



MANAGED FUNDS
ASSOCIATION

TREASURY MARKET STRUCTURE & RECENT STRESSES

Presentation Before CFTC Global Markets
Advisory Committee

OCTOBER 25, 2021

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Executive Summary

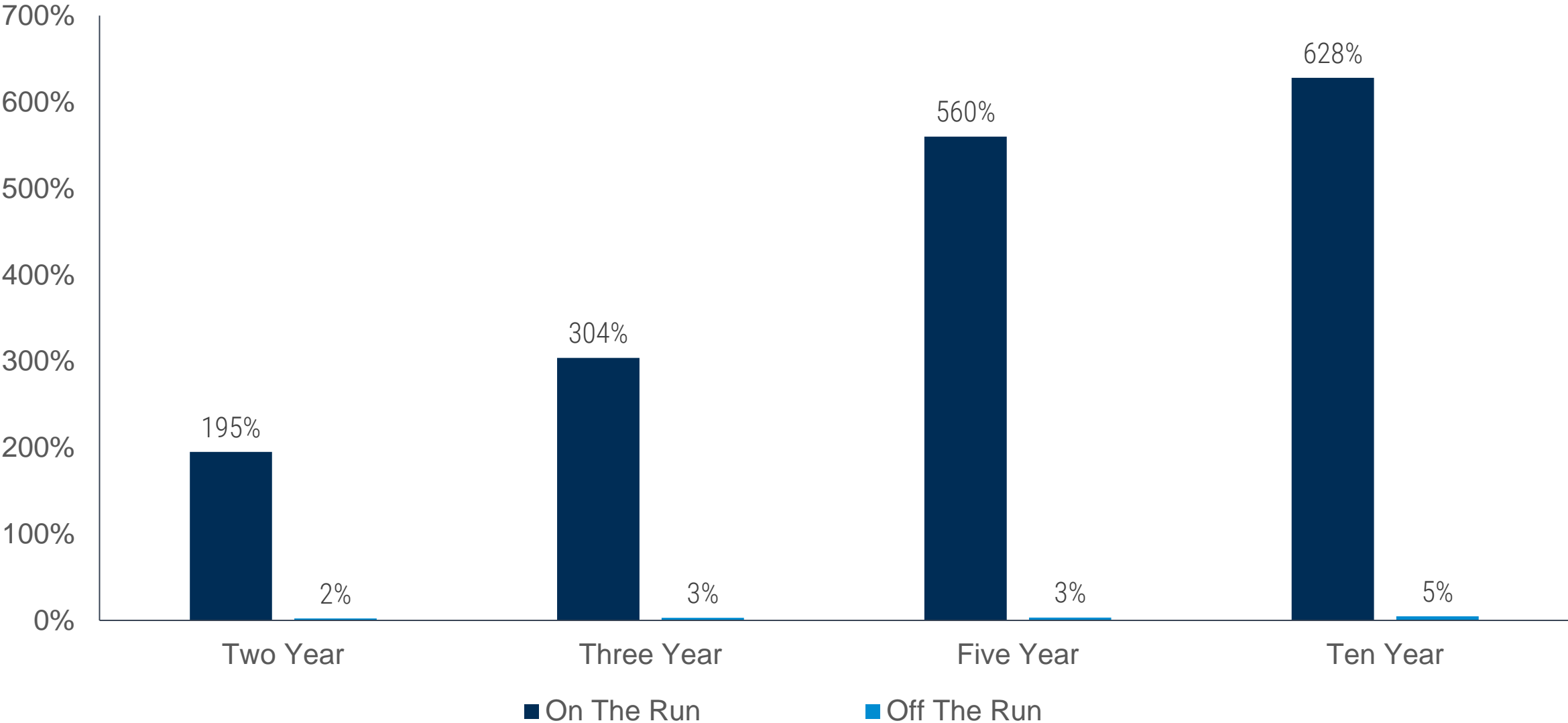
- 1 Treasuries are not a uniform market
- 2 Surprise shock from Covid prompted heavy redemptions and overseas dash for dollars
- 3 Treasury markets rely on multiple participants, not just traditional dealers, for liquidity
- 4 Repo financing relies heavily on bilateral relationships
- 5 Expanded central clearing solutions and other reforms are appropriate

