Volume 22 January 2015 ISSN 1386-4181

Journal of FINANCIAL MARKETS

CONTENTS

Journal of Financial Markets 22 (2015) 1–26

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Cross-listings and liquidity commonality around the world ☆

Tung Lam Dang [a,c], Fariborz Moshirian [a], Claudia Koon Ghee Wee [b,*], Bohui Zhang [a]

[a] Institute of Global Finance, UNSW Business School, The University of New South Wales, Sydney, NSW 2052, Australia

[b] School of Banking & Finance, UNSW Business School, The University of New South Wales, Sydney, NSW 2052, Australia

[c] Department of Banking and Finance, School of Economics, The University of Danang, Vietnam

ARTICLE INFO

Article history:
Received 22 January 2013
Received in revised form
8 November 2014
Accepted 8 November 2014
Available online 15 November 2014

JEL classification:
G11
G12
G15

Keywords:
Liquidity commonality
Cross-listings
International financial markets

ABSTRACT

In this paper, we investigate the effects of international cross-listings on commonality in liquidity. We find that cross-listings have asymmetric effects on cross-listed stocks' liquidity commonality that include reducing the stocks' liquidity commonality with the local market and increasing the stocks' liquidity commonality with the host market. We also find that the negative impact of cross-listings on home liquidity commonality is more pronounced for stocks from countries with high market segmentation, an opaque information environment, and a poor institutional infrastructure. These results suggest that cross-listings reduce the vulnerability of stocks' liquidity to aggregate liquidity shocks in the local market.

Journal of Financial Markets 22 (2015) 27–49

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

The determinants of alternative trading venue market share: Global evidence from the introduction of Chi-X☆

Peng William He, Elvis Jarnecic, Yubo Liu*

Finance Discipline, The University of Sydney Business School, Sydney, 2006 NSW, Australia

ARTICLE INFO

Article history:
Received 7 May 2013
Received in revised form
7 October 2014
Accepted 12 October 2014
Available online 18 October 2014

Jel classification:
G10
G12
G15

Keywords:
Alternative trading venues
Chi-X
Market quality
Liquidity quality
Pricing efficiency

ABSTRACT

In this paper, we examine market share drivers of a prominent alternative trading venue (Chi-X) in an international context. We find that Chi-X's market share is negatively related to trading fees and latency, while positively related to liquidity relative to primary exchanges. Venue market share is negatively related to order-to-trade ratio and positively related to average trade size, suggesting traders' preference to interact with natural and accessible liquidity. Furthermore, trading tends to concentrate on the primary exchange during market stress, while tick constraint stocks tend to trade more on Chi-X to avoid queuing at the touch on the primary exchange.

Journal of Financial Markets 22 (2015) 50–72

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Equity hedging and exchange rates at the London 4 p.m. fix☆

Michael Melvin*, John Prins

BlackRock, 400 Howard St., San Francisco, CA, USA

ARTICLE INFO

Article history:
Received 19 August 2013
Received in revised form
3 November 2014
Accepted 3 November 2014
Available online 11 November 2014

JEL classification:
F3

Keywords:
Exchange rates
Market microstructure
Fixing prices
Order flow
Hedging

ABSTRACT

We test the hypothesis that hedging by international equity portfolio managers affects exchange rates—the "hedging channel of exchange rate adjustment". A key institutional feature of the foreign exchange market, the "London 4 p.m. fix", is used to identify times when hedging trades concentrate. The direction of hedging trades is identified by past equity returns. The findings show that equity market appreciation over the month can be used to predict currency depreciation before the end-of-month fix, providing evidence that hedging activity plays a role in exchange rate determination.

Journal of Financial Markets 22 (2015) 73–103

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Intermediated investment management in private markets: Evidence from pension fund investments in real estate ☆

Aleksandar Andonov [a], Piet Eichholtz [b], Nils Kok [b,*]

[a] Erasmus University Rotterdam, Netherlands
[b] Maastricht University, Tongersestraat 53, Maastricht 6211LM, Netherlands

ARTICLE INFO

Article history:
Received 2 May 2014
Received in revised form
6 November 2014
Accepted 7 November 2014
Available online 18 November 2014

JEL classification:
G11
G20
G23

Keywords:
Pension fund
Real estate
Delegated investment management
Economies of scale
Performance

ABSTRACT

We evaluate the economics of financial intermediation in alternative assets by investigating the allocation and performance of pension fund investments in real estate, the most significant alternative asset class for institutional investors. We document substantial heterogeneity in real estate investment cost and performance, determined by two main factors: mandate size and investment approach. Larger pension funds are more likely to invest in real estate internally, have lower costs, and higher net returns. Smaller pension funds invest primarily in direct real estate through external managers and fund-of-funds, and disregard listed property companies. Overall, we find that delegating real estate investment management to financial intermediaries increases costs and disproportionally reduces returns.

