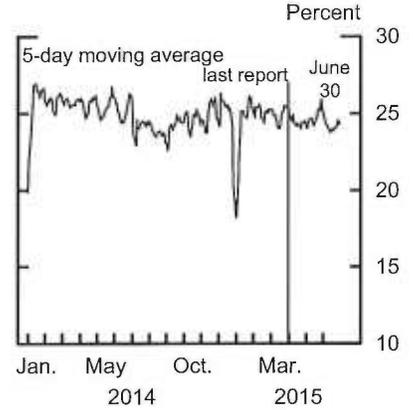
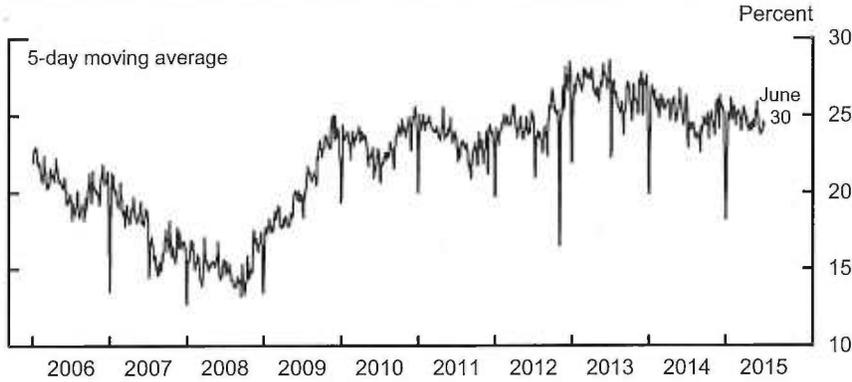
Use of Proceeds for Speculative Grade Issues



# Corporate Bond Liquidity Monitor

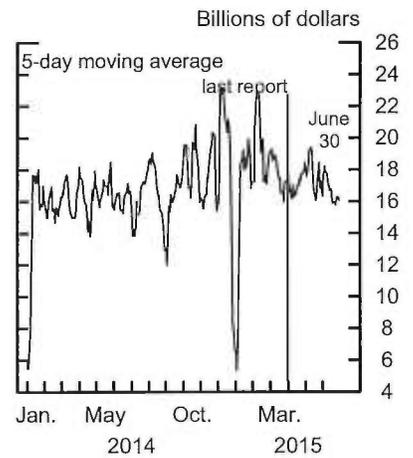
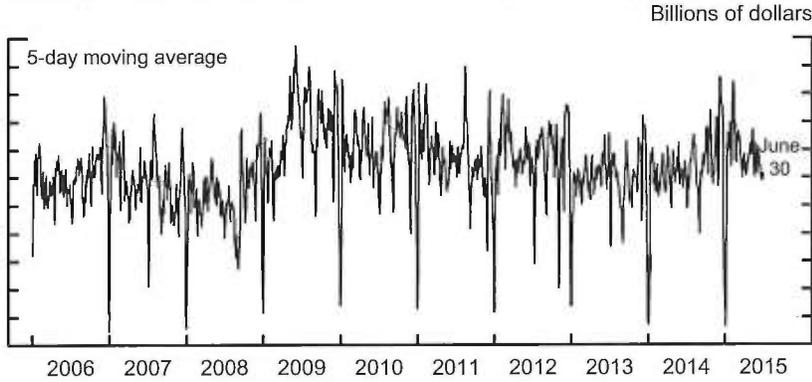
## Exhibit 2