Multiple Markets That Function Differently



A Tale of Multiple Markets: Treasury On-the-Runs and Off-the-Runs

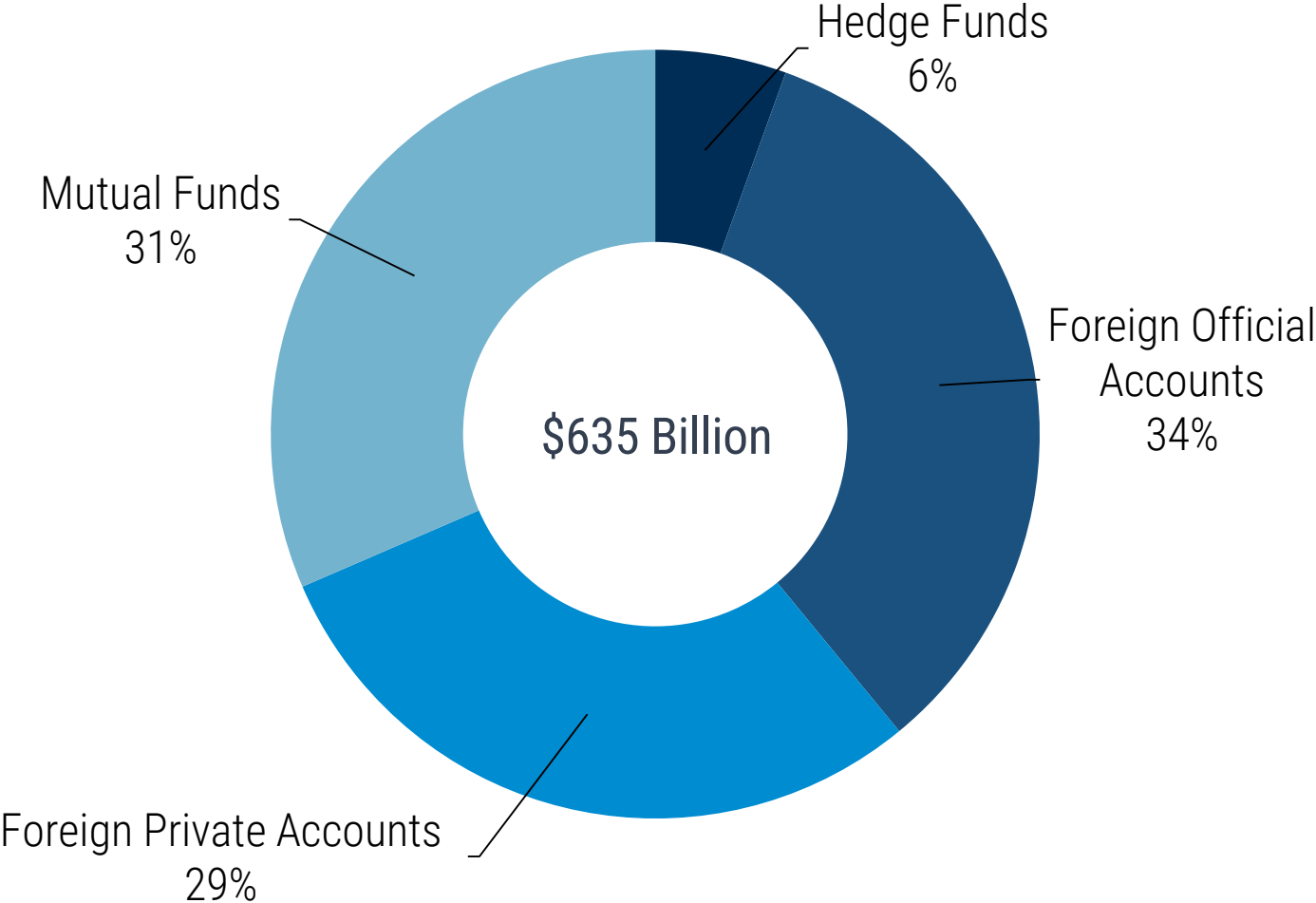
WEEKLY VELOCITY OF TREASURY MARKET TURNOVER, BY MARKET, SEPTEMBER 2021