Volume 23 March 2015 ISSN 1386-4181

Journal of FINANCIAL MARKETS

CONTENTS

Journal of Financial Markets 23 (2015) 1–25

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Style representation and portfolio choice ☆

Massimo Massa [a,*], Andrei Simonov [b,d], Anders Stenkrona [c]

[a] Finance Department, INSEAD, Boulevard de Constance, 77305 Fontainebleau, Cedex, France
[b] 321 Eppley Center, Michigan State University, East Lansing, MI 48824, USA
[c] Carnegie Investment Bank AB, Regeringsg. 56, 103 38 Stockholm, Sweden
[d] Russian Presidential Academy of National Economy and Public Administration, Prospect Vernadskogo, 82, Moscow, Russian Federation 119571

ARTICLE INFO

Article history:
Received 17 July 2014
Received in revised form
4 February 2015
Accepted 9 February 2015
Available online 11 March 2015

JEL classification:
G11
G14

Keywords:
Style investing
Mutual funds
Individual investors

ABSTRACT

We study the impact of style representation on portfolio choice using the choices of the Swedish population in their retirement accounts. We show that investor choice depends on how funds are grouped in the menu ("styles"). An exogenous increase in the style representation increases investment in the funds of the style. By using information on the performance of the funds that the investors choose, we show that the sensitivity to style exposure is negatively related to the investor's degree of informativeness. This suggests that style exposure represents a way of coping with limited (private) information.

Journal of Financial Markets 23 (2015) 26–58

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Options market makers' hedging and informed trading: Theory and evidence ☆

Sahn-Wook Huh [a], Hao Lin [b], Antonio S. Mello [c,d,*]

[a] School of Management, University (SUNY) at Buffalo, Buffalo, NY 14260-4000, United States
[b] College of Business Administration, California State University at Sacramento, Sacramento, CA 95819-6088, United States
[c] School of Business, University of Wisconsin at Madison, Madison, WI 53706-1323, United States
[d] Sloan School of Management, Massachusetts Institute of Technology, Cambridge, MA 02139, United States

ARTICLE INFO

Article history:
Received 22 July 2014
Received in revised form
28 December 2014
Accepted 6 January 2015
Available online 17 January 2015

JEL classification:
G10
G14
D82

Keywords:
Options market making
Hedging
Informed trading
Adverse-selection risk
Bid–ask spreads

ABSTRACT

We develop a model to analyze the effects of hedging activities by options market makers (OMMs) facing informed trading. The model suggests that OMMs' hedging activities motivated by adverse-selection risk lead to wider spreads in both stock and options markets. The hedging effect on spreads is more pronounced in the options market than in the stock market. The effect is larger when the OMMs hedge with the underlying asset than with other options. In addition, hedging activities by the OMMs significantly alter the trading strategies of informed traders. Our empirical tests provide evidence consistent with the key implication of our model.

Journal of Financial Markets 23 (2015) 59–74

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Sentiment bubbles ☆

David Berger [a,*], Harry J. Turtle [b,1]

[a] Oregon State University, 443 Austin Hall, College of Business, Corvallis, OR 97331-2603, United States
[b] West Virginia University, College of Business and Economics, West Virginia University, 1601 University Avenue, Morgantown, WV 26506-6025, United States

ARTICLE INFO

Article history:
Received 28 August 2014
Received in revised form
20 January 2015
Accepted 26 January 2015
Available online 7 February 2015

JEL classification:
G11
G12

Keywords:
Investor sentiment
Bubbles
Price-correction

ABSTRACT

We examine cumulative changes in investor sentiment and find that these changes relate to extended periods of increasing overvaluation, followed by price corrections. The relation between sentiment and returns is path dependent—short-term increases in sentiment precede strong positive returns, while prolonged periods of increasing sentiment precede negative returns. Positive short-run returns are consistent with bubble dynamics and mitigate the backwards induction conundrum described by Abreu and Brunnermeier (2003). Our results hold for the market portfolio, and are especially strong for opaque portfolios with high levels of uncertainty, as well as portfolios with greater market frictions that limit arbitrage.

