

Five and Ten-year Notes Are Most Active Treasury Securities

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The New York Fed has long collected market information from its primary dealer trading counterparts and released these data in aggregated form to the public. Until recently, such data have only been available for broad categories of securities (for example, Treasury bills as a group) and not for specific securities.

Follow up:

In April 2013, the Fed began releasing data on some specific Treasury issues, allowing for a more refined understanding of market conditions and dealer behavior.

FR 2004 Data Explained

One of the expectations made of primary dealers is that they file FR 2004 statistical reports on an ongoing basis. The reports collect information on dealers' transaction, position, financing, and settlement activities in U.S. Treasury securities, agency debt securities, mortgage-backed securities, asset-backed securities, corporate debt securities, and municipal securities. Most information is requested weekly, for the week ending Wednesday, although some is requested daily. Moreover, most information is requested for broad categories of securities, although some is requested for specific Treasury security issues.

The Fed publicly releases summary data each Thursday afternoon, one week after they're collected. The data are aggregated across all dealers. Moreover, until recently, data were only available for broad securities categories and not for specific Treasury security issues. The aggregated data have been analyzed in numerous studies to better understand dealers' aggregate position taking, financing activities, and settlement stresses. The transaction data in particular are widely cited as a gauge of market activity, and allow each reporting dealer to gain a sense of its market share in various products.

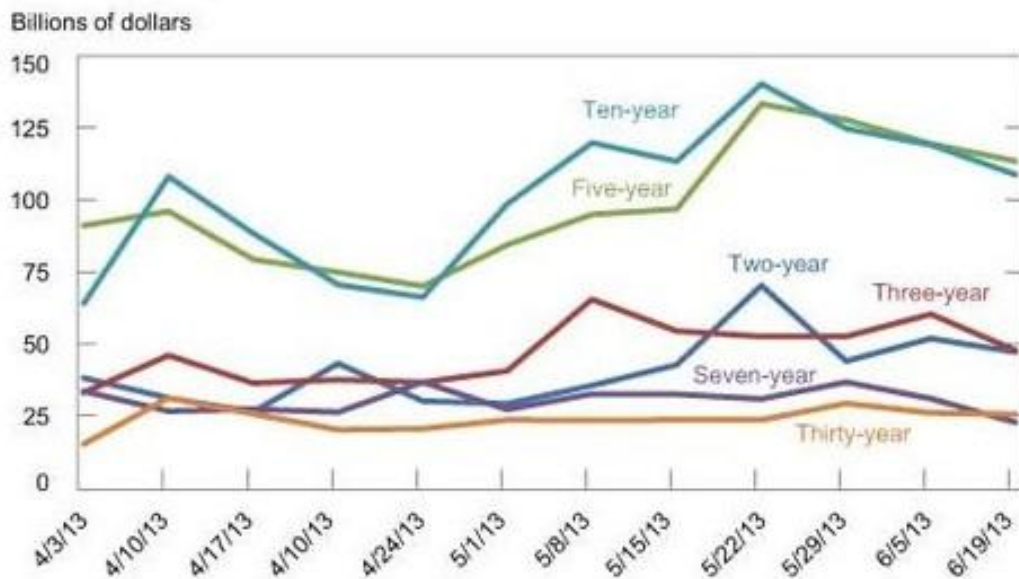
Specific Issue Data Now Available

Starting with data covering the week ending April 3, 2013, the Fed now also releases aggregated primary dealer data on specific Treasury issues. In particular, the data cover dealer activity in the most recently issued Treasury notes and bonds, including both nominal securities as well as Treasury inflation-protected securities; specific issue data are not collected for bills. As with the broad security category data, the released data are aggregated across dealers and reported weekly as of the week ending Wednesday.

What the Data Show

We present a few charts below to help illustrate the newly released data and give a sense as to how the data are useful. The following chart, for example, plots the newly released transaction data for the nominal notes and bonds. It shows that the nominal five- and ten-year notes are the single most active Treasury securities, with daily activity recently averaging about \$100 billion each.