Sources: FINRA TRACE Volumes - Week of September 17, 2021; Treasury Department August 2021 Detail of Outstanding Securities

Foreign Accounts Were Responsible For Most Treasury Sales In March 2020

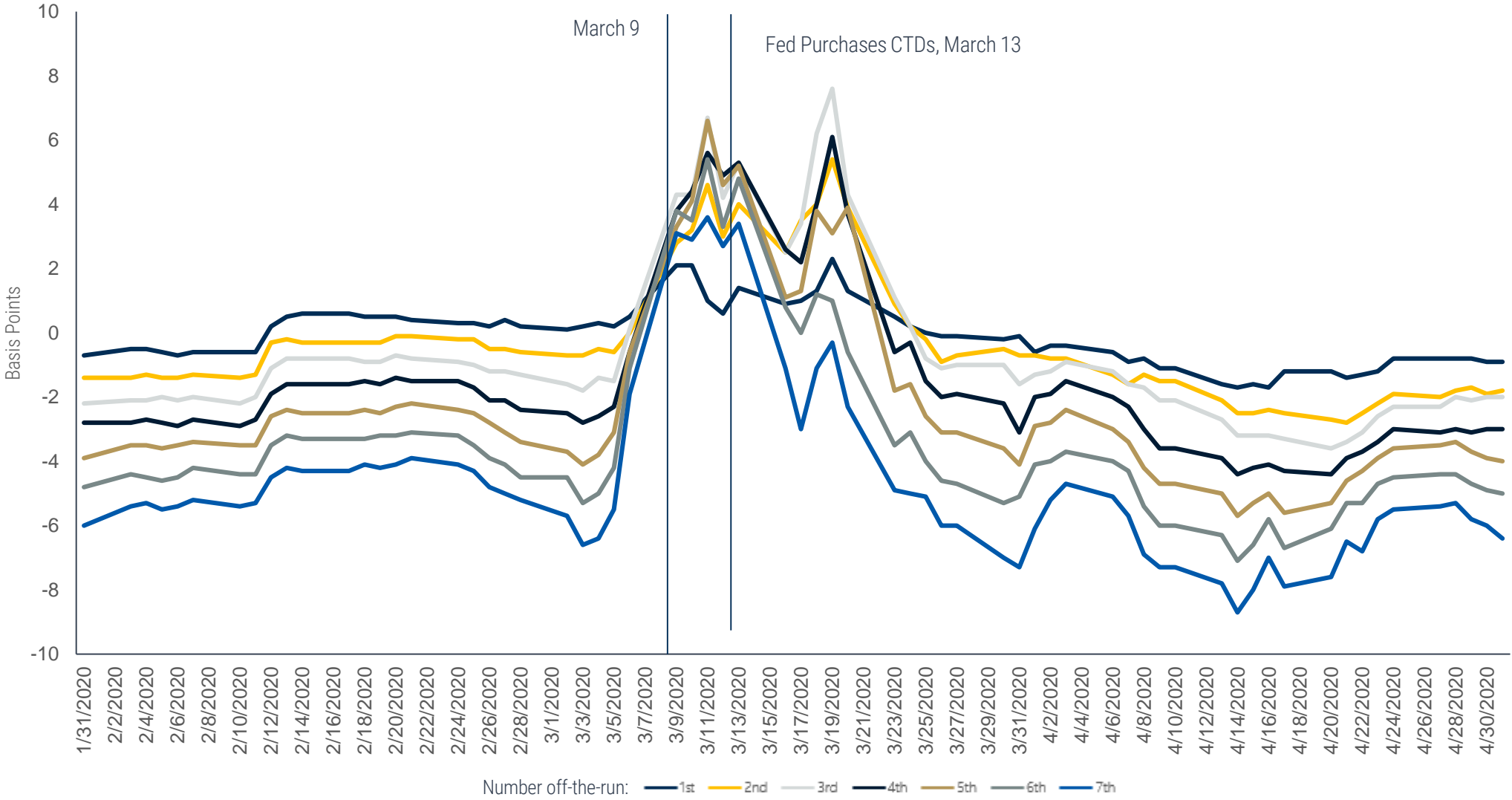
SALES OF TREASURIES IN MARCH 2020, BY PARTICIPANT TYPE



