Macro Roundup Artcile

Headline: Resilience Redux in the US Treasury Market

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Tweet: Since 2007, the ratio of Treasuries outstanding to primary dealer assets has increased by a factor of four. @DuffieDarrell argues that this will drive increasing illiquidity in the Treasury market.

Summary: The total amount of Treasuries outstanding will continue to grow rapidly relative to the intermediation capacity of the market because of large and persistent US fiscal deficits and the limited flexibility of dealer balance sheets, unless there are significant improvements in market structure. Broad central clearing and all-to-all trade have the potential to add importantly to market capacity and resilience. Additional improvements in intermediation capacity can likely be achieved with real-time post-trade transaction reporting and improvements in the form of capital regulation, especially the Supplementary Leverage Ratio. Backstopping the liquidity of this market with transparent official-sector purchase programs will further buttress market resilience. Related: JPMorgan Says Treasuries Coping Amid Worst Liquidity Since 2020 and Raising Anchor

Primary Topic: Financial Markets

Topics: Academic paper, Database, Financial Markets, GDP, Monetary Policy, Weekly

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