Journal of Financial Markets 23 (2015) 75–97

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

On the determinants of pairs trading profitability ☆

Heiko Jacobs *, Martin Weber [1]

Finance Department, University of Mannheim, L5, 2, 68131 Mannheim, Germany

ARTICLE INFO

Article history:
Received 2 January 2014
Received in revised form
19 December 2014
Accepted 22 December 2014
Available online 20 January 2015

JEL classification:
G12
G14

Keywords:
Pairs trading
Relative-value arbitrage
Return predictability
International stock markets
Limited attention
Limits to arbitrage

ABSTRACT

We perform a large-scale empirical analysis of pairs trading, a popular relative-value arbitrage approach. We start with a cross-country study of 34 international stock markets and uncover that abnormal returns are a persistent phenomenon. We then construct a comprehensive U.S. data set to explore the sources behind the puzzling profitability in more depth. Our findings indicate that the type of news leading to pair divergence, the dynamics of investor attention as well as the dynamics of limits to arbitrage are important drivers of the strategy's time-varying performance.

Volume 24 June 2015 ISSN 1386-4181

Journal of FINANCIAL MARKETS

CONTENTS

Journal of Financial Markets 24 (2015) 1–24

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Frontier market transaction costs and diversification ☆

Ben R. Marshall *, Nhut H. Nguyen, Nuttawat Visaltanachoti

School of Economics and Finance, Massey University, Private Bag 11-222, Palmerston North, New Zealand

ARTICLE INFO

Article history:
Received 19 November 2013
Received in revised form
16 April 2015
Accepted 29 April 2015
Available online 18 May 2015

JEL classification:
G11
G15

Keywords:
Frontier market
Liquidity
Transaction cost
Diversification

ABSTRACT

Frontier markets, sometimes referred to as "emerging emerging markets," have high transaction costs so investors who rebalance their portfolios monthly do not receive diversification benefits. Rebalancing every three months or longer, however, leads to diversification gains. Diversification benefits are larger in time periods with lower transaction costs and this is linked to risk aversion. Higher risk aversion results in larger transaction costs and larger return correlations between the United States and frontier markets. There is no cross-country relation between diversification benefits and transaction costs or development. Our results are based on comprehensive measures of transaction costs for 19 frontier markets.

Journal of Financial Markets 24 (2015) 25–48

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Relative liquidity and future volatility ☆

Marcela Valenzuela [a], Ilknur Zer [b,*,1], Piotr Fryzlewicz [c], Thorsten Rheinländer [d]

[a] University of Chile, Department of Industrial Engineering, Republica 701, Santiago, Chile
[b] Federal Reserve Board, 20th Street and Constitution Avenue, N.W. Washington, DC 20551, USA
[c] London School of Economics, Department of Statistics, Houghton Street, London WC2A 2AE, UK
[d] Vienna University of Technology, Research Group Financial and Actuarial Mathematics (FAM), Wiedner Hauptstrasse 8-10/105-1, A-1040 Vienna, Austria

ARTICLE INFO

Article history:
Received 23 May 2014
Received in revised form
2 March 2015
Accepted 12 March 2015
Available online 23 March 2015

JEL classification:
G1
G20

Keywords:
Order-driven markets
Limit order book distribution
Volatility predictability
Liquidity

ABSTRACT

The main contribution of this paper is to identify the strong predictive power of the relative, rather than the absolute, volume of orders over volatility. To this end, we propose a new measure, relative liquidity, which accounts for how quoted depth is distributed in a limit order book and captures the level of consensus on a security's trading price. Higher liquidity provision farther away from the best quotes, relative to the rest of the book, is associated with a disagreement on the current price and followed by high volatility. The relationship is robust to the inclusion of several alternative measures.

Published by Elsevier B.V.

Journal of Financial Markets 24 (2015) 49–65

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Asymmetric effects of sell-side analyst optimism and broker market share by clientele ☆

Andrew Grant *, Elvis Jarnecic, Mark Su

H69 Business School Building, Cnr Codington and Rose Sts, Darlington, NSW 2008, Australia

ARTICLE INFO

Article history:
Received 17 August 2012
Received in revised form
9 April 2015
Accepted 13 April 2015
Available online 24 April 2015

JEL classification:
G12
G23
G24

Keywords:
Market microstructure
Analyst forecasts
Analyst incentives

ABSTRACT

This paper provides evidence for the first time on how different broker clienteles react to earnings forecast and stock recommendations. Greater trade volume is found to be associated with optimistic earnings forecasts while stock recommendations are stronger for analysts affiliated with retail brokerage firms than those affiliated with institutional brokerage firms. We also find that the market share of buy volume (that is, volume from buy orders) substantially rises on recommendation upgrades while the market share of sell volume rises on recommendation downgrades, and that this effect is stronger for retail clientele.

