Dealer Capacity and US Treasury Market Functionality

SUERF Webinar
September, 2023

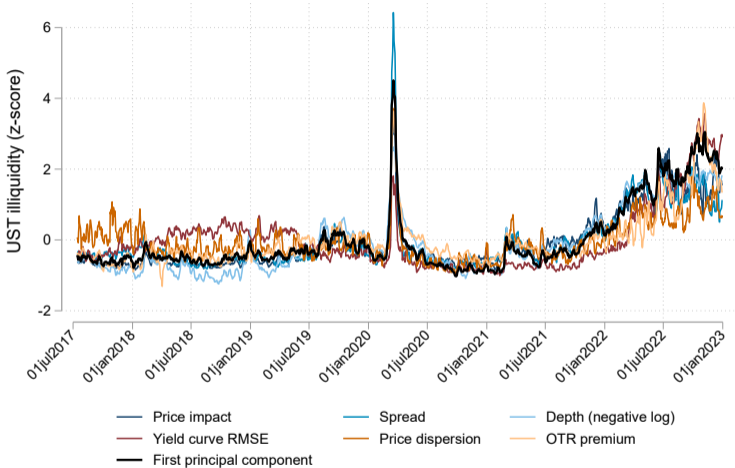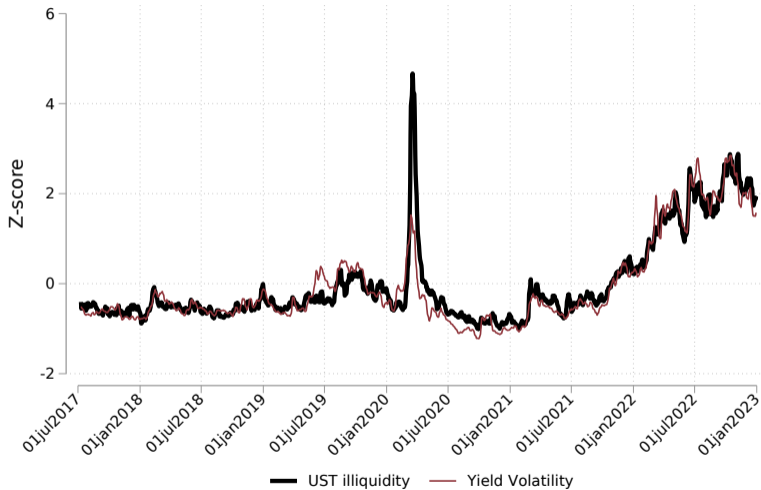# When should illiquidity trigger central-bank purchases?

Figure: 5-day moving averages of *Z*-scores of six illiquidity metrics for Treasury market, and their first principal component.

UST illiquidity closely tracks yield volatility, except in March 2020

UST illiquidity is normally well explained by yield volatility, but not at the extreme levels of March 2020.
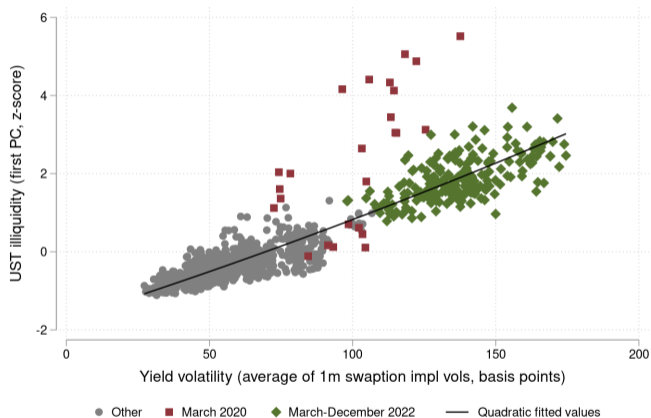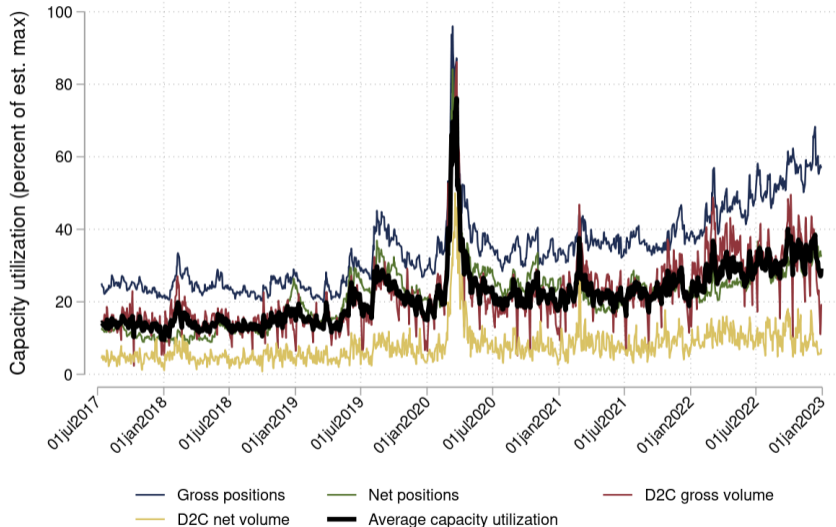

Figure: Predicted z-score of PC1 of Illiquidity: $y = -1.64 + 0.021x + 0.000037x^2$. Yield volatility x is in basis points. $N = 1,331$; $R^2 = 84.1\%$.

Estimated US Treasury market dealer capacity utilization

The component of UST illiquidity not explained by yield volatility is high when utilization of dealer intermediation capacity is high
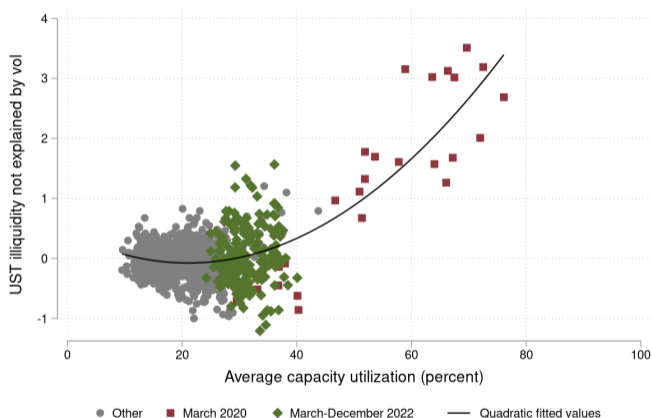

Figure: Predicted illiquidity z-score not explained by volatility is $y = 0.432 - 0.048x + 0.0011x^2$, with $R^2 = 38.1\%$. All three coefficient estimates have p-values of less than 1% (Newey-West).