

Bond market liquidity

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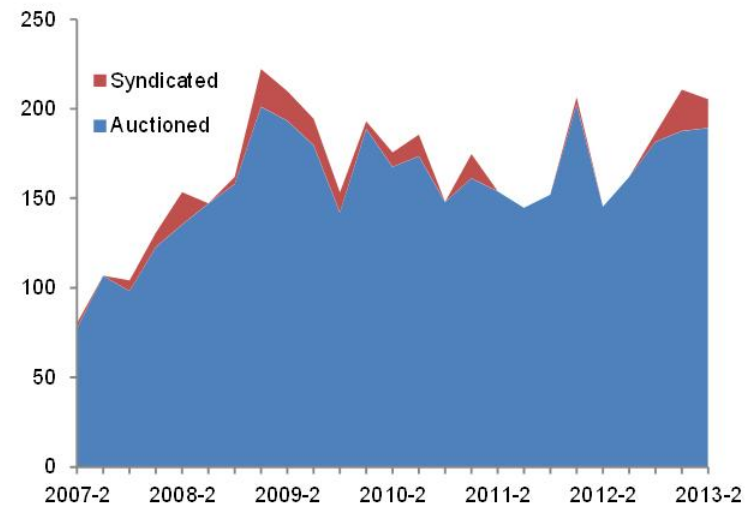
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Liquidity microstructure: Syndication is still important

- Market access in some cases depends on syndication or private placements rather than the usual auction process
- Note that auction supply that is tailored to domestic bank demand is not very different from a syndication process
- Overall, there is no cause for excessive optimism regarding the degree of market access for weaker issuers

Total quarterly supply from Spain, Italy, Portugal, Ireland by type (EUR bn)

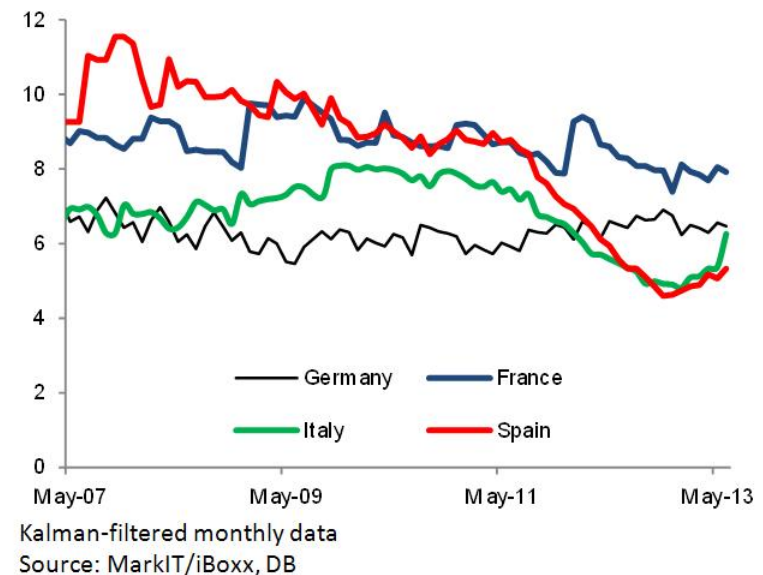


Source: DB

Liquidity microstructure: Peripherals have shrunk supply duration

- As international market access for some peripheral countries declined, newly issued debt became more tailored to the needs of the domestic banking systems
- New issuance duration in Spain fell from around 9.5 years to 4.5 years, Italy from 7.5 years to 5 years before recovering in 2013
- The asymmetry of this development is obvious when compared to France and Germany
- Liquidity as such is not the issue, but liquidity across the curve is no longer a given

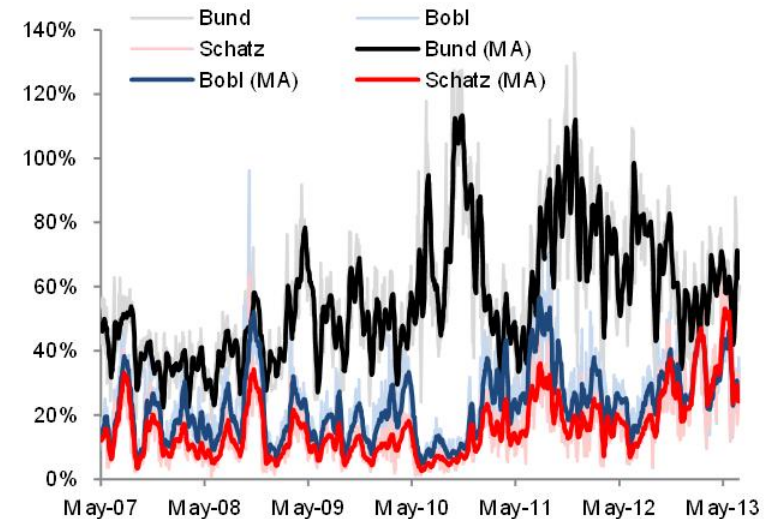
Average years to maturity for newly issued coupon debt



Liquidity microstructure: Listed derivatives grow and change

- New clearing and capital regulations mean more option strategies are being expressed in listed derivatives
- Listed options are gaining in importance relative to swaptions
- Over the last year, Bobl and Schatz options have gained in importance relative to Bund options
- If the trend in Schatz options was purely related to ECB rates outlook, Bobl options would not be benefiting to the same degree
- Instead, the shift also reflects changes in the cash market

