



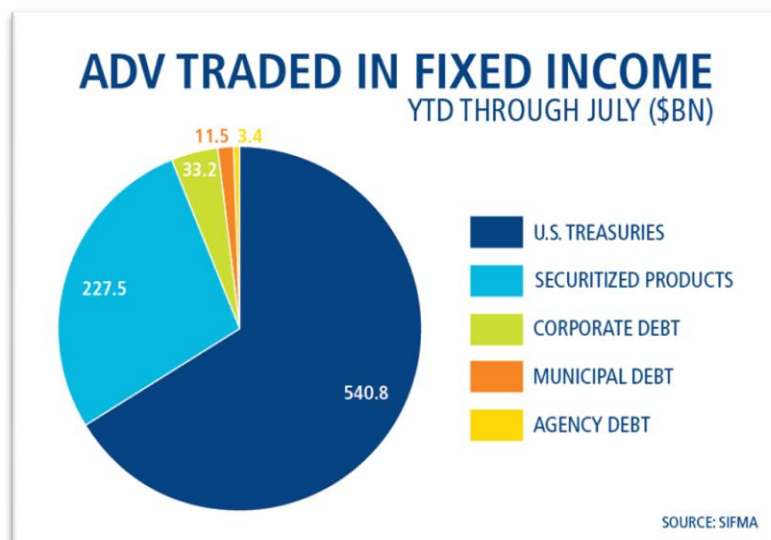
September 2018

The new drivers of price formation in U.S. Treasury Securities

The U.S. Treasury market is rapidly modernizing. The emergence of non-traditional liquidity providers and introduction of new trading protocols are providing market participants with additional options when seeking best execution. In the process, pricing data today is arguably more indicative of the true market from moment to moment than ever before.

Treasuries represent the largest segment of the fixed income market. Average daily notional volume in Treasuries of more than half a trillion dollars exceeds that of the markets for mortgage-backed securities, corporate debt and municipal bonds combined. Prices on industry benchmark Reuters Capital Markets (RCM) 19901 update more than one million times per day.

Figure 1 – ADV Traded in Fixed Income (Year-to-date through July)



Source: SIFMA – Click on chart to request a free Eikon trial

Less appreciated, however, are the market dynamics that influence price formation in Treasuries.

The primary market participants in Treasuries include broker dealers, institutions, central banks, market makers and proprietary trading firms (PTFs). The majority of all transactions, historically, occurred through requests-for-quotes (RFQs), central limit order books (CLOBs) and traders interacting by telephone and chat.

In recent years, PTFs are accounting for an increasing percentage of transactions in on-the-run Treasuries.

The shift began following the financial crisis. Increased capital requirements on banks acting as broker dealers and restrictions on proprietary trading created a need for supplemental liquidity in the Treasury market. In response, non-

traditional liquidity providers including market makers and PTFs progressively increased activity. In order to trade directly with market participants, PTFs built connectivity to broker dealers and institutions possessing the requisite trading and technological capabilities to receive streaming bids and offers.

Direct streaming liquidity on a one-to-one basis allows both providers and consumers to create data-driven, customized trading relationships. The relationships allow for larger top of book quantities in Treasuries at tighter prices with minimal information leakage.

Prices generated through requests-for-quotes (RFQs), central limit order books (CLOBs) and traders interacting by telephone and chat all contribute to the available market data. Pricing data from direct streaming transactions provide new constructive context on movements in the U.S. Treasury market.

Data furnished to RCM 19901 by Dealerweb, a division of Tradeweb, is anonymously aggregated from markets involving broker dealers, institutions, central banks, market makers and PTFs across the different trading protocols.

Figure 2 – RCM 19901 page

08/30 09:04 GMT		[REUTERS CAPITAL MKTS SOURCE ICAP/DWEB]				0#19901	
TERM	TREASURY	YIELD	M-YIELD	SWAP-SPREAD	SEMI-BOND	ANN-MONEY	
UST 2YR	99*29% - A99*29%	2.669-2.665	2.667	19.250 - 17.250	2.860 - 2.840	2.841 - 2.821	
UST 3YR	8+ 100*01% - A100*01%	2.733-2.73	2.732	17.500 - 15.500	2.907 - 2.887	2.888 - 2.868	
UST 4YR	-	-	2.751	16.250 - 14.250	2.913 - 2.893	2.895 - 2.874	
UST 5YR	8+ 99*29 - A99*29%	2.77 - 2.769	2.769	14.750 - 12.750	2.917 - 2.897	2.898 - 2.878	
UST 6YR	-	-	2.804	11.500 - 9.500	2.919 - 2.899	2.900 - 2.880	
UST 7YR	99*14 - A99*14%	2.839 - 2.837	2.838	9.000 - 7.000	2.928 - 2.908	2.909 - 2.889	
UST 8YR	-	-	2.850	8.250 - 6.250	2.932 - 2.912	2.914 - 2.894	
UST 9YR	-	-	2.862	8.500 - 6.500	2.947 - 2.927	2.928 - 2.908	
UST 10YR	100 - A100*00%	2.875 - 2.873	2.874	8.750 - 6.750	2.961 - 2.941	2.943 - 2.923	
UST 12YR	-	-	2.874	10.750 - 8.750	2.981 - 2.961	2.963 - 2.943	
UST 15YR	-	-	2.910	8.750 - 6.750	2.998 - 2.978	2.979 - 2.959	
UST 20YR	-	-	2.945	6.000 - 4.000	3.005 - 2.985	2.986 - 2.966	
UST 25YR	-	-	2.981	1.000 - -1.000	2.991 - 2.971	2.972 - 2.952	
UST 30YR	8+ 99*21 - A99*22	3.017 - 3.016	3.017	-3.500 - -5.500	2.982 - 2.962	2.963 - 2.943	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
** For Indicative Semi-Bond LCH/CME Basis go to <19981> **							
12Y MID-YIELD USE 10Y MID-YIELD, ALL OTHERS (EXCEPT ON-THE-RUN) ARE INTERPOLATED							

Source: Eikon – Click on chart to request a free trial

Prices from direct streams, similar to disclosed trading between broker dealers and institutions, can be indicative of market moves. While the prices and sizes offered by PTFs are designed for the specific counterparty, price changes in multiple streams provide additional data points that can evidence pattern shifts.

In addition to enhancing trading for liquidity providers and consumers in all market conditions, direct streaming liquidity is improving pricing data that radiates to the overall market to the benefit of market participants.

About the Author



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Chris Amen is a Managing Director and Head of OTR Treasury Trading at Dealerweb, a division of Tradeweb Markets. In this role, Amen is responsible for leading the strategy and development of market solutions that support market participants trading in U.S. Treasuries across direct streaming liquidity and central limit order book (CLOB) markets.

Amen has played a critical role in expanding electronic fixed income trading in both institutional and wholesale markets for more than a decade at Tradeweb. He previously oversaw U.S. Rates Institutional Sales, Business Development and Strategy at the firm. Prior to that, he managed business development for Dealerweb, where he led the firm's entry into inter-dealer trading through the acquisitions of Hilliard Farber & Co., Inc. and the brokerage assets of Rafferty Capital Markets LLC.

Earlier, Amen worked at Thomson Financial where he played an integral role in the acquisition of Tradeweb in 2004. Before that, he worked in investment banking at Thomas Weisel Partners.

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