Five- and ten-year notes are most active



Source: Author's calculations, based on data from the Federal Reserve Bank of New York.
Notes: The chart plots average daily trading volume by week in the most recently issued Treasury securities of a given maturity as reported by the primary dealers. (The dealers report cumulative weekly volume, which we divide by the number of trading days in the week.) Figures include activity through interdealer brokers and with others, and include substantial double-counting.

By comparing activity in these specific issues with the aggregated data, one can infer that these six issues account for about 62 percent of all trading in nominal Treasury securities, even though they represent a tiny fraction of the roughly 300 nominal Treasury securities outstanding. This illustrates the widely known phenomenon whereby trading activity concentrates in the most recently sold (that is, on-the-run) Treasury securities, with trading dropping sharply following the auction of a new security. The high concentration of trading in the on-the-run securities makes the issues especially liquid, allowing market participants to transact in large size with minimal price impact.

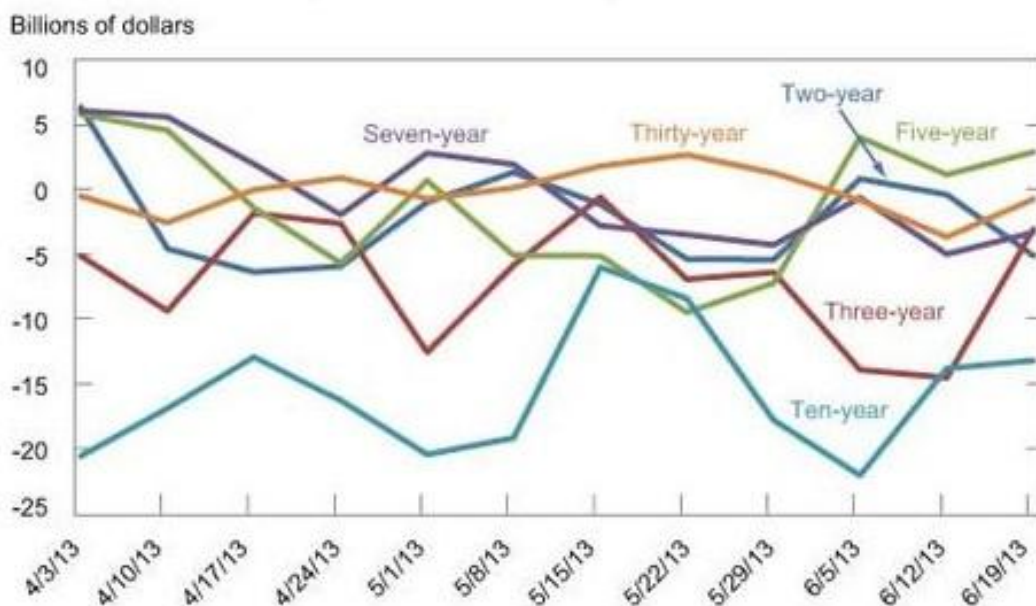
By looking separately at reported activity through interdealer brokers or with others, one can see that the specific issues account for about 71 percent of all Treasury security

trading through interdealer brokers, but only 55 percent of Treasury security trading with others. This is consistent with the idea that the dealers rely highly on the liquidity of the on-the-run securities to transfer interest rate risk among themselves. Interestingly, the 71 percent share for interdealer trading nearly matches the share calculated in this analysis by Fabozzi and Fleming (2004) using a less comprehensive source of interdealer data from 1998.

The next chart plots dealers' aggregate net positions in the specific nominal Treasury issues. Dealers have recently been net long Treasuries generally, but net short these specific issues. These short positions may arise from dealers' practice of using the on-the-run securities to hedge long positions in other instruments. This past spring, the largest net short position of dealers was in the ten-year note, with their aggregate net short position as large as \$22 billion in magnitude.

