



Analytics, Data and Research for Derivatives Markets

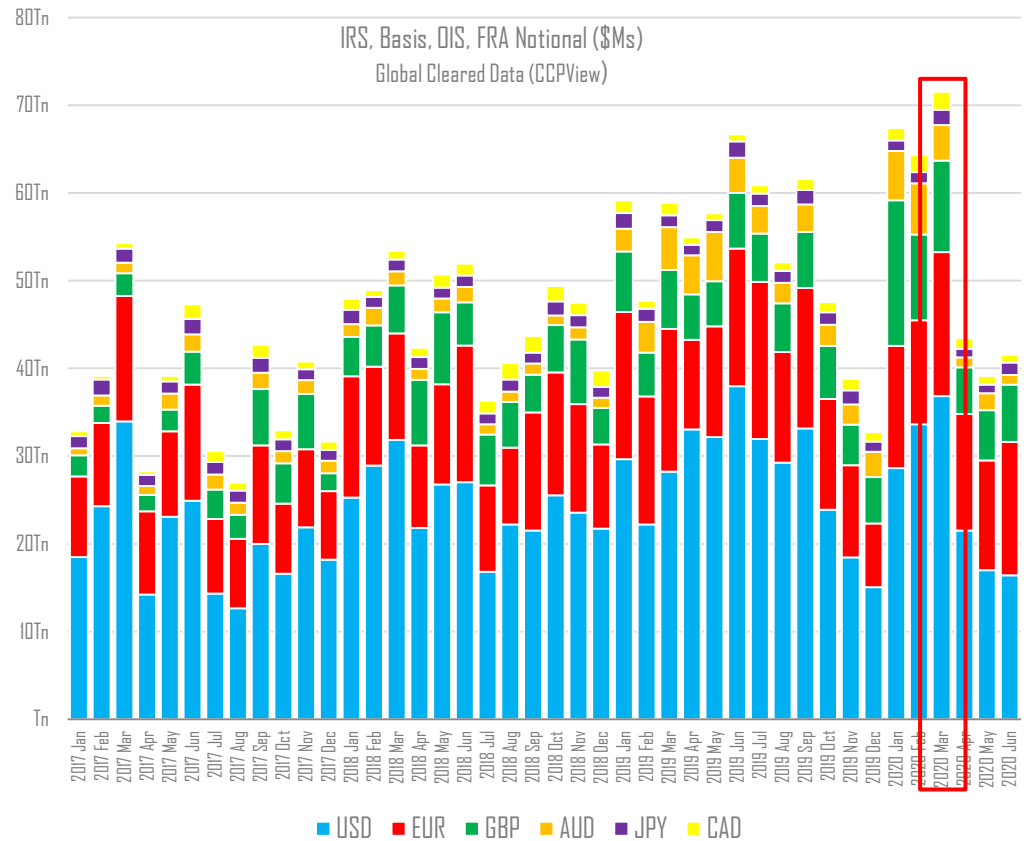
For a post regulatory reform world, a more transparent world.