Source: Financial Stability Report, Board of Governors of the Federal Reserve, November 2020

Deeper Off-The-Run Treasuries Suddenly Hit Secondary Markets in Early March

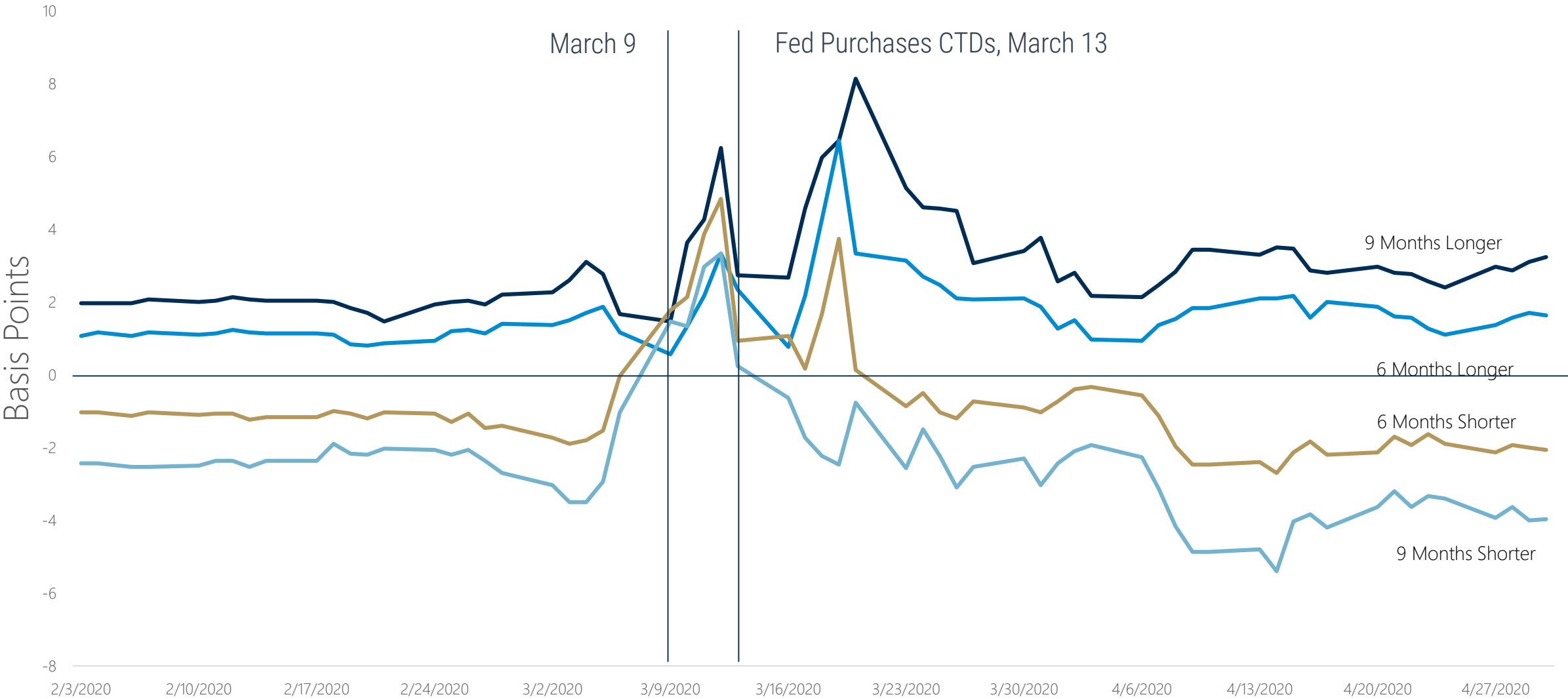
NOMINAL OFF THE RUN SPREADS VS. ON THE RUN 10-YEAR NOTE



Source: Managed Funds Association

Open Question: Why Did the Cheapest to Deliver (CTD) Issues Outperform?

