Figure 2.3. Bond Market Liquidity—Bifurcation and Price Impact of Transactions

The short-term resilience of liquidity has moved in opposite directions for investment-grade and high-yield U.S. corporate bonds.

1. Liquidity Mean Reversion Coefficient (Regression coefficient)

Note: The figure shows the coefficients of mean reversion of a measure of market liquidity—imputed round-trip cost—for corporate bonds by credit rating.

Quoted bid-ask spreads have increased faster for emerging market bonds in recent months.

2. Price Impact Coefficient, Five-Year Sovereign Bonds (Coefficient for €100 million in volume; percentage points)

Note: The figure shows the estimated price associated with a €100 million purchase of a five-year on-the-run government bond for the following countries: Belgium, France, Italy, and Spain. Solid bars indicate that the impact is statistically significant at least at the 10 percent level.

The price impact of trades has risen in some European countries.

Larger trades are less frequent than before the crisis.

3. Bid-Ask Spreads for Investment-Grade Corporate Bonds (Percent)

Note: The figure shows the average bid-ask spread as a percent of bond par value.

4. Large Transactions in the U.S. Corporate Bond Market (Percent)

Note: The figure shows the fraction of large trades in the U.S. corporate bond market as a percent of total transactions. A large trade is defined as larger than $1 million.

Sources: Bloomberg, L.P.; Markit; MTS; Thomson Reuters Datastream; and IMF staff calculations.