Rates OTC Derivatives Markets and COVID-19

Chris Barnes July 2020

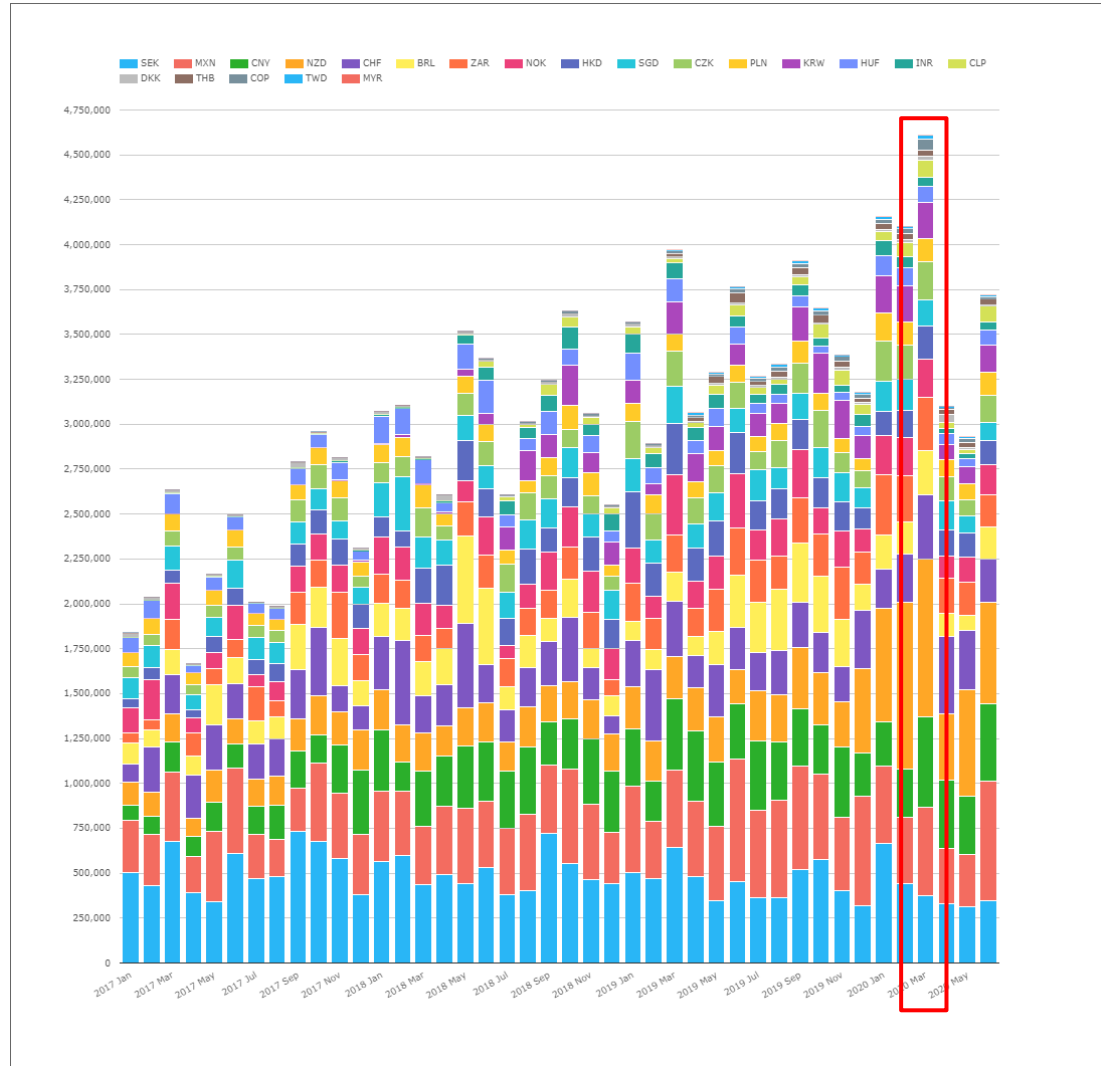
Market Volumes – Global Records in Clearing

- March 2020 marked a new **all time record** for cleared volumes at CCPs across all Rates OTC derivative products.
- Even for Rates markets, this was a uniquely **global shock**.
- It wasn't a **record month** for USD volumes alone.
- It wasn't a record month for EUR, JPY, GBP nor AUD either.
- The Clearing infrastructure was able to **scale-up** impressively in these major currencies.
- Market participants continued to choose clearing. **96% of Fixed-Float swaps** were cleared in March 2020.



