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CDAC Conference Panel Discussion

Bond Market Liquidity: Structural or Temporary

Dec 1, 2016

Key attributes of market liquidity

Ability to buy or sell some volume of securities at a low cost and with a limited price impact

Most Important Attributes of Market Liquidity

Ranked in order of importance

1. Ability to execute at the most competitive price
2. Ability to execute in large size
3. Ability to execute with immediacy
4. Ability to execute without moving the market

Aspects of Liquidity Most Concerned About

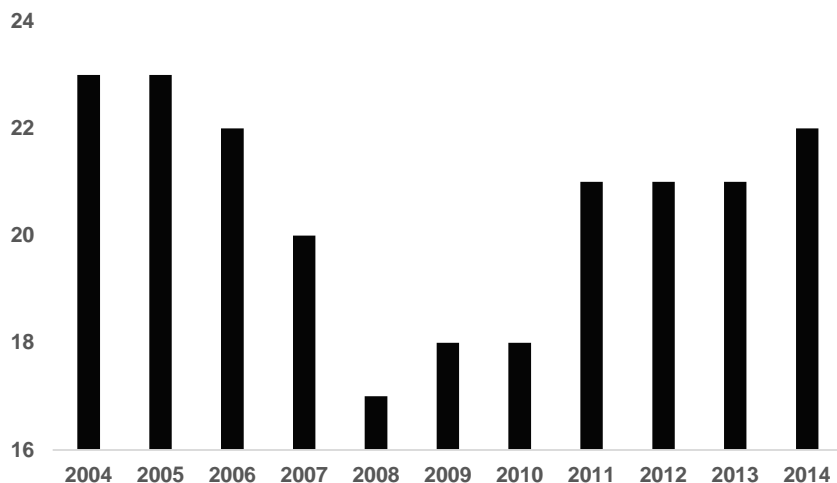
Ranked in order of importance

1. Amount of liquidity available during market stress
2. Increasing volatility in the amount of liquidity
3. Amount of liquidity available on an average day
4. Increasing pro-cyclicality of liquidity

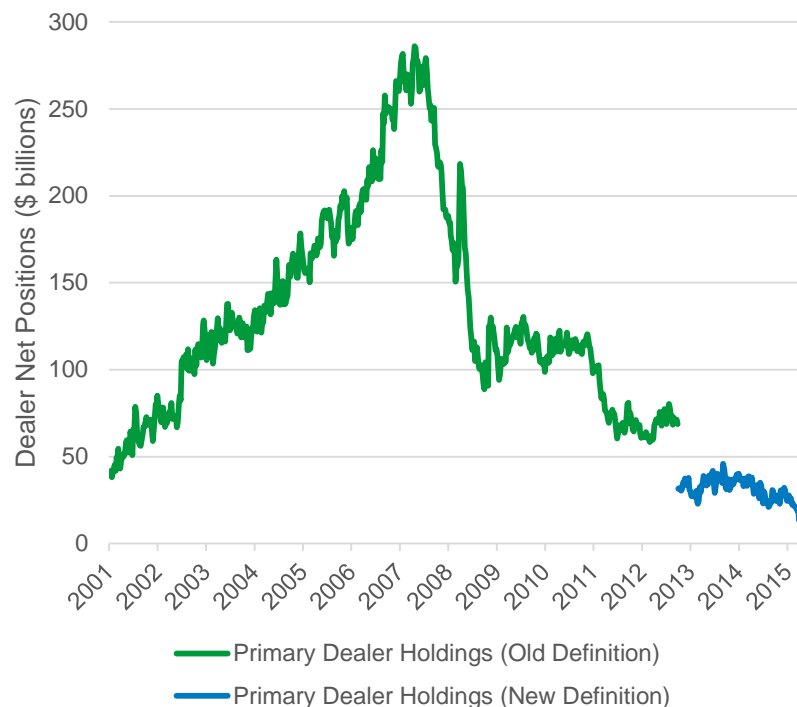
Source: Canadian Fixed Income Forum, Bank of Canada, October 2016

