Disentangling Messages from the Treasury Market

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Treasury market liquidity is worse than in years past, but broadly consistent with current levels of interest rate volatility.

10-Year Treasury Illiquidity vs Volatility: 2017 - Present

Note: The illiquidity index for the 10-year Treasury note is constructed using principal component analysis using a variety of liquidity metrics calculated from BrokerTec data. The index itself is the first component (PC1). SOFR-based implied 1M10Y volatility is used for data from 8/6/2021 onwards; LIBOR-based implied volatility is used earlier. Observations through 11/10/23.

Source: Bloomberg L.P., CME Group Inc. (BrokerTec), Staff Calculations
Models suggest term premiums accounted for the bulk of the recent change in yields, with only a modest fraction attributable to policy expectations.
Most of the move in Treasury yields has been driven by real interest rates.
Market pricing and survey data suggest longer-run inflation expectations are well anchored.