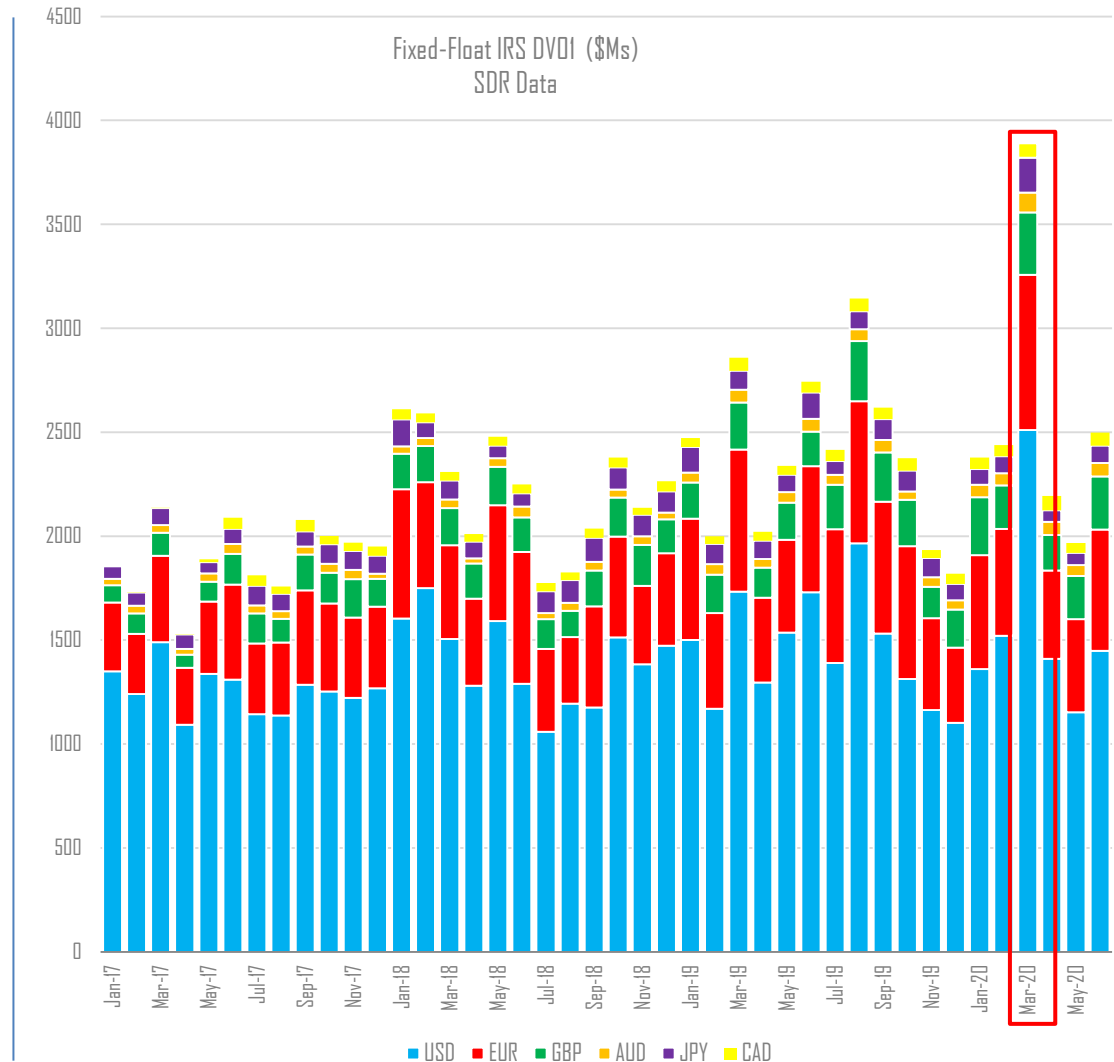
Market Volumes – All Other Currencies

- **Record** cleared volumes.
- Reinforces the nature of the **global shock**.
- Incredible **growth** in these currencies in such a short period of time.
- Market continues to **choose** Clearing even without clearing mandates.



