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Measuring Municipal Bond Market Liquidity.

We reviewed trade and quote activity on approximately 570,000 unique municipal bonds from January 2015 through March 2016. The study surveyed the overall quote/trade depth and diversity during that period, as we focused mainly on unique bonds during various periods of time. This study did not factor in trade, quote, or bond issue size, but we want to make it clear that all three can also be used to assess a bond's liquidity profile. We note that since the dataset includes quotes and trades regardless of size, it could potentially overstate liquidity as compared to a round lot portfolio.

Our analysis concluded that municipal bond liquidity was stable during the period and the market was relatively efficient, but there were intermittent periods when liquidity did taper off due to seasonal factors. Here are some of our findings:

- 483,647 unique bonds traded and 253,194 were quoted in 2015, with approximately 50% of those appearing in the first four months of the year. Almost 99% of the quoted bonds traded at least once, with approximately 2,800 never trading during the year

- There is a direct relationship between the number of unique quotes and bonds that trade on a given day or month, with the correlation almost perfectly linear during a monthly period. The difference likely illustrates some time delay between the negotiation initiated post-quote and when a trade actually takes place

- The number of dealers quoting a bond on a given day is correlated with the likelihood of it trading. Data indicates that increasing the depth from one to four dealers increases the probability of a revenue bond trading from 19% to 66%, based on 2015 data

- New York general purpose and public improvement bonds had the highest likelihood of trading (25%) in 2015 among the 15 most quoted and traded use of proceeds and state combinations revenue bonds that were only quoted once on a given day. In the case of general obligation bonds, Massachusetts bonds had the highest trade rate (22%) based on the same analysis

- There were 250 trading days in 2015 and not a single municipal bond traded every day. However, there were two bonds that traded 248 days: California State 7.55% 4/2039 and Illinois State 5.1% 6/2033 taxable bonds, with neither making the top 10 list of most traded bonds in 2015 by trade count

- Approximately 9,900 bonds traded at least 10 days in 2015, but quotes were not sent via a broad distribution by any dealers during the year. However, there were only 316 bonds that were quoted at least 10 days that never traded during the year

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