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



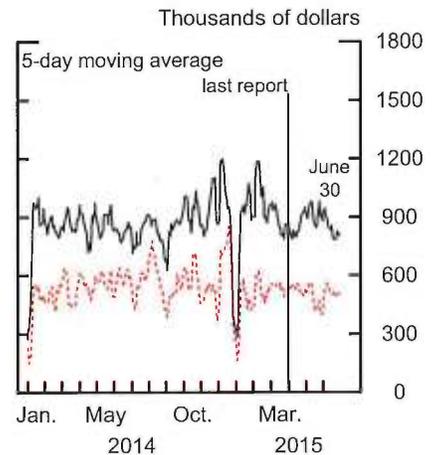
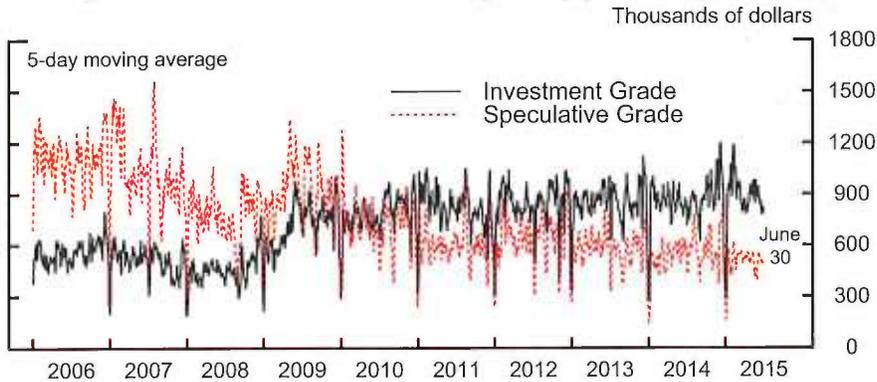
\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds.  
Source: FINRA, Mergent, Moody's DRD.

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)\*

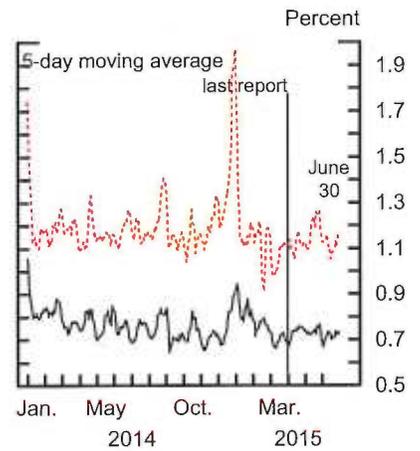
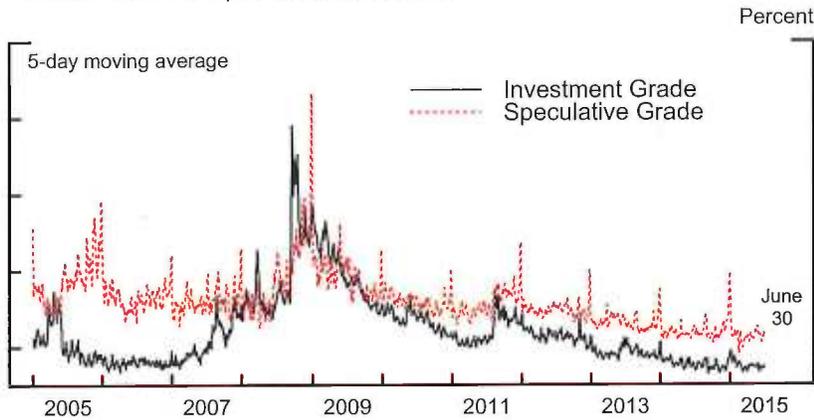


\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds. Series adjusted for monthly seasonality.  
Source: FINRA, Mergent, Moody's DRD.

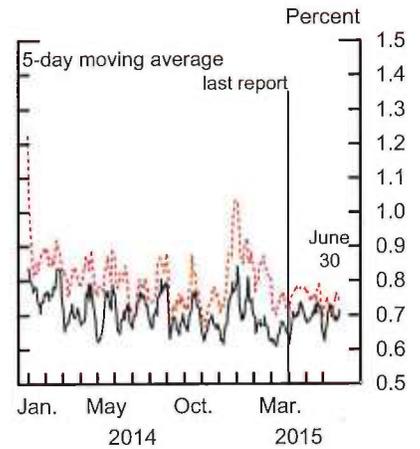
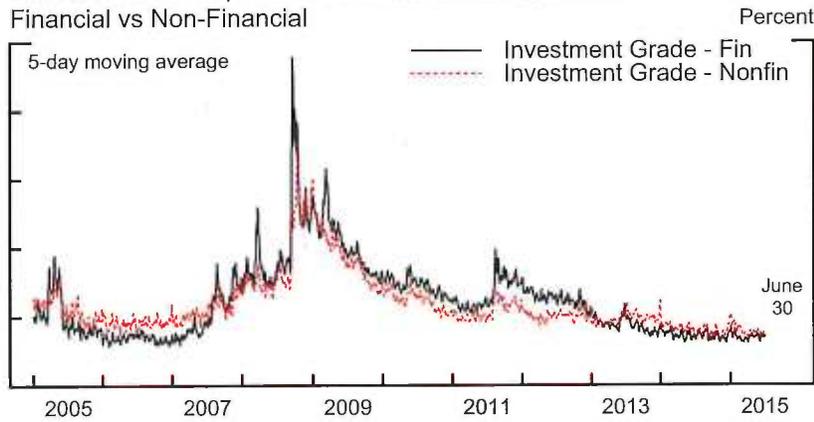
# Corporate Bond Liquidity Monitor