Total option open interest over futures open interest on Eurex

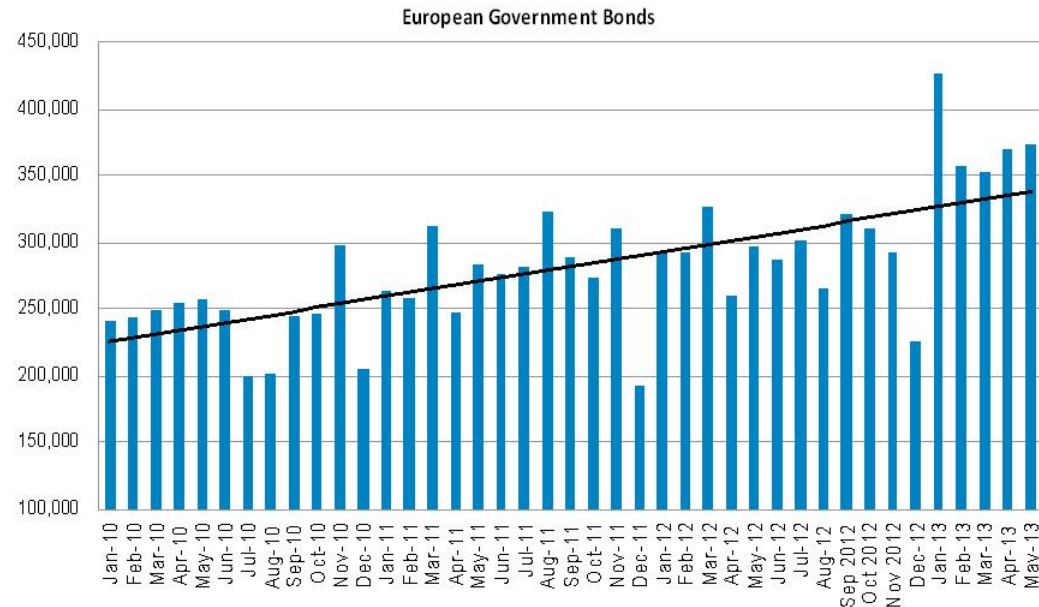


Source: Eurex, DB. MA=10 day moving average

Secondary Electronic Client Traded Volume

- In EGBs, the electronic market has recorded execution of
 - €2.9Trn in 2010
 - €3.3Trn in 2011
 - €3.5Trn in 2012
 - €1.9Trn YTD (May end)
- Margins in 2013 have contracted considerably.
 - The average margin from TradeWeb mid on trades (executed by MS) in EGB's in 2013 (ytd) is approx 50% smaller than in 2012.
- E.g. BTP -51%, DBR -36%, FRTR -59%, SPGB -60%
- This points to more aggressive competition and, perhaps, better secondary trading conditions for clients this year versus last.

January 2010 – May 2013



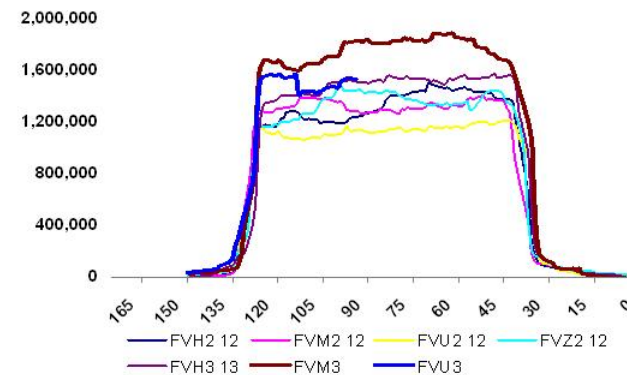
Market Volume B2C (Street)

Source: Tradeweb, Bloomberg, BondVision

OTC → Listed Futures

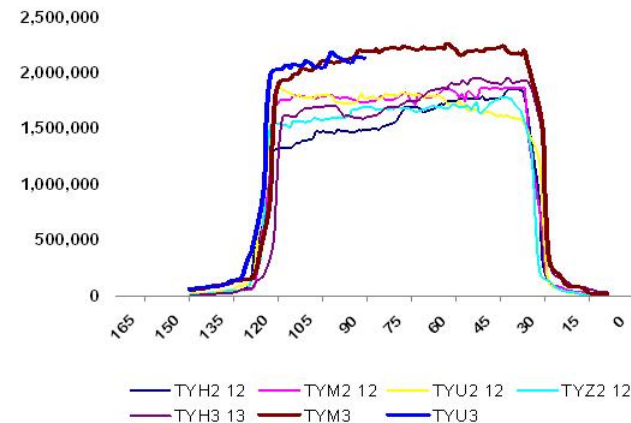
- Futures and block trading will become increasingly important as a liquidity source on the back of new regulations. Cost (fees & margin) coupled with additional market risk (as a result of business conduct rules) is likely to push the market in this direction
- This dynamic is already visible in the US where there have been substantial increases in OI on CME since mandatory clearing began

FV: Absolute OI (x-axis; Days to Contract Expiry)



Source: Morgan Stanley Trading

TY: Absolute OI (x-axis; Days to Contract Expiry)



Source: Morgan Stanley Trading

Discussion Topics

- Will Syndication become more important?
- Challenging refinancing hump ahead for peripherals?
- Any message in heavy frontend options growth? Hedging, speculation or both?
- Secondary market volume growth and margin collapse suggests a healthy market?
- Will 'Futurisation' be as profound in Europe as regulations are making it in the US?
-

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