

Non-technical summary for ‘Back to the Futures: Liquidity in Australian Bond Futures amid Market-moving Events since COVID-19’

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What did we set out to do?

Australian Government Securities (AGS) – or government bonds – are a key part of Australia’s financial system. The Australian Office of Financial Management (AOFM) sells them to investors as an additional source of funding for the Australian Government beyond its tax revenue. Because AGS are seen as safe investments, their prices are used as a benchmark for pricing other Australian bonds. AGS are also important in the RBA’s monetary policy transmission because bond prices are closely linked to interest rates.

Through the AGS futures market, investors can buy or sell derivative contracts connected to AGS prices without owning the bonds themselves. This makes the market useful for investors to manage or hedge their AGS transactions, or to speculate on the future path of interest rates.

Our paper investigates liquidity in the AGS futures market – that is, how easily and efficiently investors can buy or sell AGS futures without large moves in their price – using high-frequency data on activity in the market from 2019 to 2025. In particular, we look at how liquidity changes in response to events, like the pandemic, policy announcements and bond issuance. Liquidity in AGS futures matters because it enables investors to hedge AGS holdings and other interest rate risk quickly and at stable prices. This supports effective price discovery, lowers transaction costs, and strengthens monetary policy transmission. A better understanding of liquidity assists AGS market participants – including the RBA – to extract and interpret information from market data, and to design any AGS market transactions to maximise effectiveness.

What did we learn?

Our key findings are:

- Liquidity in AGS futures was strong from mid-2020 to early 2021 when market expectations for interest rates were aligned with the RBA’s target for the yield on 3-year AGS. Liquidity dropped at the onset of the pandemic and around the end of the RBA’s yield target in late 2021. It stayed low through 2022 and into 2023 as market participants reassessed their outlook for interest rates, but improved in 2024 and early 2025 to be broadly in line with pre-pandemic levels.
- News events like RBA policy decisions and major economic data releases lead to higher trading volumes but briefly reduce liquidity: market participants trade more but provide less liquidity to one another due to increased uncertainty, making prices more volatile. Other events – including the AOFM’s large initial sale of new AGS, the AOFM’s smaller re-issuance of existing AGS, and RBA purchases of AGS – improve liquidity by serving as a focal point for participants.

What was our key takeaway?

Liquidity in the AGS futures market is generally strong, except in acute periods of market stress like the onset of the pandemic or the end of the RBA’s yield target. Because market events can affect liquidity and pricing, policymakers should be cautious when interpreting market pricing during uncertain times.