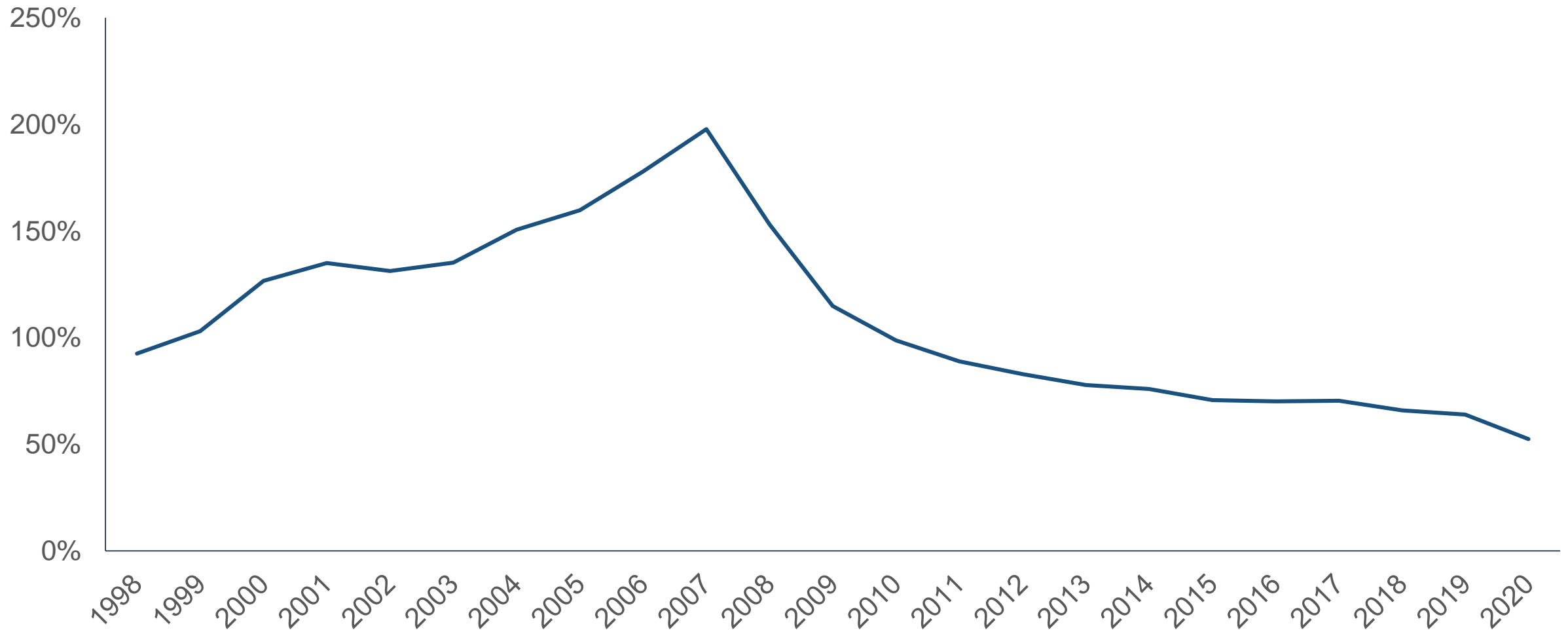
YIELD SPREAD OF NON-DELIVERABLE ISSUES VERSUS THE CTD INTO THE 10-YEAR FUTURES CONTRACT



Source: Managed Funds Association

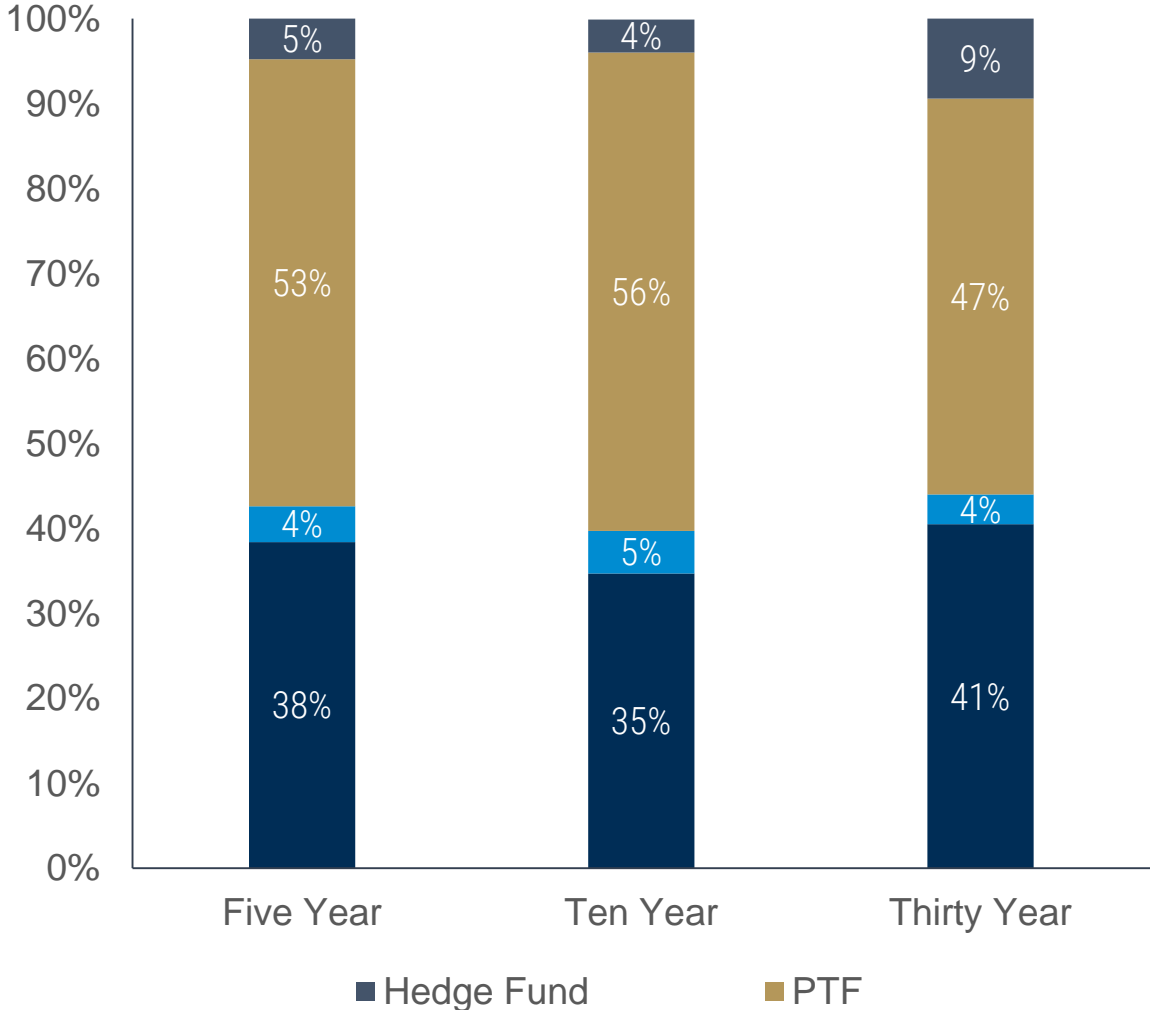
Treasury Market Has Ballooned Beyond Dealer Capacity To Finance