The number of primary dealers has returned to its pre-crisis levels but dealers are holding smaller inventories in aggregate

Number of Primary dealers at year-end

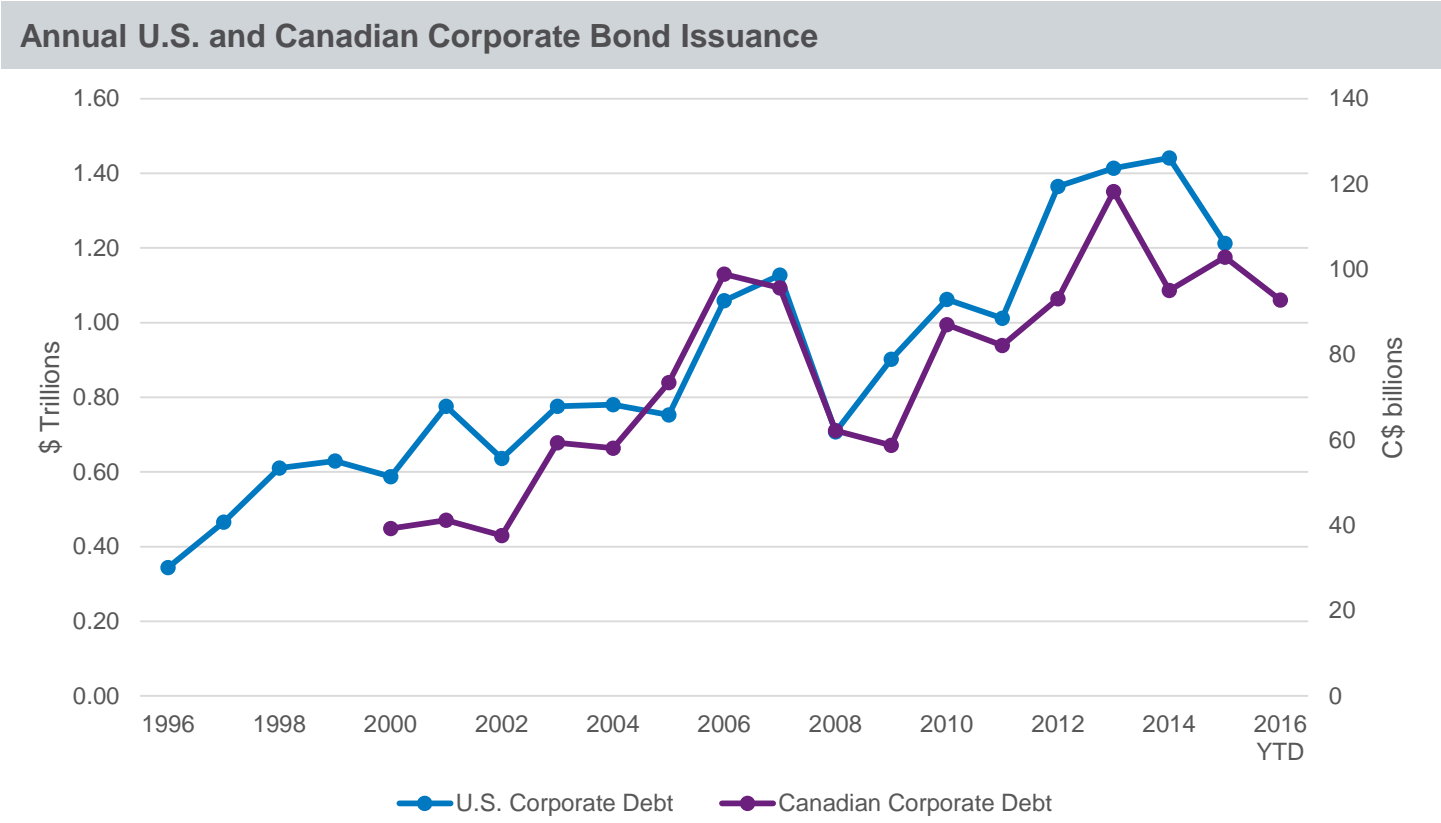


Aggregate dealer Inventory of U.S. Corporate Bonds



Source: New York Federal Reserve, Haver Analytics. As of December 31, 2015. Prior to April 2013, the primary dealer corporate bond positions data included non-agency RMBS and CMBS.