## Exhibit 3

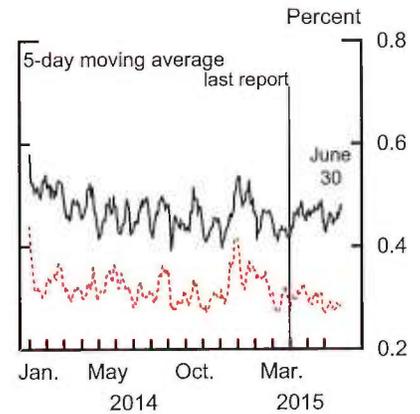
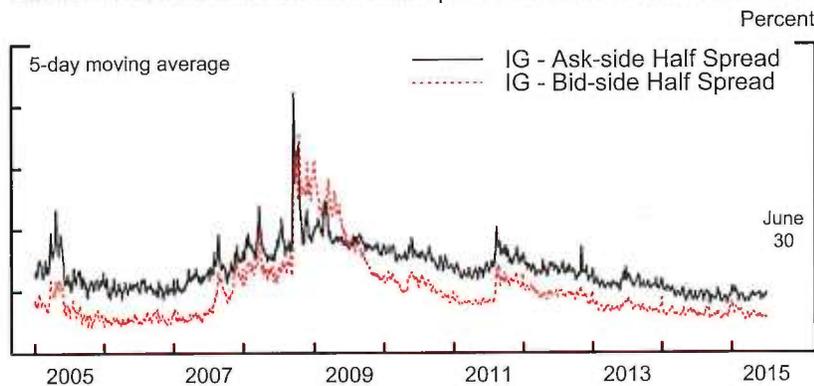
Effective Bid-Ask Spread for All Bonds



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



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



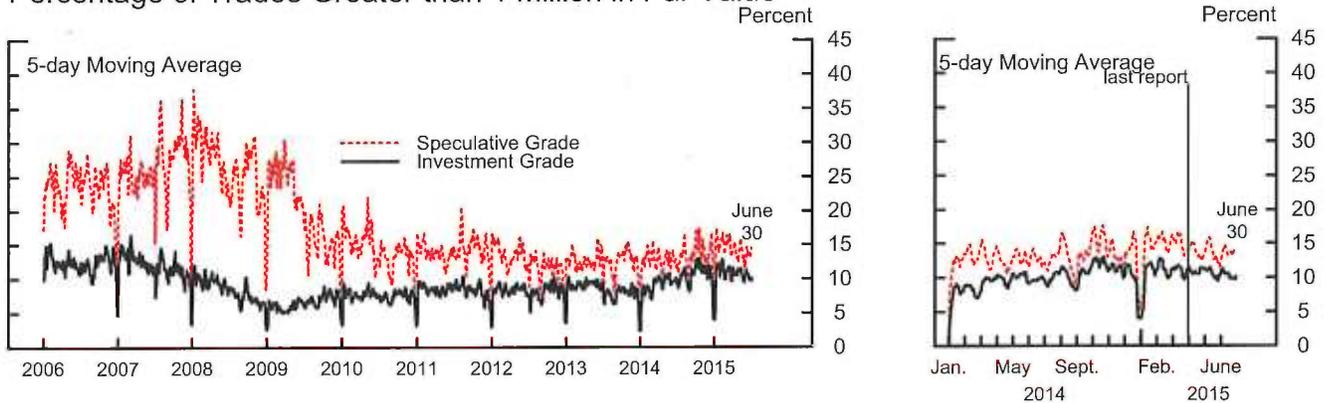
\*All measures are computed for non-defaulted bonds on the secondary market that have traded at least 10 times between 10:30am and 3:30pm. Excluding 144a bonds.