BANK BALANCE SHEETS AS A SHARE OF MARKETABLE TREASURIES OUTSTANDING

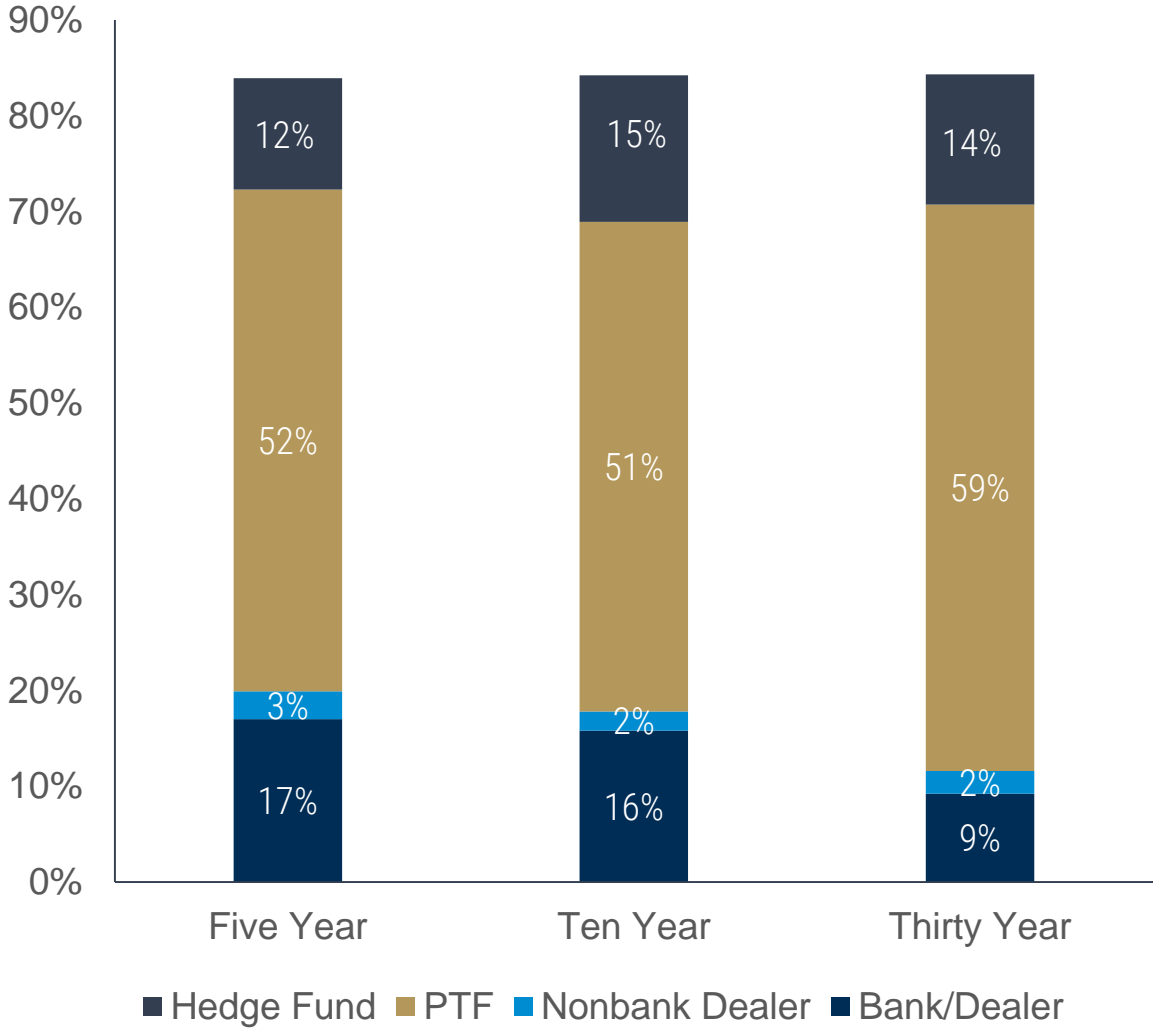


Treasury Markets Rely On Multiple Participants For Liquidity

SHARE OF BROKERTEC CASH TREASURY TRADING BY FIRM TYPE, 2014



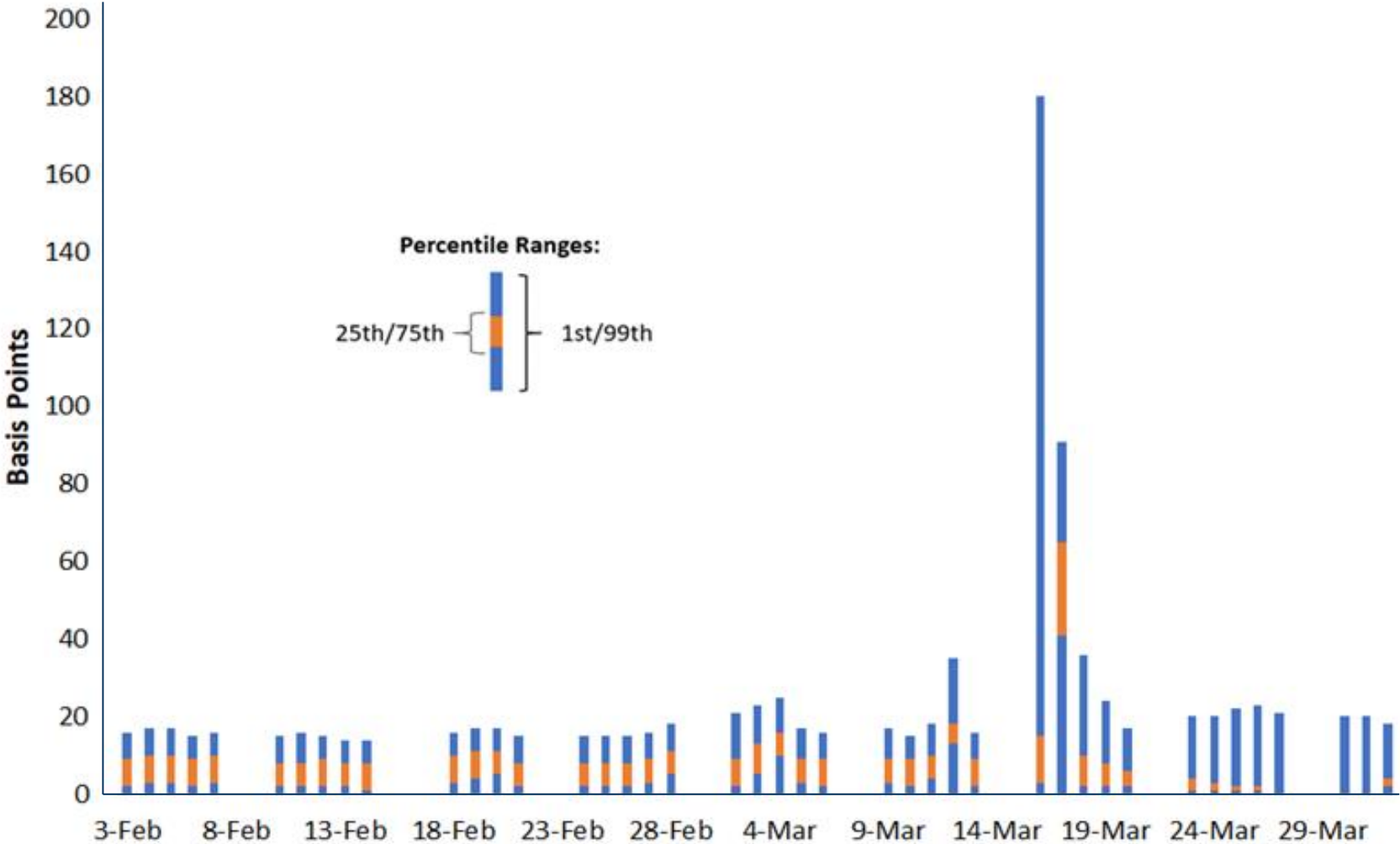
SHARE OF TREASURY FUTURES TRADING BY FIRM TYPE, 2014



Sources: Treasury, SEC, Federal Reserve, and CFTC; *Joint Staff Report: The Treasury Market on October 15, 2014

