China’s Bond Market Liquidity: Measures and Driving Forces

Authors: Gaofeng Han Hui Miao Yabin Wang

Discussant: Zhitao Lin

Summary

- ➢Paper:
  - Interesting and timely paper on liquidity of China’s governments and agency bonds from 2001 to 2020
  - Build liquidity index considering seven indicators
  - Determination of bond market liquidity
  - Detailed introduction and backgroud of China’s bond market
  - Clear structure and results, reasonable suggestions for investors

- Composite liquidity index of China’s government and agency bonds
  - bid-ask spread
  - Amihud ratio
  - Price dispersion
  - Price amplitude
  - Turnover ratio
  - Trade number
  - Quote number

Summary

➢Determinants of liquidity:

- Domestic funding liquidity factors:1-month Chinese treasury-repo spread (CNTR), Chinese treasury-IRS spread (CNTS), broker and dealer’s leverage
- Financial market volatility shocks:domestic bond market volatility (CGBYLDV), equity market volatility (CNSSEV), option-implied CNY volatility (CNYIMPV)
- Global macrofinancial indicators: U.S. TED spread, bond market volatility and stock futures volatility, oil returns, Citi global index
- Findings: bond market liquidity is mainly and consistently driven by domestic funding conditions, its correlation with global factors is to a lesser extent, and that it is associated with the U.S. macrofinanical conditions mostly before the global financial crisis.
- Regime-switching model

Some questions

- What is the microstructure of Chinese inter-bank and exchange bond markets? Whether the trading mechanism of exchange market is limit-order-book and the trading mechanism of inter-bank market is OTC?
- If it is the OTC market for the inter-bank market, how about considering the microstrcture determinants on the bond market liquidity? Does the bargainning power affect and determine the liquidity of inter-bank bond market? For instance, larger banks have more power and determines the trading activity…(Bruno Biaisa and Richard Greenb, 2019, *The microstructure of the bond market in the 20th century*)
- The authors have detailed trading data, what are the trading networks in the inter-bank bond market? Does the trading network affect the liquidity of inter-bank bond market? (Li, Dan, and Norman Schürhoff, 2019, *Dealer Networks*)
- The authors find stock market and foreign exchange market (equity market volatility (CNSSEV) and option-implied CNY volatility (CNYIMPV)) also affect liquidity of inter-bank bond market, what is the channel or mechanism? (Anderson et al., 2007, *Real-time price discovery in global stock, bond and foreign exchange markets*)
- Just a few papers may be related to bond market, not sure if they are suitble for this topic.

Some questions

- The reason of conducting regime-switching model?
- In the regime-switching model, the estimated probability of low liquidity shown in Figure 13 ranges between 0.014 and 0.891. Does it mean liquidity freeze happens in most of time for most bonds? While the composite liquidity index shows liquidity condition becomes better through time as the level of index becomes smaller according to figure 6 and 7.

THANK YOU

谢 谢

地址：广州市黄埔大道西 601 号
电话：020-8522 2477

www.ec.jnu.edu.cn

暨南大學經濟學院
SCHOOL OF ECONOMICS，JINAN UNIVERSITY