Journal of Financial Markets 24 (2015) 66–92

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Trading price jump clusters in foreign exchange markets ☆

Jan Novotný [a,b,*], Dmitri Petrov [c,1], Giovanni Urga [a,d,2]

[a] Centre for Econometric Analysis, Faculty of Finance, Cass Business School, City University London, 106 Bunhill Row, London EC1Y 8TZ, UK
[b] CERGE-EI, Czech Republic
[c] Nomura International plc, One Angel Lane, London EC4R 3AB, UK
[d] Bergamo University, Italy

ARTICLE INFO

Article history:
Received 12 June 2014
Received in revised form
21 March 2015
Accepted 24 March 2015
Available online 2 April 2015

JEL Classification:
F31
C58
G11

Keywords:
Price jumps
Clusters
Foreign exchange markets
Trading
Profitable strategy

ABSTRACT

We investigate trading opportunities of price jump clusters in the FX markets. We identify clusters for eight FX rates against the U.S. dollar from March 1, 2013 to June 6, 2013 sampled at a 5-minute frequency. We propose a high-frequency jump cluster-based trading strategy and show that jumps carry a tradable signal for all currencies; however, when incorporating the bid-ask spread, the only profitable currencies are the euro, yen and rand. From the portfolio perspective, a combination of the euro and yen represents a strategy robust to the holding period, minimizes the transaction costs, and diversifies out the U.S.-related risk.

Volume 25 September 2015 ISSN 1386-4181

Journal of FINANCIAL MARKETS

CONTENTS

Journal of Financial Markets 25 (2015) 1–15

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

A dynamic model of hedging and speculation in the commodity futures markets

Giulio Cifarelli [a,*], Giovanna Paladino [b]

[a] University of Florence, DISEI, via delle Pandette 9, 50127 Florence, Italy
[b] LUISS University Economics Department and Intesa Sanpaolo, Piazza San Carlo 156, 10156 Torino, Italy

ARTICLE INFO

Article history:
Received 19 April 2011
Received in revised form
28 June 2015
Accepted 6 July 2015
Available online 14 July 2015

JEL classification:
G13
G15
Q47

Keywords:
Commodity spot and futures markets
Dynamic hedging
Speculation
Non-linear GARCH
Markov regime switching

ABSTRACT

Over the 1990–2010 time period, a dynamic interaction between spot and futures returns in five commodity markets (copper, cotton, oil, silver, and soybeans) is empirically validated. An error correction relationship for the cash returns and a non-linear parameterization of the corresponding futures returns are combined with a bivariate CCC-GARCH representation of the conditional variances. Hedgers and speculators are contemporaneously at work in the futures markets, the role of the latter being far from negligible. In order to capture the consequences of the growing turbulence of these markets, a two-state regime-switching model for futures returns is developed. In this way financial traders' time-varying risk appetites are allowed to interact with hedgers' demand in determining both future and spot prices.

Journal of Financial Markets 25 (2015) 16–32

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Information and accuracy in pricing: Evidence from the NCAA men's basketball betting market ☆

Jason P. Berkowitz [a,*], Craig A. Depken II [b,1], John M. Gandar [c,2]

[a] Department of Economics and Finance, Tobin College of Business, St. John's University, Queens, NY 11439, United States
[b] Department of Economics, Belk College of Business, University of North Carolina Charlotte, Charlotte, NC 28223, United States
[c] Department of Finance, Belk College of Business, University of North Carolina Charlotte, Charlotte, NC 28223, United States

ARTICLE INFO

Article history:
Received 29 April 2014
Received in revised form
4 June 2015
Accepted 14 June 2015
Available online 25 June 2015

JEL classifications:
G13
G14
L83

Keywords:
Efficient market hypothesis
Market efficiency
Security price
Betting market

ABSTRACT

In this paper, we test whether accuracy in the wagering markets for NCAA Division I men's basketball improves when there are more betting lines available for a given game. The empirical evidence indicates that when the money line is offered, it has no impact on the accuracy of the sides line as it is a redundant security, but the offering of the totals line impacts the accuracy of the sides line. We interpret this as evidence that the totals line provides additional information to uninformed bettors that improves the accuracy of the sides line in its role as a price.

