

Benchmark Rates Liquidity Monitor

The Benchmark Rates Liquidity Monitor is a monthly publication by Milliman. This document explains its contents in more detail.

Objective

The goal of the Benchmark Rates Liquidity Monitor is to provide insight on trading activity in interest rate derivatives referencing global benchmark rates. Given the planned discontinuance of some key interest rate benchmarks, there is a need to transition to use of alternative benchmarks. The aim of this monitor is to highlight trends in comparative liquidity in the swap market to assist in planning for this transition. The publication provides a summary of the following information:

- **Page 1:** monthly comment on key observations in benchmark rates liquidity.
- **Page 2:** monthly trading volume and trade count across IRS and OIS EUR, GBP, JPY and USD swaps. The starting point is January 2020.
- **Page 3:** monthly trading volume and trade count ratios across EUR, GBP, JPY and USD swaps. The starting point is January 2020. The ratios used are (1) Combined EONIA and ESTR swaps to EURIBOR swaps; (2) SONIA swaps to GBP LIBOR swaps; (3) Combined SOFR and Fed Funds swaps to USD LIBOR swaps; (4) TONA swaps to JPY LIBOR swaps.
- **Page 4:** liquidity insights in 1) EONIA and ESTR swaps; 2) Fed Funds and SOFR trading over the reporting month.

Data Sources

The data is obtained via 2 sources:

- **SwapsInfo weekly data.** Weekly trends in IRD and credit derivatives transactions reported to the Depository Trust & Clearing Corporation (DTCC) and Bloomberg swap data repositories (SDRs). It provides a review of year-to-date and weekly trading volumes of IRD referencing alternative risk-free rates (RFRs) and major interbank offered rates (IBORs).
- **SDR/SDRV functions in Bloomberg.** It covers in-depth DTCC and MIFID data across interest rate derivatives.

Instruments

The data on interest rate swaps presented in this publication reference the following benchmark rates:

- **EURIBOR** – is the rate at which wholesale funds in euro could be obtained by credit institutions in the EU and EFTA countries in the unsecured money market. There is currently no planned cessation for this benchmark.
- **EONIA** – is a weighted average of the interest rates on unsecured overnight contracts on deposits denominated in euro, as reported by a panel of contributing banks. This is currently defined as ESTR + 8.5bps. This is planned to cease on January 2022.
- **ESTR** – reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. This is a new replacement benchmark for EONIA.
- **Fed Funds** – is a weighted-average rate of all overnight fed funds transactions arranged through fed funds brokers each business day.
- **GBP LIBOR** – represents the London interbank funding rates in Pounds at different tenors. Regulators have planned cessation by end 2021. Although, there is a risk that liquidity in this benchmark may fall significantly prior to this date.
- **JPY LIBOR** – represents the London interbank funding rates in Japanese Yen at different tenors. Regulators have planned cessation by end 2021.
- **SOFR** – is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Instruments (continued)

- **SONIA** – is a rate based on actual unsecured overnight deposit transactions in the Sterling market. This is the planned alternative replacement benchmark for GBP LIBOR.
- **TONA** – unsecured interbank overnight interest rate and reference rate for Japanese yen. TONAR is recommended as a replacement for JPY LIBOR.
- **USD LIBOR** – represents the London interbank funding rates in USD at different tenors. Regulators have planned cessation by mid-2023 for the overnight and 1, 3, 6 and 12 months tenors and cessation by end 2021 for other tenors.