U.S. Capital Markets Performance During COVID: Global OTC Interest-Rate Derivatives

November 30, 2020

Executive Summary:



The onset of the COVID-19 pandemic created a sustained period of market stress leading to record volumes across over-the-counter (OTC) interest-rate derivatives (IRD) markets. The market infrastructure nevertheless proved both resilient and highly scalable.

Regulatory-mandated post-trade transparency data, coupled with volume information from central counterparties, allows us to analyze the recent stress period. We look at the elevated volumes traded, analyzing both notional and DV01 amounts to assess risk-transfer activity. We find that both clearing and swap execution facilities were able to scale up to process record volumes.

Throughout this period, liquidity conditions could be monitored via public data, confirming that OTC derivatives markets were continuing to operate. Post-trade transparency, therefore, performed as intended, allowing market participants to follow the large amounts of risk being processed. Volumes in uncleared markets did not react in the same manner as cleared markets. More transparency would enable market participants to better understand why.

Methodology:

This research is based primarily on data from the first half of 2020 that was analyzed in July and August by Greenwich Associates and Clarus Financial Technology, and on conversations with liquidity providers, investors, regulators, exchanges, and trading platform operators. The analysis utilized numerous sources of both public and private data, including but not necessarily limited to Clarus Financial Technology, DTCC and Bloomberg.

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