Journal of Financial Markets 25 (2015) 33–51

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Equity volatility as a determinant of future term-structure volatility ☆

Naresh Bansal [a,*], Robert A. Connolly [b,1], Chris Stivers [c,2]

[a] John Cook School of Business, Saint Louis University, St. Louis, MO, United States
[b] UNC Kenan-Flagler Business School, University of North Carolina – Chapel Hill, Chapel Hill, NC, United States
[c] College of Business, University of Louisville, Louisville, KY, United States

ARTICLE INFO

Article history:
Received 28 September 2013
Received in revised form
8 May 2015
Accepted 13 May 2015
Available online 22 May 2015

JEL classification:
G12
G14

Keywords:
Equity risk
Term structure
Bond volatility

ABSTRACT

We show that equity volatility serves as a determinant of future Treasury term-structure volatility over the recent October 1997 to June 2013 period. We find that equity volatility contains incrementally reliable information for the subsequent volatility of: (1) 10-year and 30-year bond futures returns, (2) the term-structure's level, and (3) the term-structure's slope. We present additional evidence that suggests a flight-to-quality/flight-from-quality pricing avenue is a likely contributor to the volatility linkages, where time-varying economic uncertainty can generate both a large positive serial correlation in stock volatility and a time-variation in the precautionary savings motive and diversification benefits of holding bonds.

Journal of Financial Markets 25 (2015) 52–79

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Evaluating trade classification algorithms: Bulk volume classification versus the tick rule and the Lee-Ready algorithm ☆

Bidisha Chakrabarty [a,*], Roberto Pascual [b], Andriy Shkilko [c]

[a] Saint Louis University, St. Louis, MO, USA
[b] University of the Balearic Islands, Spain
[c] Wilfrid Laurier University, Ontario, Canada

ARTICLE INFO

Article history:
Received 13 August 2013
Received in revised form
1 June 2015
Accepted 3 June 2015
Available online 11 June 2015

JEL classification:
G10
G14
G29

Keywords:
Trade classification
Bulk volume classification
Tick rule
Lee and Ready
VPIN

ABSTRACT

We compare the accuracy of the bulk volume classification (BVC) to that of the tick rule (TR) and the Lee-Ready (LR) algorithm for a large sample of equities. TR and LR produce significantly better classifications than the BVC. This result applies to stocks of all sizes, including the most frequently traded. Iteratively optimizing the BVC improves its performance, but the conventional rules still outperform. TR and LR produce more accurate estimates of the volume-synchronized probability of informed trading. Order imbalances computed using TR and LR are comparable to those computed using the BVC in explaining returns, liquidity, and trading costs.

Volume 26 November 2015 ISSN 1386-4181

Journal of FINANCIAL MARKETS

CONTENTS

Journal of Financial Markets 26 (2015) 1–37

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Learning to smile: Can rational learning explain predictable dynamics in the implied volatility surface? ☆

Alejandro Bernales [a,*], Massimo Guidolin [b]

[a] The Universidad de Chile (Centro de Economía Aplicada and Centro de Finanzas), Chile
[b] Bocconi University, and CAREFIN, Italy

ARTICLE INFO

Article history:
Received 3 September 2013
Received in revised form
13 October 2015
Accepted 13 October 2015
Available online 21 October 2015

JEL classification:
G12
D83

Keywords:
Option pricing
Rational learning
Bayesian updating
Implied volatility
Predictability

ABSTRACT

We develop a general equilibrium asset pricing model under incomplete information and rational learning in order to understand the unexplained predictability of option prices. In our model, the fundamental dividend growth rate is unknown and subject to breaks. Immediately after a break, there is insufficient information to price option contracts accurately. However, as new information arrives, a representative Bayesian agent recursively learns about the parameters of the process followed by fundamentals. We show that learning makes beliefs time-varying and generates predictability patterns across option contracts with different strike prices and maturities; as a result, the implied movements in the implied volatility surface resemble those observed empirically.