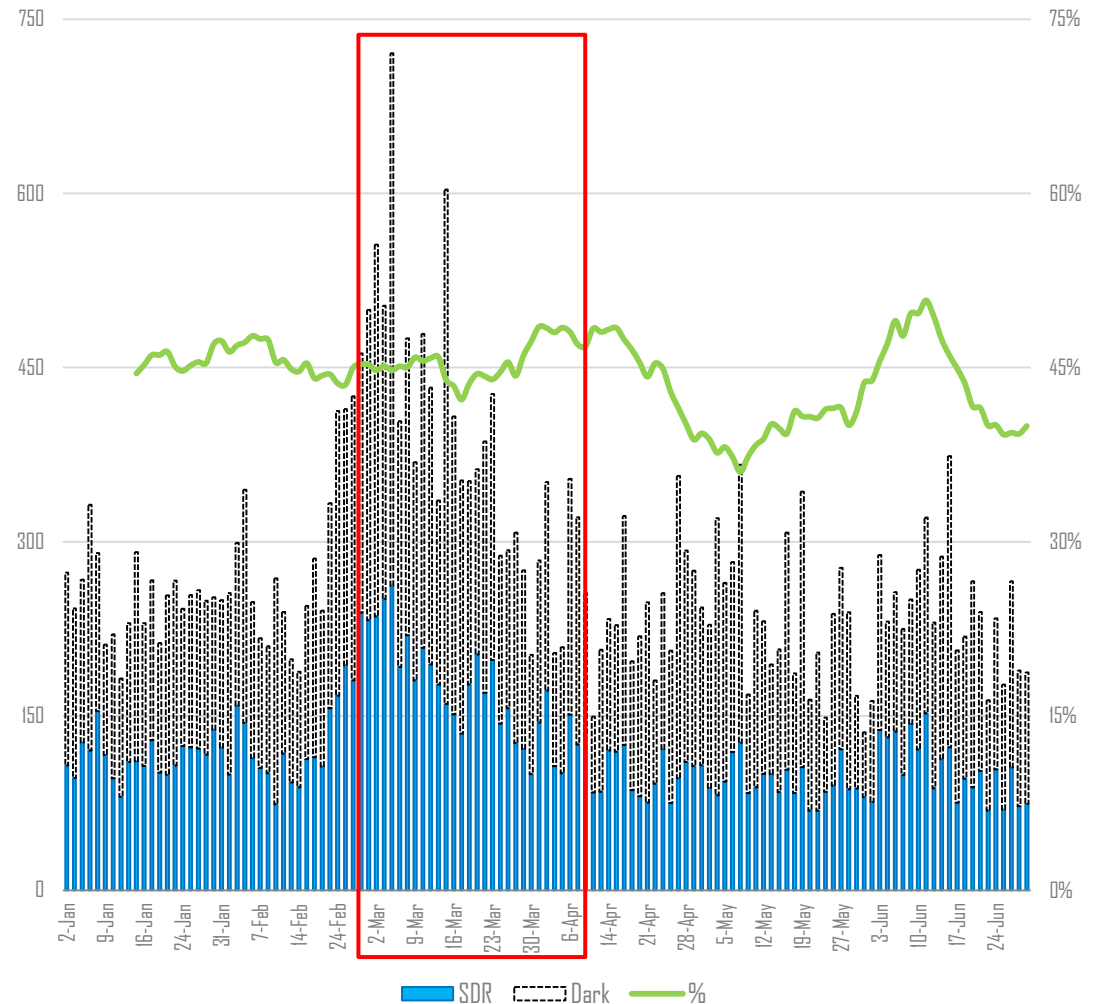
Market Volumes – Risk Traded

- Transaction level SDR data gives us the opportunity to translate notional amounts into **risk amounts**.
- The volumes in March 2020 **were not** solely a result of lots of short-dated, large notional trades.
- The amount of risk passing through the market was a **new record**.
- A record month in **USD IRS DV01** reported to SDRs.
- Market structure was able to scale up and process **90%+ more risk** than a typical month.



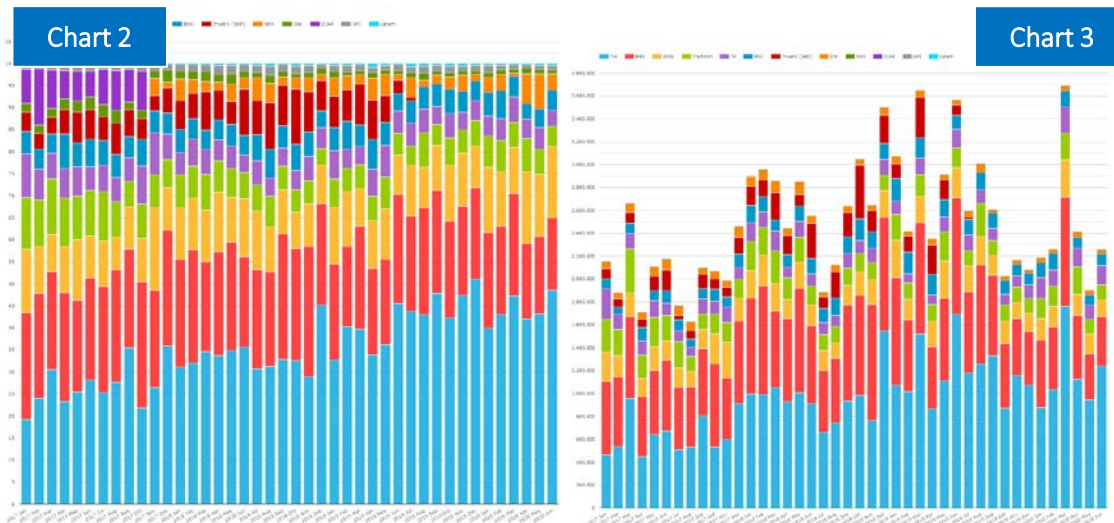
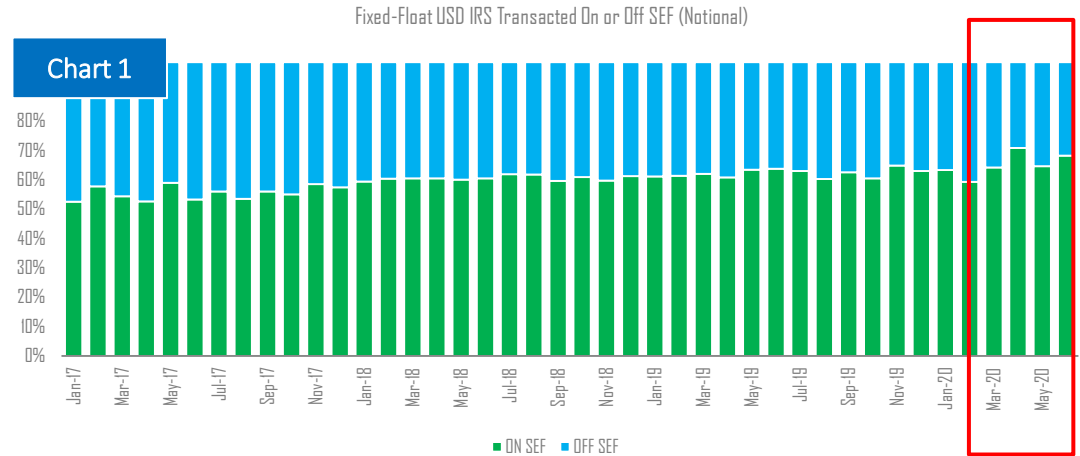
Market Volumes – Transparency Worked

