



AUTORITÉ
DES MARCHÉS FINANCIERS

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The Autorité des Marchés Financiers publishes a study on liquidity in French bond markets

The Autorité des Marchés Financiers (AMF) has initiated an in-depth study of long-run trends in fixed income liquidity, in response to growing concerns among the financial community. The initial findings show that liquidity seems to have improved since early 2012 but is still below pre-crisis levels. However, the improvement does not mean that the bond markets will remain immune in the event of shocks.

The financial community has voiced growing concerns in recent months about declining liquidity in fixed income markets. Blame for the decline is often placed on the regulatory curbs put in place to tackle the crisis. To investigate this issue, two AMF Divisions – Market Surveillance and Research, Strategy & Risks – have analysed liquidity trends in the French market since 2005.

Using yardsticks provided by academic research, the AMF built a composite indicator to track changes in liquidity. To make the indicator even more accurate, it relied on proprietary transaction data obtained in the course of its duties.

The initial findings show that the liquidity of French bonds has not dried up but has actually improved since 2012, returning to the levels seen prior to the onset of the sovereign debt crisis in 2011. Nevertheless, it is currently below the levels prevailing up to the 2005-2007 subprime crisis.

And although the overall level of liquidity seems satisfactory under normal trading conditions, it might not withstand a market shock.

The results of this analysis show that cyclical factors such as the degree of risk appetite seem to have had a significant effect, over and above the still-uncertain impact of post-crisis regulation.

The AMF intends to pursue its research in order to refine the results and consolidate the resulting analyses.


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▾ [Study of liquidity in French bond markets](#)

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