Dealers-have-recently-been-short-the-10-year-note

Dealers have recently been short the ten-year note



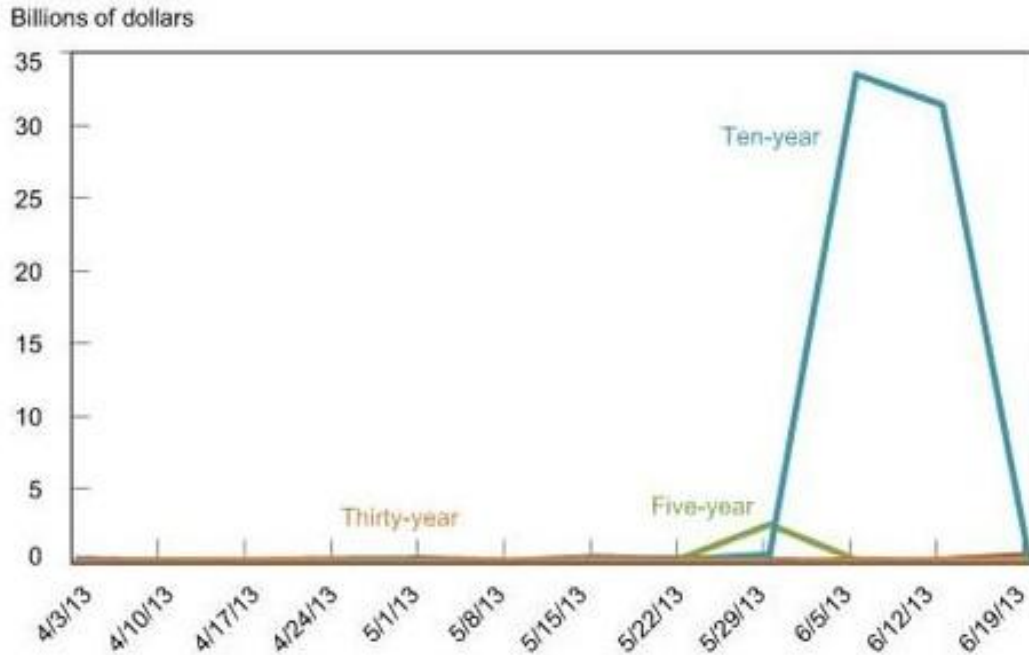
Source: Federal Reserve Bank of New York.

Note: The chart plots primary dealers' aggregate net positions by week in the most recently issued Treasury securities of a given maturity.

Our last chart plots dealers' failures to deliver specific nominal Treasury issues; a plot of failures to receive looks similar. (As explained in a 2005 New York Fed study, a settlement failure occurs when the seller of a security fails to make delivery to the buyer on the agreed-upon settlement date.) The chart shows a large spike in settlement fails in the ten-year note, starting in the week ending June 5 and ending in the week ending June 19.

Fails-to-deliver-spike-in-ten-year-note

Fails to deliver spike in ten-year note



Source: Federal Reserve Bank of New York.

Note: The chart plots primary dealers' average daily fails to deliver by week in the most recently issued Treasury securities of a given maturity. (The dealers report cumulative weekly fails, including weekends and holidays, which we divide by the number of days in the week.)

Generally speaking, fails tend to increase when issues get expensive to borrow. Moreover, issues get expensive to borrow when there's high borrowing demand or low lendable supply. In this particular case, we know that dealers had a large short position in the ten-year note. While the dealer data aren't comprehensive, they're suggestive of a large short base in the ten-year note and of the resulting high borrowing demand leading to a high level of fails.

The decline in fails in the week ending June 19, in contrast, is likely attributable to supply considerations. Current Treasury policy is to issue a new ten-year nominal note every three months, but to sell additional quantities of the on-the-run note one and two months after its original issuance. The Treasury thus issued \$24 billion of a new ten-year note on May 15 and an additional \$21 billion of the note on June 17. The additional issuance increased lendable supply, thereby easing the settlement disruptions in the note.

Going Forward

Our review of the newly released specific issue data is less than comprehensive, but intended to give a flavor for what the new data look like and how they can be used. While the released data are new, they already provide a finer view of conditions and behavior in

the Treasury market, and confirm the key role of the most recently issued securities for managing interest rate risk. The benefits of the data are likely to grow over time as a history develops with which the data can be analyzed more fully.

Disclaimer

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