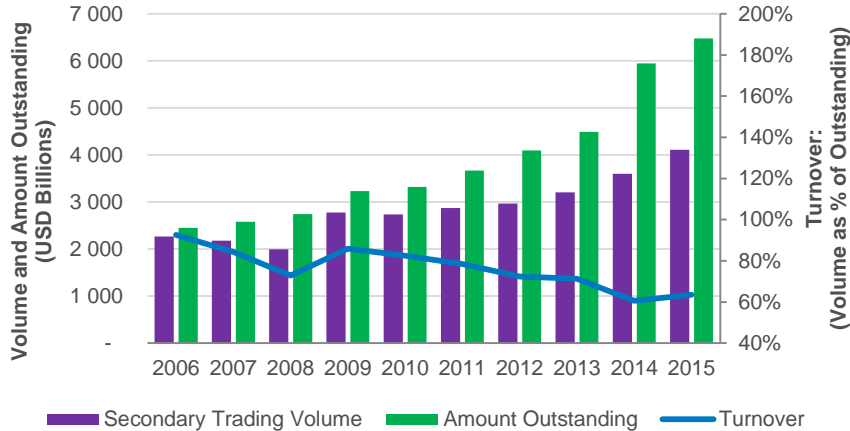
Corporate bond issuance has rebounded strongly post-Crisis



Source: SIFMA. As of October 2016.

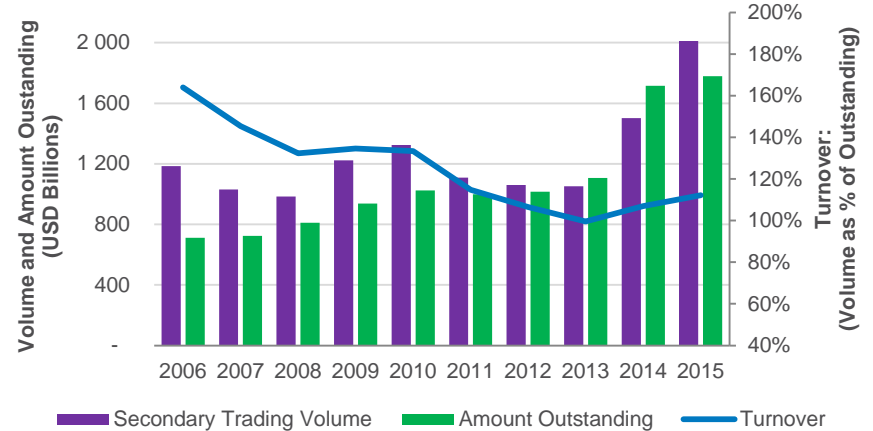
Liquidity challenges in corporate sector

U.S. Investment Grade



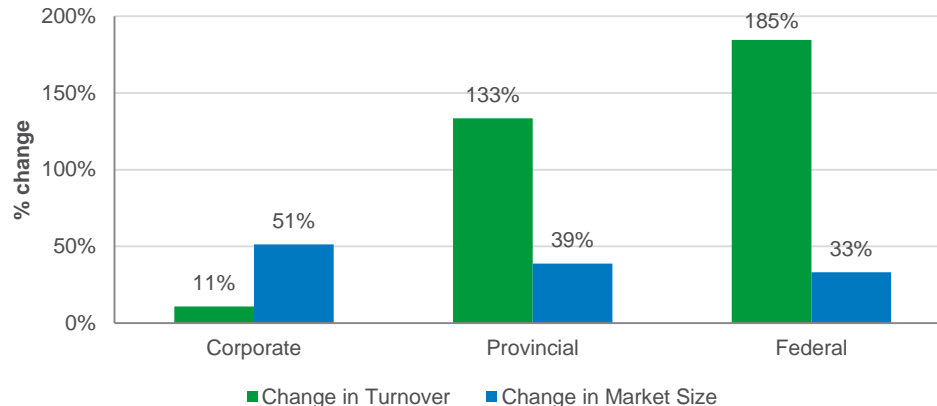
Source: MarketAxess. As of December 31, 2015.

