

Treasury Event: Further Analysis



OCE, Oct 2015

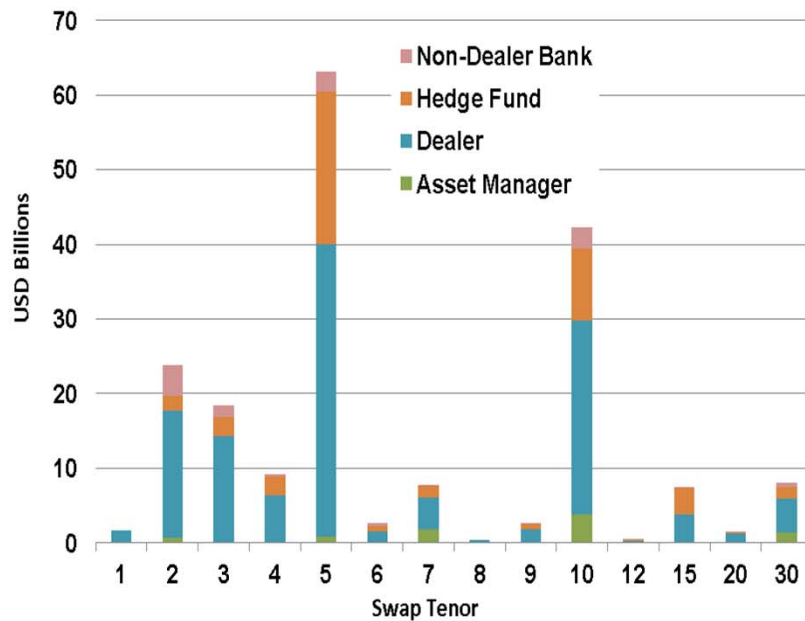
These slides are a summary of staff findings from the Office of the Chief Economist of the U.S. Commodity Futures Trading Commission. The slides represent only the views of staff and do not reflect the views of other Commission staff, the Commission itself or the United States Government.

Overview

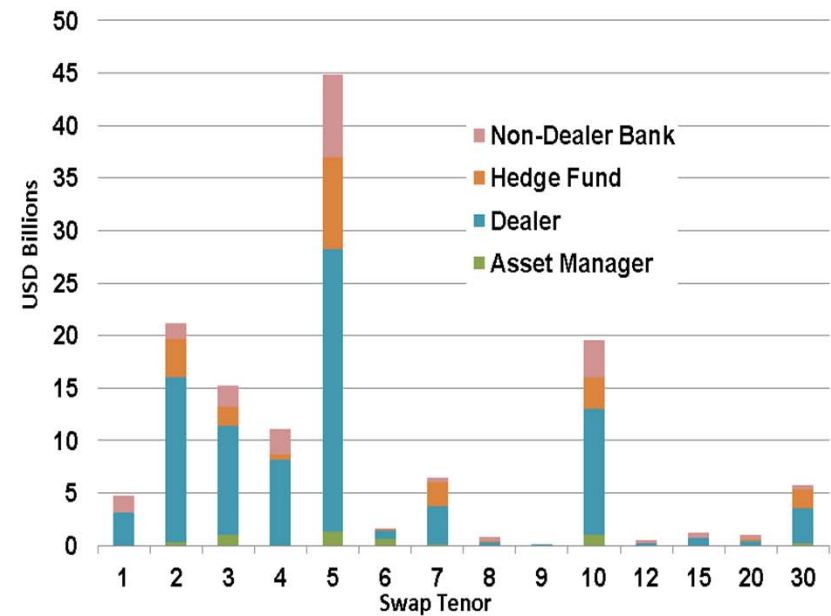
- ▶ In the months after the public report, participating agencies have continued analysis, where possible, to these OTC markets, to better understand price drivers on the day
- ▶ These slides will summarize activity in a specific segment of Treasury swaps markets around the event, using public and regulatory data, focusing on the “negative gamma” story – that some participants needed to buy as prices rose, and sell as prices fell
- ▶ We find:
 - ▶ Swap activity, like cash and futures, was significantly higher, by volume, on the day especially on Swap Execution Facilities (SEFs), though
 - ▶ Trade sizes were similar to other, less active, days
 - ▶ The distribution of trades across trader categories were roughly unchanged, with a slight move towards dealer-to-client trading
 - ▶ Dealers were short swap optionality, though on net this was not unusually large
 - ▶ Dealers did sometimes appear to trade in ways indicative of “negative gamma” positions, though a closer look shows
 - ▶ This activity was balanced out by activity in other contracts
 - ▶ Activity was very different across swap tenors – no clear pattern
 - ▶ Total volumes and net positions do not seem commensurate with the price movements – and we did not see a trading “round-trip” during the event window