- US SDR's provide the only **transaction level** data for Rates trading. Other jurisdictions are severely lacking in timely, accessible post-trade transparency data.
- There was no move towards transacting “away” from SDR reporting, despite most dealers having multiple entities across **jurisdictions**.
- Consistently 45% of the **global USD IRS** market was reported to SDRs in March.
- **Transparency** was a benefit to market participants:
 - Proved that markets were not “seizing up”.
 - Removed rumours from the market.
 - Price *and* volume information key to removing information asymmetry.



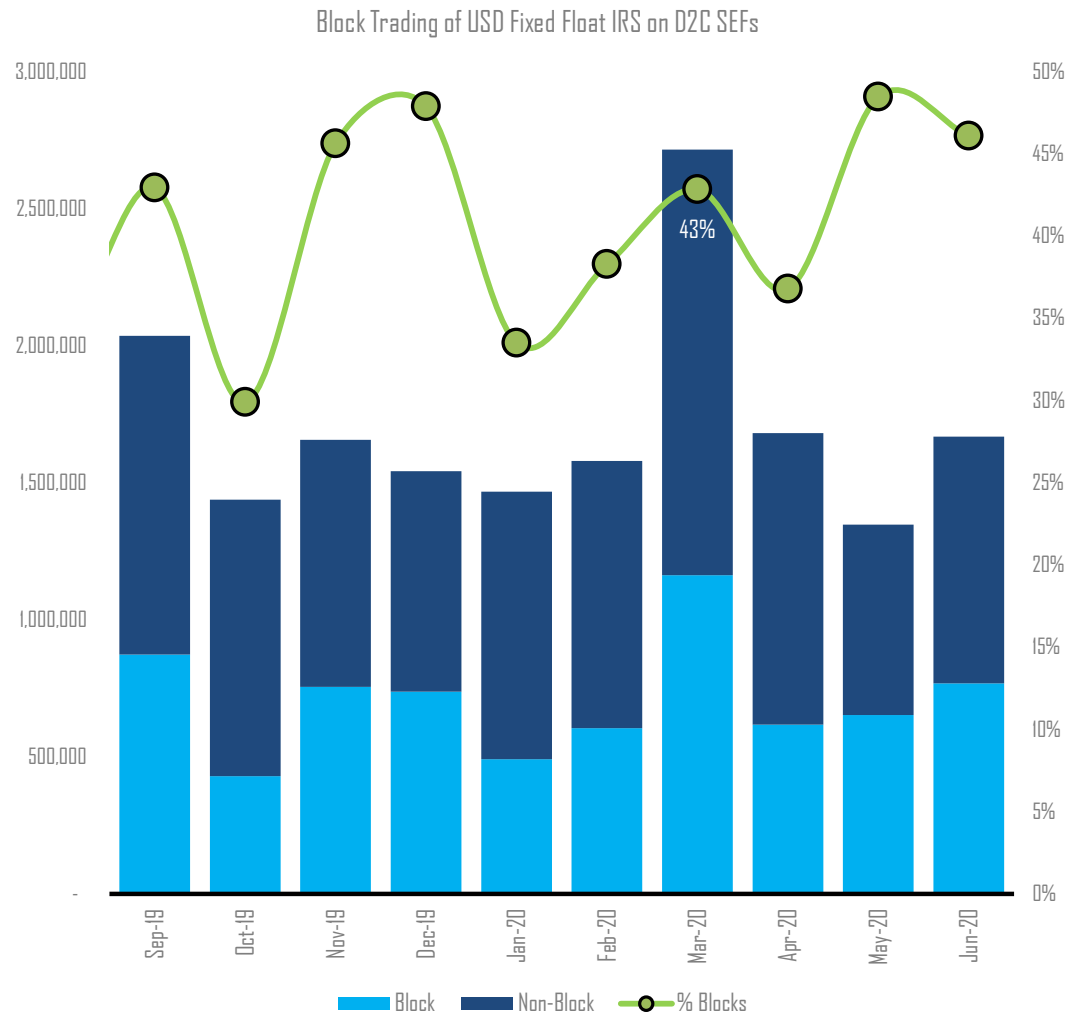
Market Volumes – SEFs Worked Extremely Well