The Price of Repo Finance Became Much More Tiered During March 2020

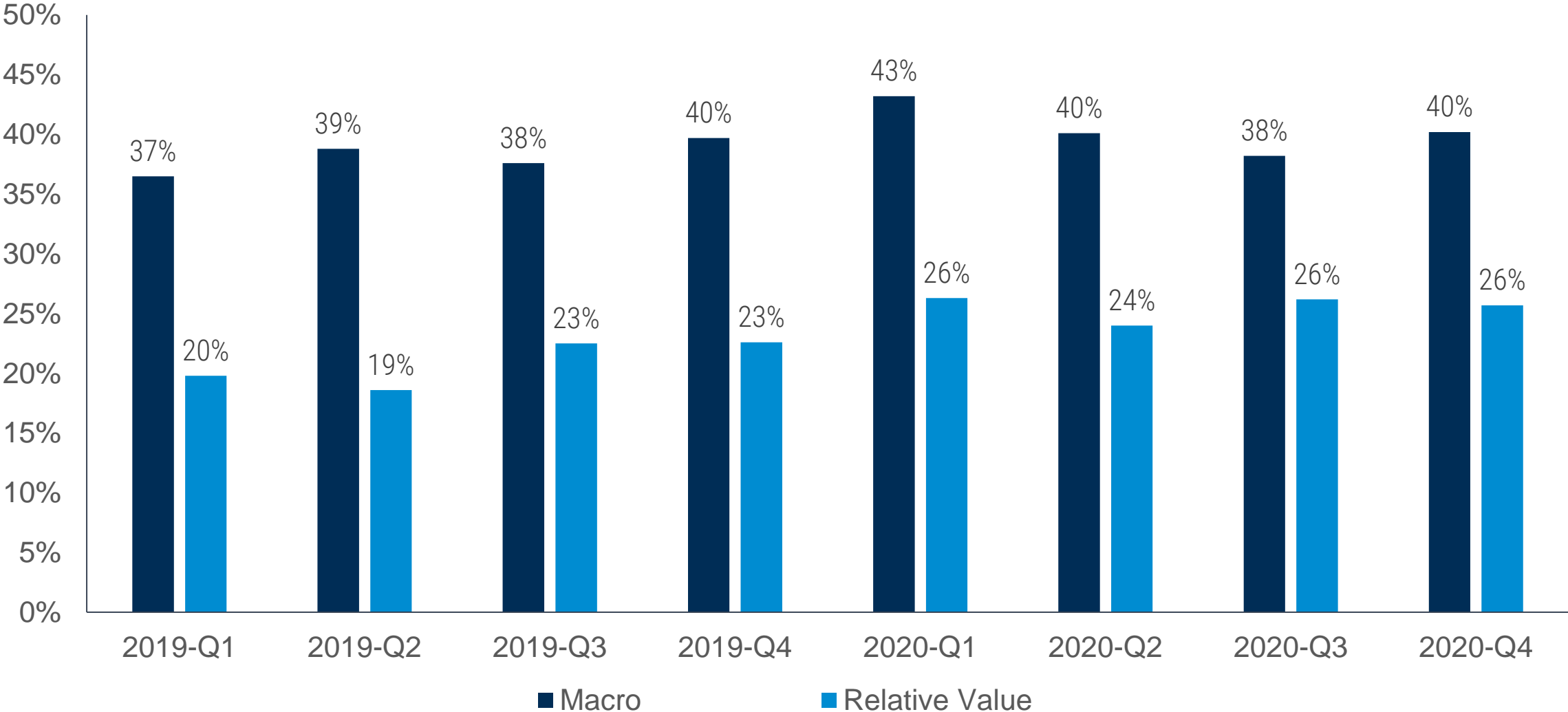
SOFR REPO RATE: SPREAD BETWEEN CHEAPEST AND MOST EXPENSIVE REPOS



Source: Federal Reserve Bank of New York

High Unencumbered Cash At Hedge Funds That Trade the Basis is Stabilizing

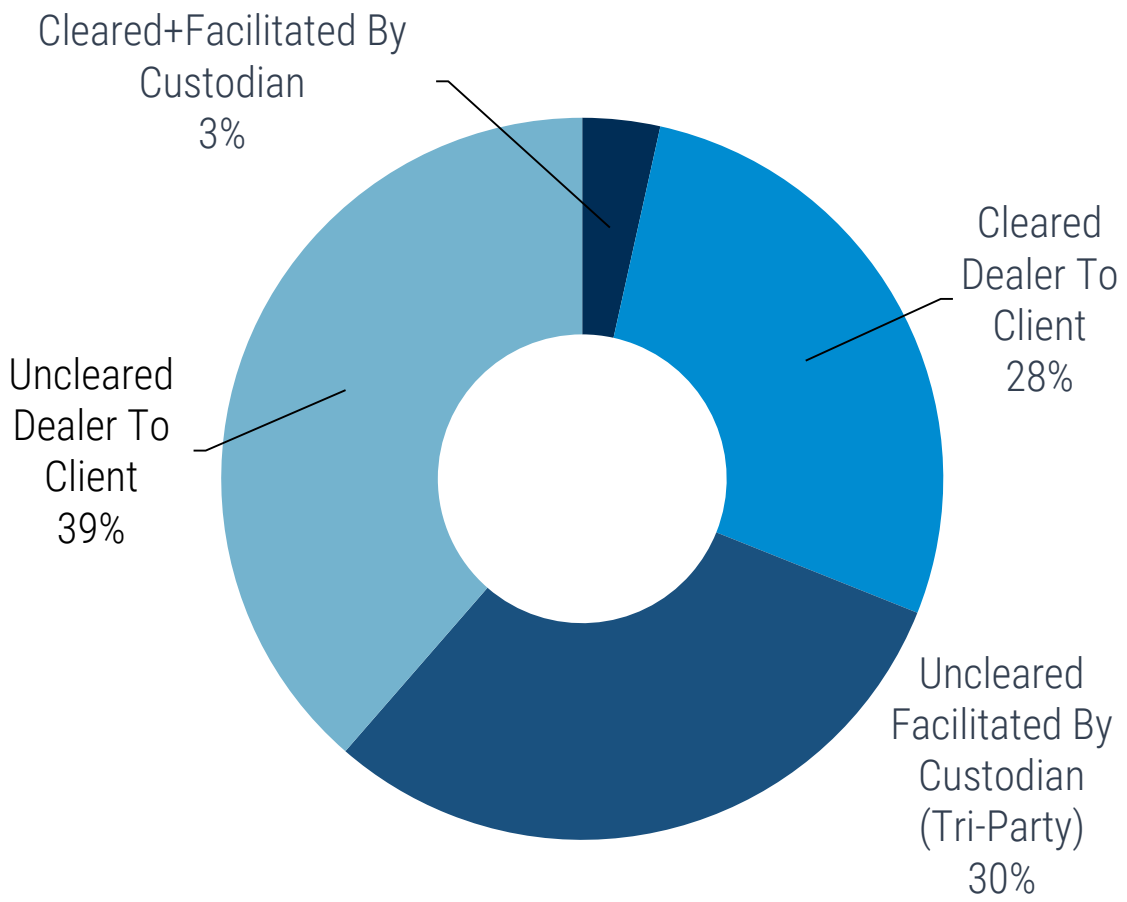
UNENCUMBERED CASH AS A PERCENT OF NET ASSETS, BY HEDGE FUND STRATEGY



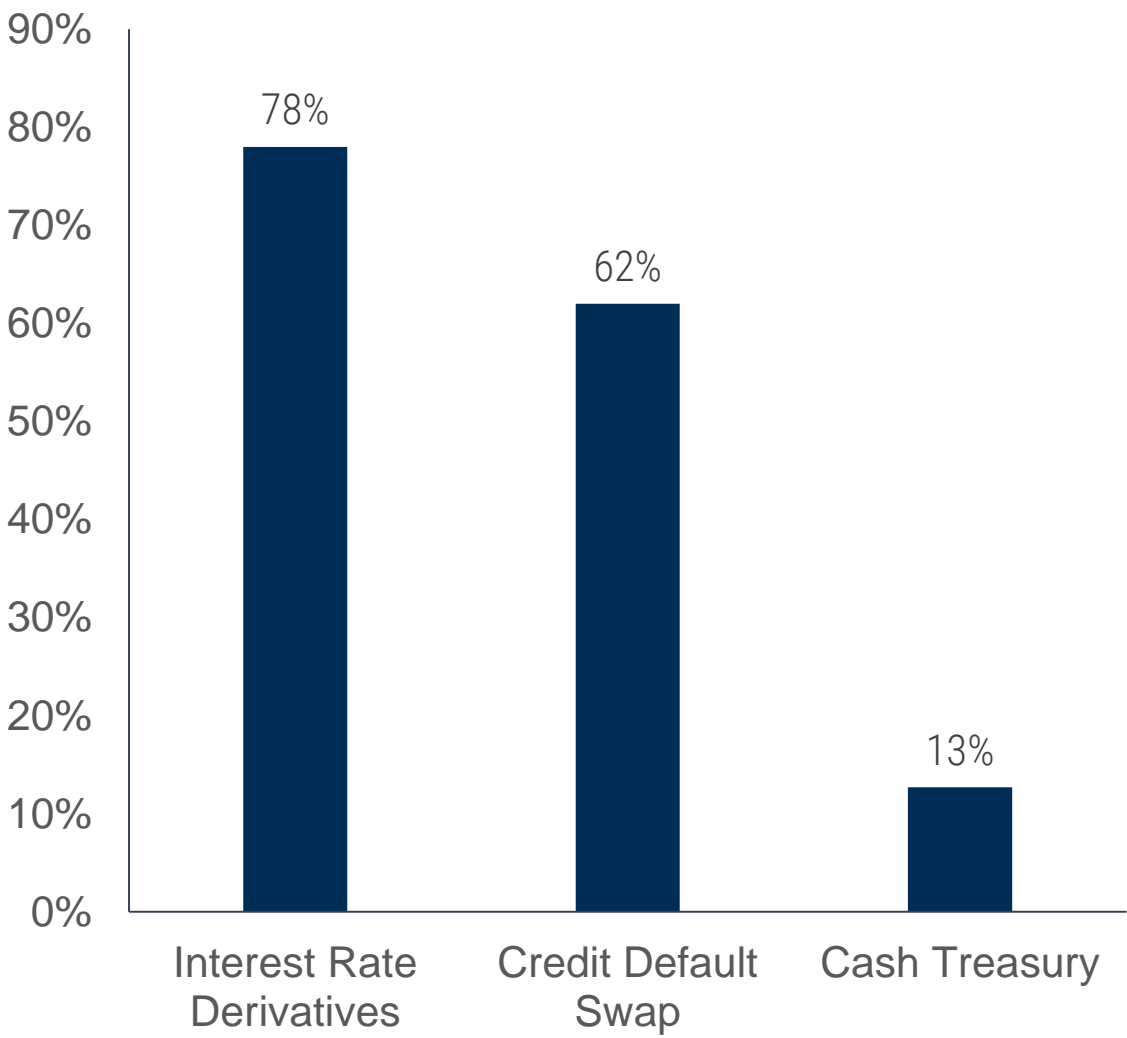
Source: SEC Private Fund Statistics

Treasury Repo and Cash Markets Do Not Have Enough Central Clearing Options

REPO MARKET CLEARING ARRANGEMENT



SHARE OF MARKET CENTRALLY CLEARED, BY SECURITY



Source: Office of Financial Research; "Who Participates in Cleared Repo?"; Kahn and Olson; July 8, 2021

Recommendations

1 Expand Central Clearing Solutions

2 Make Targeted Enhancements to Regulatory Data Collection

3 Carefully Introduce Public Dissemination of Post-Trade Transaction Data

4 Rationalize Trading Venue Oversight

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