

Macro Roundup Article

Headline: [Liquidity Event](#)

Article Link: <https://fedguy.com/liquidity-event/>

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Tweet: [. @FedGuy12 writes that Treasury liquidity is low as dealer balance sheets have not scaled up with Treasury issuance. The average daily volume of Treasuries has increased very slowly over the past decade despite a flood of issuance.](#)

Summary: While Treasuries remain the most liquid security in the world, they are structurally becoming less liquid. The average daily cash transactions in Treasuries has not come close to scaling with the overall growth in issuance. Although average daily cash volumes have increased slightly in recent years to \$700b, that increase is in part due to the activity of principal trading firms whose strategy is to profit from small intraday fluctuations in price. These firms account for 20% of cash market volumes, but they disappear when volatility picks up so their provision of liquidity is illusory. Excluding their participation, cash market activity would be progressively thinning relative to the steady growth in issuance.

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Primary Topic: Fiscal Deficits

Topics: Database, Fiscal Deficits, Fiscal Policy, Monetary Policy, Op-Ed/Blog Post, Weekly

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