- **Chart 1:** Record percentage of USD IRS transacted on-SEF in March 2020.
- Chart 1: This has continued now we are in more normal market conditions. Market participants clearly had a good “SEF experience” during the crisis.
- **Chart 2:** Which market participants chose SEFs during the crisis?
- Chart 2: Answer – **D2C**. The combination of Bloomberg and Tradeweb market share was at its highs during March at around 75% of total SEF volumes (all currencies, fixed-float IRS).
- **Chart 3:** Record volumes in USD IRS were transacted on-SEF. The D2C SEFs were particularly successful.



What Worked Well for the D2C SEFs?

- Answer: **Block Trading**
- Transparency requirements from **SEFs** mean we know the exact size (above the SDR reporting thresholds AMBS) of Block Trades transacted on-SEF.
- Only BBG and TW transact Blocks as RFQs.
- **Block trade volumes** hit a record during March 2020.
- 43% of the D2C USD IRS volume was transacted as a block – a **Q1 2020 high**.
- Block trading percentage hit a recent high in May – again, suggesting D2C market participants have had a “**good crisis**” with the existing block regime.



What Happened to Pricing?

- **Execution** conditions changed during March 2020 compared to other trading days this year.
- The benefits of post-trade transparency mean that the change in market conditions can be **quantified**. It is not based on anecdotal evidence.
- Notable how **quickly** pricing conditions returned to pre-March levels.
- **Methodology** details available on the Clarus blog.

$$DispVW_{i,t} = \sqrt{\frac{N_{i,t}}{\sum_{k=1}^{N_{i,t}} V_{lm_{k,t}}} \left(\frac{P_{k,t} - \bar{P}_{i,t}}{\bar{P}_{i,t}} \right)^2}$$