Swap Transaction Overview: By Class

Swap Trading by Class: October 15



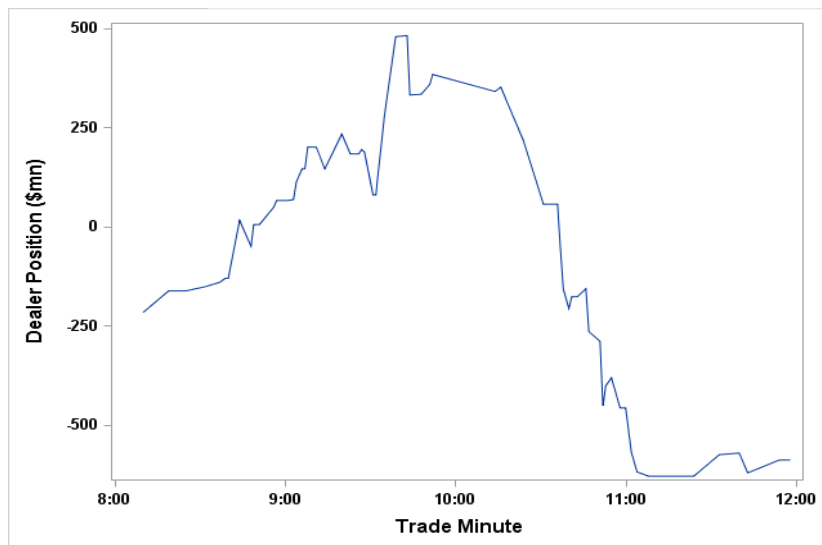
Swap Trading by Class: October 8



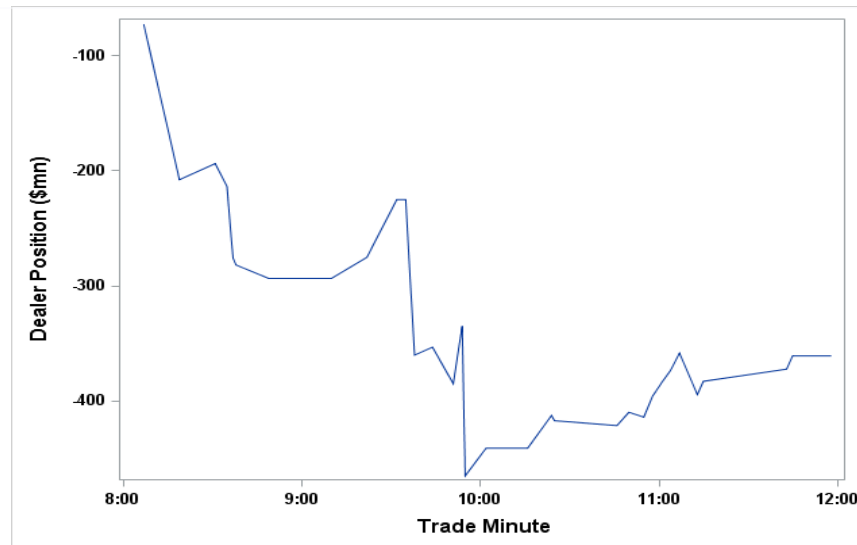
- ▶ The distribution of swap activity across trader categories on the 15th generally matched that of the week prior, with a slight relative reduction on the dealer side, and a slight increase in other categories like hedge funds. The distribution of swap activity across tenors is also similar to the prior week
- ▶ This trade analysis is only for activity on Bloomberg SEF. As a primarily dealer-to-client SEF, this activity may not reflect activity in other venues, especially those that specialize in inter-dealer trading.

Intraday Swap Activity: Dealer Positions

Dealer Net Position – 10Y



Dealer Net Position – 30Y



- ▶ Dealer trading during the hours of interest differed across swap tenor buckets (shown are the 10Y and 30Y) – possibly pointing to both level trading and relative value trading
- ▶ Dealers as a group were buyers in many contracts as rates fell. Though not across all – they were net sellers in the 30Y
- ▶ Their net activity in the 10Y contract was partially consistent with negative gamma activity - however
 - ▶ This was not large relative to total swap activity or activity within the cash or futures markets
 - ▶ This did not see a “round-trip” during the event window