

Liquidity Measurement and Commonality in Sovereign Bond Markets

Summer Research Paper

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Abstract

This paper documents commonality in the liquidity of sovereign bonds. Using the relative quoted bid-ask spread I show that market-level liquidity changes exert a substantial influence on the liquidity of single bonds. Unlike in equity markets (Brockmann et. al. (2009)) I do not find that changes in global liquidity levels of sovereign bonds affect the liquidity levels of individual sovereigns. Further, I document that it is common for country-pairs to experience negative cross-market correlations of liquidity. The possible causes for these negative cross-market correlations include flight-to-quality/liquidity, differing market conditions and adverse monetary policy shocks. My results suggest that flights to both quality and liquidity contribute to this decoupling in liquidity correlations.