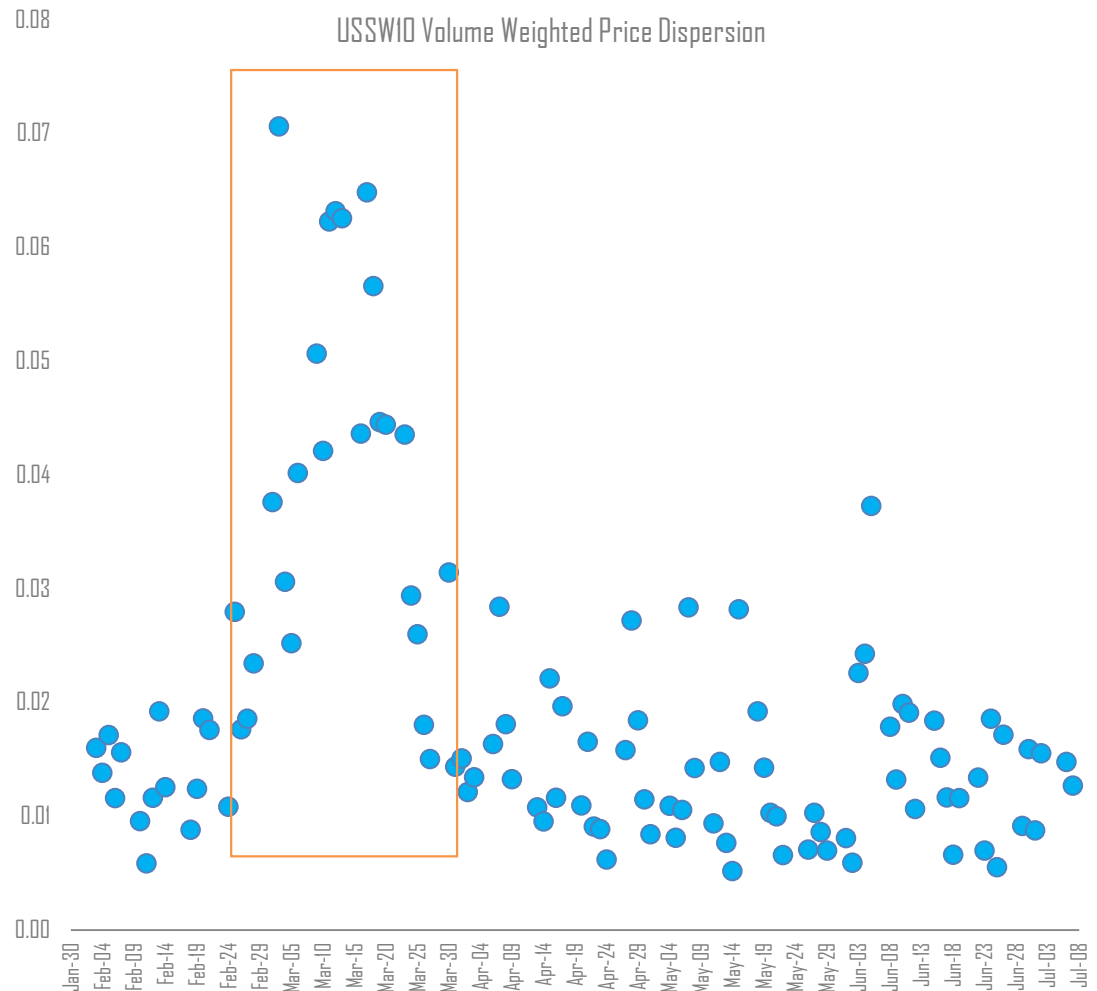
(1)

where;

$N_{i,t}$ is the total number of trades executed for contract i on day t , e.g. how many 10y trades occurred on the 23rd March 2020? $P_{k,t}$ is the execution price of transaction k , i.e. the price of a particular 10y trade on the 23rd March.