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

# Corporate Bond Liquidity Monitor

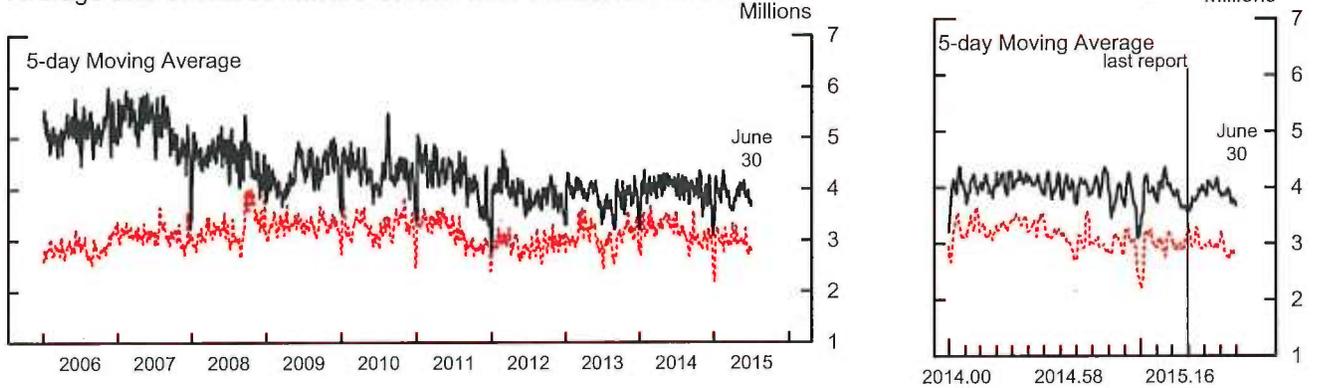
## Exhibit 4

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



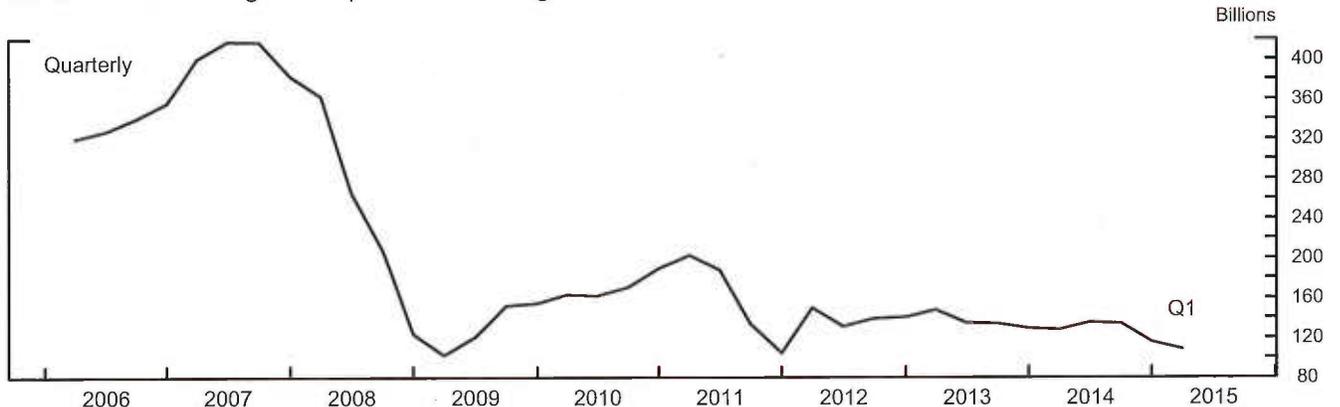
\*Only trades of bonds that have been issued for 60 days or more at the time of trading are included. Excluding 144a bonds. Series adjusted for monthly seasonality.  
Source: FINRA, Mergent, Moody's DRD.

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. Series adjusted for monthly seasonality.  
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.