

# Commentary

## SF market: liquid or not?

In our year-ahead report, see [here](http://rsch.baml.com/r?q=mbHrAXNCOxLNnZPRDnoFkw) (http://rsch.baml.com/r?q=mbHrAXNCOxLNnZPRDnoFkw), we included, as usual, a quantitative update on a couple of measures of liquidity: price volatility and bid-ask spreads. For ease of use we reproduce the charts and table below.

### Liquidity in the European SF market

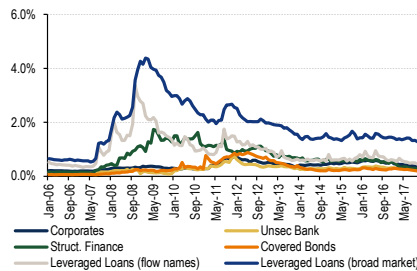
#### Bid-ask converging trends

The data suggests that the bid-ask spreads have converged to towards a narrow range, but, more importantly, remain wider of pre-crisis levels. Interestingly, the bid-ask spreads for CBs and for banks are identical even though the former are ECB eligible for APPs, and ECB is holding about 9% of the outstanding CB in the EU (or about 20% of benchmark outstanding volume). CB bid-ask spreads do not seem to have materially changed since the launch of CBPP3, but were helped significantly by CBPP1 and CBPP2. Corporates bid-ask spreads seem to have come in since the launch of CSPP, and so have ABS spreads since the beginning of ABSPP. How much the contribution of the APP to the bid-ask spread compression is difficult to determine, but the entry of a single large investor, of unmatched purchasing power has surely influenced the spreads.

Interestingly, for the first time since the financial crisis, the bid-ask spread of ABS moved inside that of corporates, but the dispersion within the SF sector is quite wide. The most notable developments in our view include:

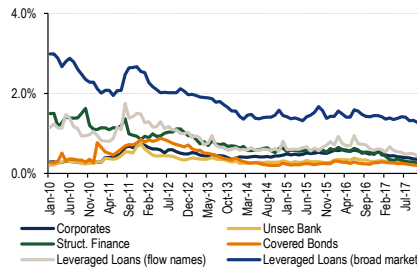
- the massive contraction in bid-ask spreads for CMBS to the levels of prime RMBS and auto ABS, and away from their historical levels associated with peripheral RMBS and NCF/ BTL RMBS. This can potentially be explained by the lagging spread compression, low availability of secondary paper exacerbated by a lack of primary supply.

Chart 4: Average bid ask spread by sector, 2006 to Oct 2017



Source: BofA Merrill Lynch Global Research, Markit, Bloomberg, S&P Capital IQ LCD

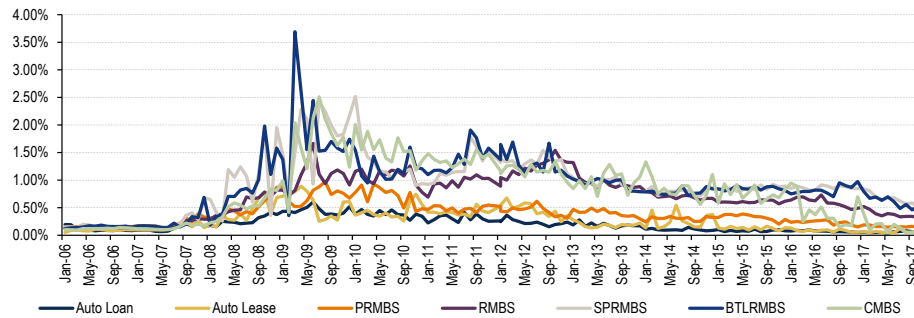
Chart 5: Average bid ask spread by sector, 2010 to Oct 2017



Source: BofA Merrill Lynch Global Research, Markit, Bloomberg, S&P Capital IQ LCD

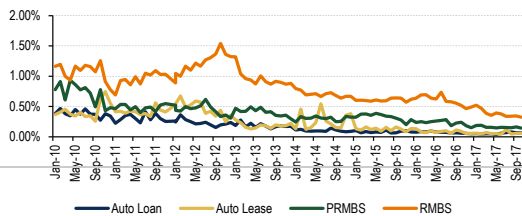
- while overall level of bid-ask for SF bonds is in line with CBs and bank unsecured, some SF sectors like auto ABS and prime RMBS, appear to be well inside the bid-ask levels for the broad CB category.

Chart 6: Average bid/ask spread by structured finance sector (Markit classifications), 2006 to October 2017



Source: BofA Merrill Lynch Global Research, Markit

Chart 7: Average bid/ask spread by structured finance sector (Markit classifications), 2010 to October 2017



Source: BofA Merrill Lynch Global Research, Markit