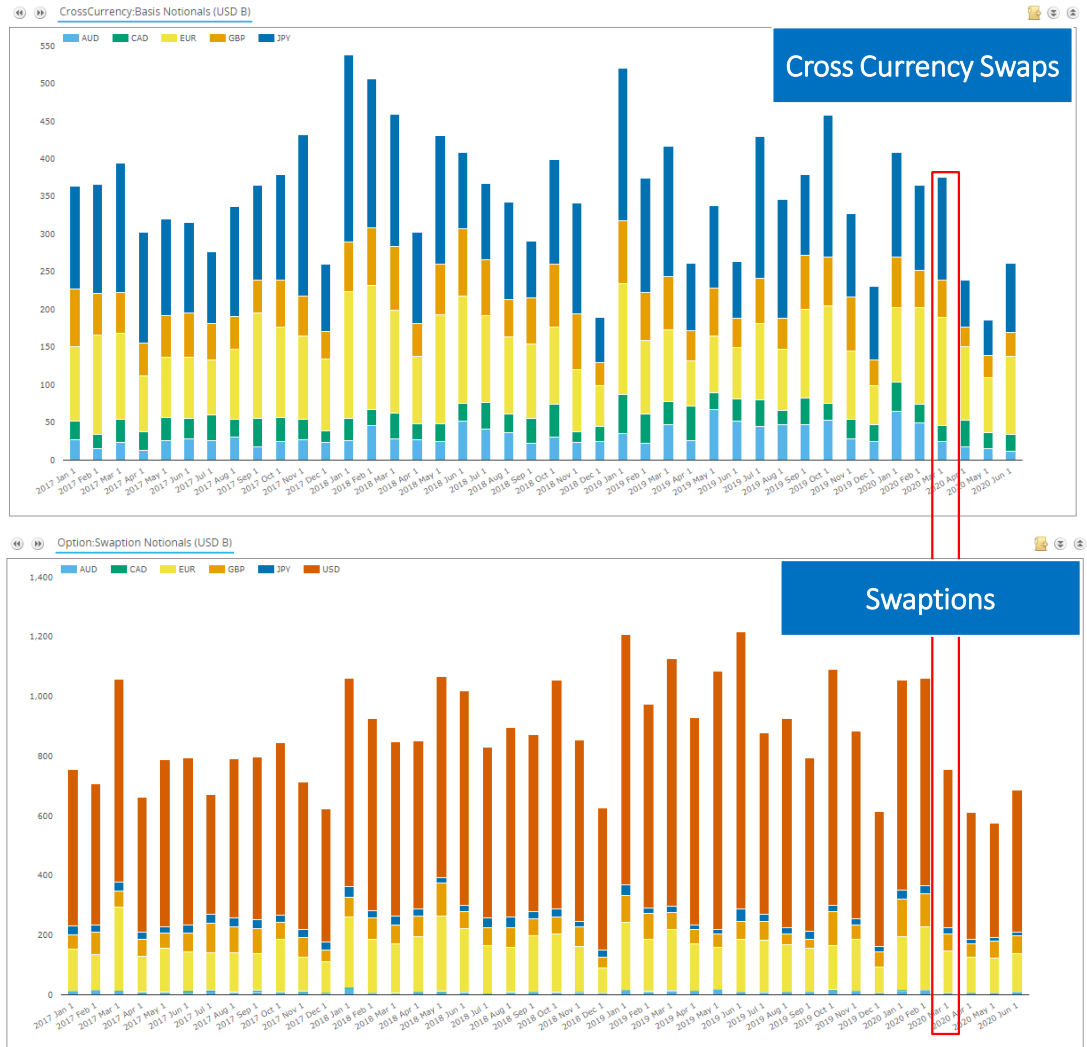
$\bar{P}_{i,t}$ is the average execution price on contract i and day t , e.g. what was the average price of all 10y trades done on 23rd March.

$V_{lm_{k,t}}$ is the volume of transaction k ; e.g. the size of the 10 year trade we are looking at on 23rd March and; $V_{lm_{i,t}} = \sum_k V_{lm_{k,t}}$ is the total volume for contract i on day t , e.g. the total volume of 10 year swaps traded on the 23rd March.



What Happened in Uncleared Markets?

- Still trying to answer this question.
- **USD Funding** access was at the centre of the crisis responses with large uptake of central bank FX swaps.
- But there was no spike in volumes in the two **largest uncleared Rates markets** – Cross Currency and Swaptions.
- Transparency is **limited** in these markets.
 - Did the markets “**go dark**” to avoid SDR reporting?
 - Did markets **fail to scale** in the same manner as Cleared markets?
 - Did market participants avoid taking on more bilateral **counterparty credit risk**?
 - Did the **Uncleared Margin Rules** limit trading in any manner (collateral requirements, operational complexities?).



Research

clarusft.com/blog

Incentives for Central Clearing and the Evolution of OTC Derivatives

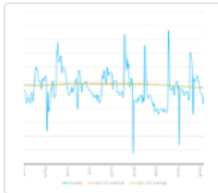
March 27, 2019 Amir Khwaja Posted in Regulation No comments



We summarise the recent CCP12 report "Incentives for Central Clearing". This report looks at the current state of play in Cleared FX, Interest Rates and Credit. It analyses particular niches in clearing, including Latam Rates and NDFs. It concludes that clearing has increased for Linear products, but Option markets remain uncleared. Further studies on legacy [...]

€STR – What You Need to Know

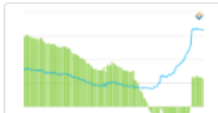
March 26, 2019 Chris Barnes Posted in Index/Fix No comments



€STR (né ESTER) will be the Risk Free Rate (RFR) for EUR markets. Publication begins 2nd October 2019. The ECB will provide a calculation of the spread between €STR and EONIA. The spread is likely to be around 8.7 basis points. What You Need to Know about €STR (ESTER) Some of our readers may be [...]

LIBOR Fallbacks – What will the GBP spread be?

March 20, 2019 Chris Barnes Posted in Index/Fix No comments



We take a look at historic data for SONIA and GBP LIBOR. ISDA's work on LIBOR fallbacks allows us to look into the potential values of the historic spread. We compare to the forward-looking LIBOR-OIS spreads to the backward looking compounded RFR values. Initial analysis shows that the look-back period will be

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