

FIXED INCOME SOLUTIONS

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A Bloomberg Professional Offering

US CREDIT OFFERING

The BMRK Magenta LineSM is a pre-trade price transparency solution for the US corporate bond market. The service provides market-calibrated fair-value prices every 30 seconds based on real-time market data, security terms and conditions, and Bloomberg's analytics. It is designed to assist price discovery by propagating new fair-value information across the coverage set as quickly as possible.

COVERAGE

Our coverage aim is to provide pricing for all bonds for which there is a liquid issuer curve – currently over 16,000 USD-denominated corporate issues.

Coverage includes high grade and high yield issuers, but is predominantly high grade. Distressed and defaulted debt types are not included at present.

Credible model prices depend on availability of market data. As a guideline, we require at least several trades per week per issuer. If an issuer's bonds all trade less than a few times per month, we currently do not plan on providing a BMRK price.

INPUTS

Data inputs are

- » Trades, as disseminated by TRACETM
- » Composite of electronic contributions
- » US treasury and swap rates
- » Bloomberg's security master data
- » Credit ratings

The calculations also leverage Bloomberg's extensive bond analytics to capture prepayment and default risk. In particular, OAS and YASN calculations are used to reflect the credit-sensitive present value of cashflows and call provisions.

OUTPUTS

The model generates a fair-value mid, and indicative bid/ask spreads in price, yield and various spread conventions.

METHODOLOGY

The key concept is the blending of multiple observation types, specifically,

- » Trades
- » Quotes contributed electronically
- » Observations generated from the Bloomberg Benchmark issuer curve

Each observation type has its own considerations. To utilize trade data, the model tracks an average bid/offer spread as a function of side (dealer buy or sell) and trade size; inter-dealer trades are used as direct observations of fair-value. Bid/offer spreads are calibrated to market data so that the model can estimate an implied mid from all trades.

There is usually significant dispersion in trade prices, making it difficult to determine outliers from market moves in small time windows. One of the ways electronic contributions are used is in determining whether or not unexpected trade prices reflect genuine market moves.

Because not all bonds have sufficient observations, a proprietary curve model is used to generate synthetic observations. It should be noted that the model estimates both an OAS issuer curve and a curve spread for each bond. Updating is done in several steps:

- » Bonds with recent observations generate new OAS targets.
- » The model jointly fits the issuer curve and curve spreads to the new targets.
- » New OAS observations are generated for all bonds based on the OAS curve and estimated curve spread.
- » Finally, each bond's price is blended with the curve estimate and its previous price. This is done in such a way that if a bond is liquid, it can follow its direct observations; and if a bond is illiquid, the curve is the main driver.

It should be noted that the information is not combined using fixed weights. Instead, we employ an adaptive scheme where the importance of new data changes with market conditions, such as the number of observations, volatility and news.

With this design the model meets its objective of being market-calibrated to observed transactions and providing curve-driven estimates when observations are sparse.

**For more information please refer to
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