

Report Type

Mid Term Award Report

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Faculty/Department

Faculty of Economics

Project Title

Dealer intermediation strategies and implications for market liquidity

Project Start Date

Jan 01, 2018

Project End Date

Nov 30, 2018

Project Abstract

This project considers the recent evolution of dealer intermediation strategies in financial markets and implications for market liquidity in light of concerns about regulatory changes raising intermediation costs for large financial institutions. Using newly available transaction-level data tracking individual participants in US corporate bond markets, we characterize dealer intermediation strategies by quantifying inventory holdings and trading patterns for various securities. We assess whether the evolution of trading strategies post-crisis suggests that regulation has increased the cost of intermediation, and subsequent implications for customer trading costs, market liquidity, and market vulnerability to shocks.

Activities and Achievement

This project aims to use a newly available dataset to assess how the nature of intermediation in illiquid financial markets has evolved since the Financial Crisis. The Academic TRACE data set from FINRA was made available starting in 2017 and allows for tracking the behaviour of individual market participants over time, unlike the previously available data sets. Consequently, we will be able to construct a novel empirical assessment of how post-crisis reforms affected both the capacity of individual dealers to hold large inventories required to intermediate and the willingness of dealers to take risk to make markets during episodes of volatility. The changing nature of intermediation by large dealers has been a principal concern for policy makers working on financial stability in recent years. The empirical analysis has not yet started because we do not yet have access to the data.

Dissemination

Once we have completed the empirical analysis described above, we aim to publish the results first in a working paper, and eventually in a journal. We will also present the results at relevant conferences and workshops, including CERF events.

The paper addresses a current pressing concern of policymakers: whether and how intermediation in financial markets has changed as a result of recent changes in financial regulations. Consequently the project can inform policy decisions about whether adjustments to regulation may be needed to reduce strain on market function.

Outputs

No research papers or other publishable outputs have yet been produced due to delays in data access.

Major Difficulties and Any Other Issues

The process of obtaining access to the data is taking substantially longer than anticipated; the Research Office from the University of Cambridge is still in the process of liaising with the data provider and finalizing the data agreement.

Web Links

NA

Additional Information

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.