

Discussion of
“Segmentation in the U.S. Dollar Money Markets
During the Financial Crisis”
by James McAndrews

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The views expressed do not necessarily reflect those of the Swiss National Bank.

The paper

- Timely and important topic.
 - Need to understand the factors that determine spreads in the money markets.
 - Findings have potential consequences for monetary policy.

The data

- Overnight loans from FedWire transactions are splits into Eurodollar and Fed funds trades.
 - Likely to cover most of the Fed funds trades.
 - Covers only part (about half?) of the Eurodollar trades.
 - Previous literature uses broker data.
 - Cover even smaller part of the market.
 - Have identification stamp.
- LIBOR rates are quoted rates.
 - Only 16 banks quote rates.
 - No information whether they actually trade at these rates.

The conclusions

YES! I completely agree.

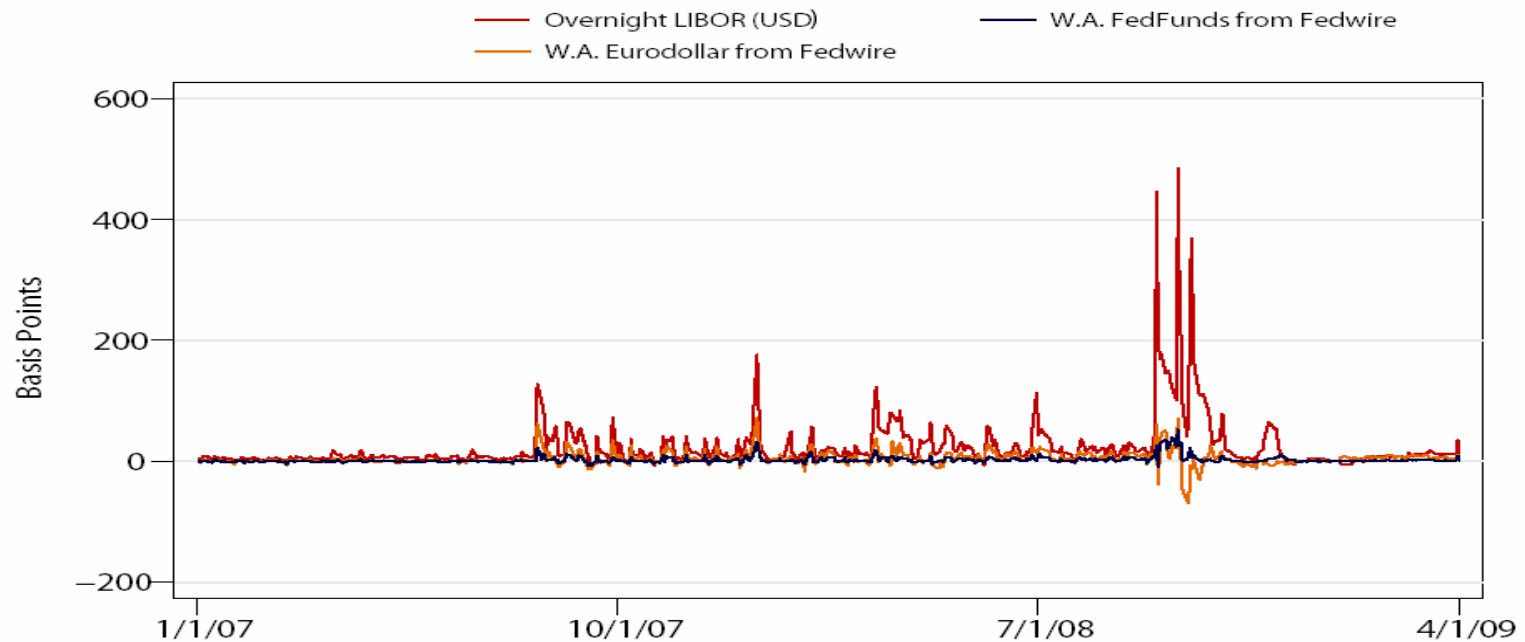
- Whether markets are integrated or not can only be assessed in a time context.
- Though banks act globally, the central banks operate only in the domestic money market.
- NY Eurodollar-Fed funds market remains much more integrated.
 - None of the crisis dummies is significant.
 - Small effects from reported standard deviation, FX-Swaps and TAF.

Comments

- Results may understate the extent of market segmentation during the crisis.
 - Filtering technique implies that part of the Eurodollar and Fed funds transactions are likely to be assigned to the wrong group.
 - Banks may misreport during the crisis, leading to a downward bias in the LIBOR.
 - Comparison of trimmed and untrimmed means indicate that this seems not to be the case.

Are we back to normal?

Spreads: Three Overnight Rates minus Markets Effective



Split data and report regressions starting in August 2007.

Some answers and many questions

- Results show when spreads were high but not why.
 - At the time of the LIBOR fixing US market is not active.
 - Compare with results for Asian Eurodollar markets.
 - Quoted rate differs fundamentally from effective rate.
 - Use transaction based LIBOR measure.
 - Banks in LIBOR panel less creditworthy than average US bank.
 - Use CDS spread.
 - Test the effect of bank-related news on spread.