U.S. High Yield



Source: MarketAxess. As of December 31, 2015.

Change in market size and turnover by asset class in Canada, 2009-2013



Source: FTSE TMX Global Debt Capital Markets, Statistics Canada.

Impact to investors

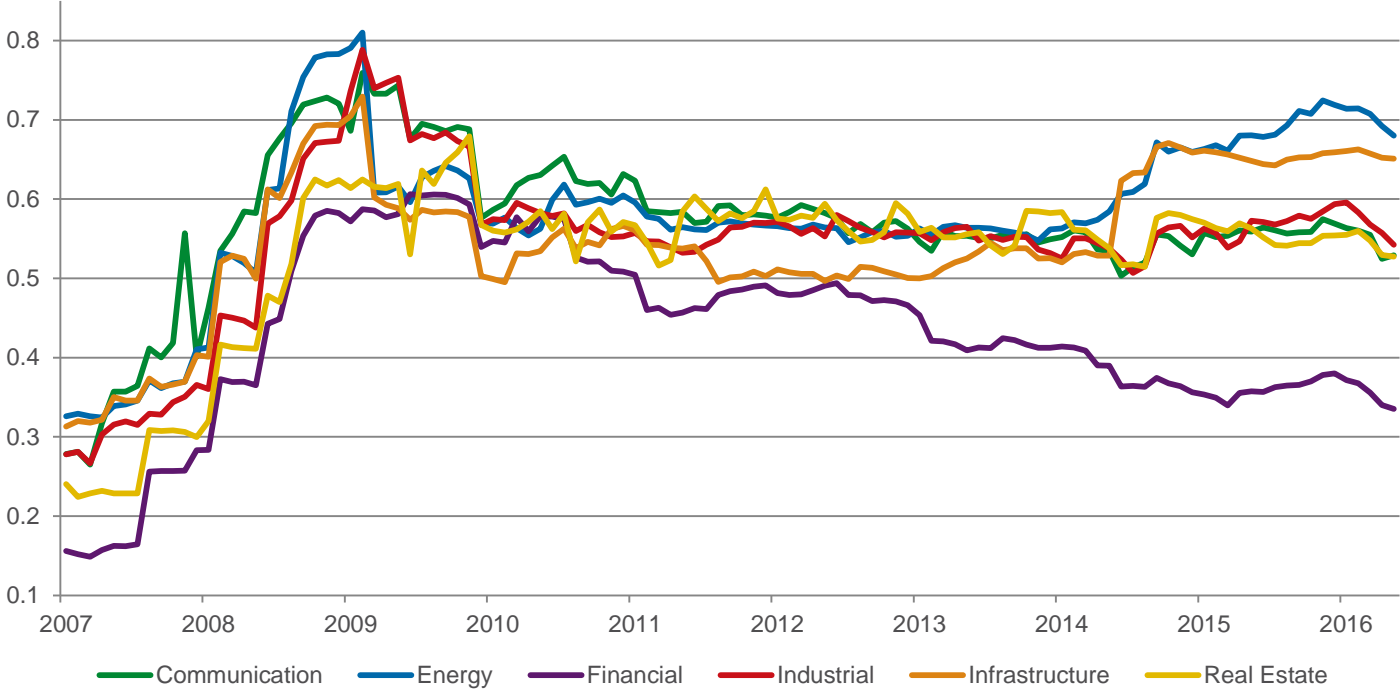
Average price bid-ask spread for FTSE TMX Canada All Corporate Bond Index



Source: FTSE TMX Global Debt Capital Markets. As of 9/30/2016.

Impact to investors: liquidity bifurcation

Average price bid-ask spread by sector in FTSE TMX Canada All Corporate Bond Index



Source: FTSE TMX Global Debt Capital Markets. As of 9/30/2016.

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