Journal of Financial Markets 26 (2015) 38–63

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Volatility-of-volatility and tail risk hedging returns☆

Yang-Ho Park*

Risk Analysis Section, Board of Governors of the Federal Reserve System, 20th & C Streets, NW, Washington, DC 20551, United States

ARTICLE INFO

Article history:
Received 27 June 2014
Received in revised form
18 May 2015
Accepted 22 May 2015
Available online 30 May 2015

JEL classification:
G12
G13

Keywords:
VVIX
Tail risk
Rare disaster
Model uncertainty
Option returns
VIX options

ABSTRACT

This paper reports that the volatility-of-volatility implied by VIX options has predictability for tail risk hedging returns. Specifically, an increase in the volatility-of-volatility as measured by the VVIX index raises current prices of tail risk hedging options, such as S&P 500 puts and VIX calls, and lowers their subsequent returns over the next three to four weeks. The results are robust to jump risk, skewness, kurtosis, option liquidity, variance risk premium, and limit of arbitrage. The predictability can be explained by either risk premiums for a time-varying crash risk factor or uncertainty premiums for a time-varying uncertain belief in volatility.

Published by Elsevier B.V.

Journal of Financial Markets 26 (2015) 64–84

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Testing and modeling jump contagion across international stock markets: A nonparametric intraday approach ☆

Fredj Jawadi [a,*], Waël Louhichi [b], Abdoulkarim Idi Cheffou [c]

[a] University of Evry & EconomiX, France
[b] ESSCA School of Management, France
[c] EDC Paris Business School, France

ARTICLE INFO

Article history:
Received 15 August 2013
Received in revised form
29 September 2015
Accepted 29 September 2015
Available online 9 October 2015

JEL classification:
C22
G10
G15

Keywords:
Jump contagion effect
Realized volatility
Overlapping and non-overlapping trading hours
Nonparametric test
Threshold autoregressive models

ABSTRACT

We investigate the contagion hypothesis between the United States and three European markets (Germany, the United Kingdom, and France). We focus on realized volatility, which we break down into continuous and jump parts, and we test the contagion hypothesis between jumps during overlapping and non-overlapping hours. We find a significant relation between jumps and realized volatility and spillover effects between jumps. The U. S. market plays the leading role during overlapping hours, but regional contagion is more obvious during non-overlapping hours. Interestingly, jump contagion effects exhibit asymmetry and nonlinearity, and vary according to regimes. Accordingly, we improve jump modeling and spillover.

Journal of Financial Markets 26 (2015) 85–102

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Short sales and the weekend effect—Evidence from a natural experiment ☆

Pengjie Gao [a], Jia Hao [b], Ivalina Kalcheva [c], Tongshu Ma [d,*]

[a] Mendoza College of Business, University of Notre Dame, United States
[b] School of Business Administration, Wayne State University, United States
[c] University of California, Riverside, United States
[d] Binghamton University School of Management, Binghamton, NY 13902-6000, United States

ARTICLE INFO

Article history:
Received 16 June 2015
Accepted 17 June 2015
Available online 2 July 2015

JEL classification:
G14
G15

Keywords:
Short sale
Weekend effect
Hong Kong Stock Exchange

ABSTRACT

Price pressure induced by the short-seller's systematic unwinding and rewinding short positions around the weekend allegedly contributes to the weekend effect. On the Hong Kong Stock Exchange, short-selling was prohibited before 1994 and was allowed only for some stocks after 1994. Exploiting this natural experiment, we find a strong weekend effect during the pre-1994 period and during the post-1994 period for both stocks that are allowed to be sold short and those that are not. Moreover, the difference in the weekend effects between the two groups is economically and statistically indistinguishable. These results are inconsistent with the above-mentioned hypothesis.

Published by Elsevier B.V.

Journal of Financial Markets 26 (2015) 103–121

Contents lists available at ScienceDirect

Journal of Financial Markets

journal homepage: www.elsevier.com/locate/finmar

Informed trading in parallel bond markets ☆

Paola Paiardini

Department of Economics, University of Birmingham, Edgbaston, Birmingham B15 2TT, UK

ARTICLE INFO

Article history:
Received 28 September 2013
Received in revised form
8 August 2015
Accepted 13 August 2015
Available online 8 September 2015

JEL classification:
C51
G10
G14

Keywords:
Market microstructure
Informed trading
Government bonds

ABSTRACT

European government bond market segmentation has not been extensively investigated. I contribute to this scant literature by studying the market microstructure of the Italian government bond market, the largest one in the eurozone. Using a sequential trade model, I analyze the probability of informed trading (PIN) in the parallel trading of the same bond on two secondary electronic platforms: the inter-dealer MTS and the dealer-to-customer BondVision; an aspect that has never been investigated before. I find that the PIN is significantly lower in the dealer-to-customer segment than in the inter-dealer one.