Kerssenfischer-Helmus: Outages in sovereign bond markets

Discussion by Gabor Pinter (BIS)

EFA 2024

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Introduction

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  - first paper to use outages (as natural experiments) to improve our understanding of how these markets function.
  - use micro-data to pinpoint the mechanism

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- My comments / first reactions:
  - exciting paper with novel source of variation
  - after adding more "*economics*", great publication potential!

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  - cash bond transactions (MIFID II) and
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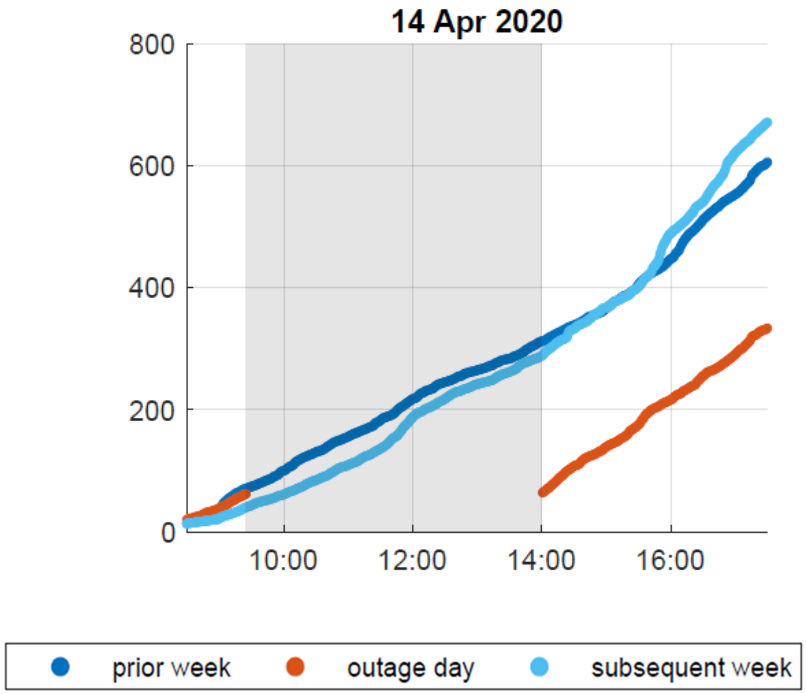
- Research Design

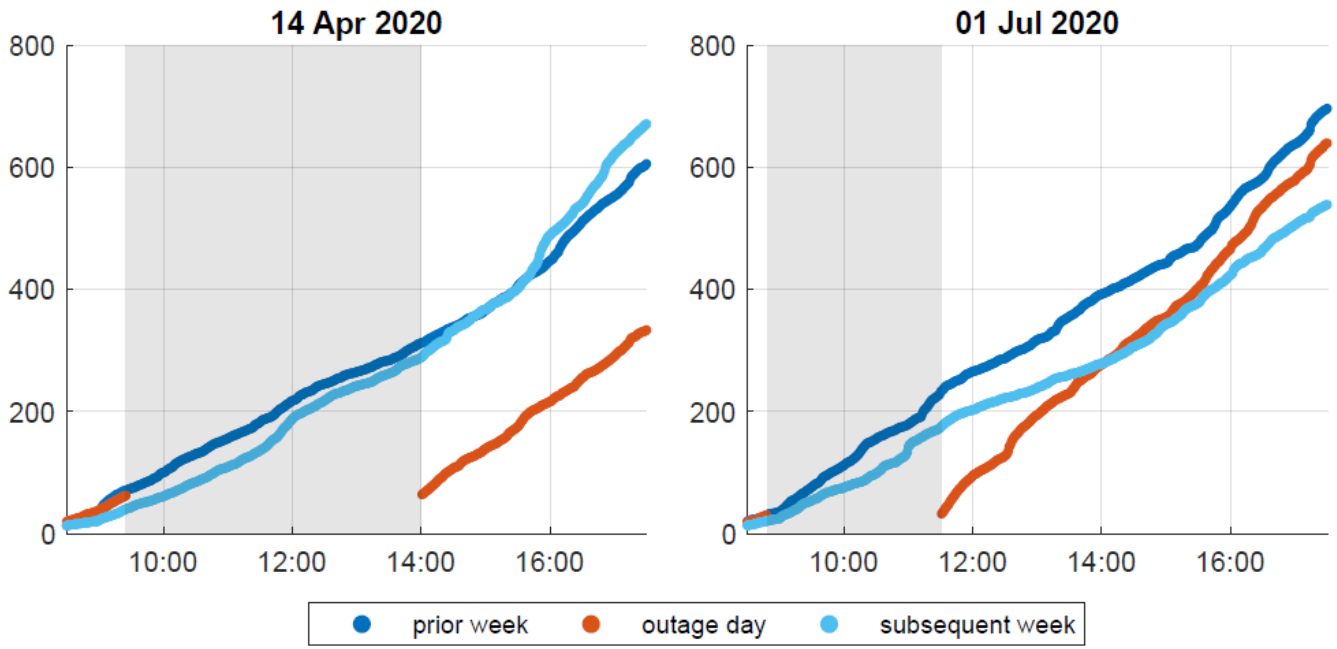


What do we learn?

1. **Effects on Trading Activity**: outages cause a significant reduction in cash market activity / liquidity
2. **Mispricing**: mispricing in the cash market rises (for C2C trades)
3. **Cash vs Futures Markets**: outages in futures affect the cash market, but not vice versa ("One-way street")

1: Are the outages alike?

What explains the catch-up / lack thereof?



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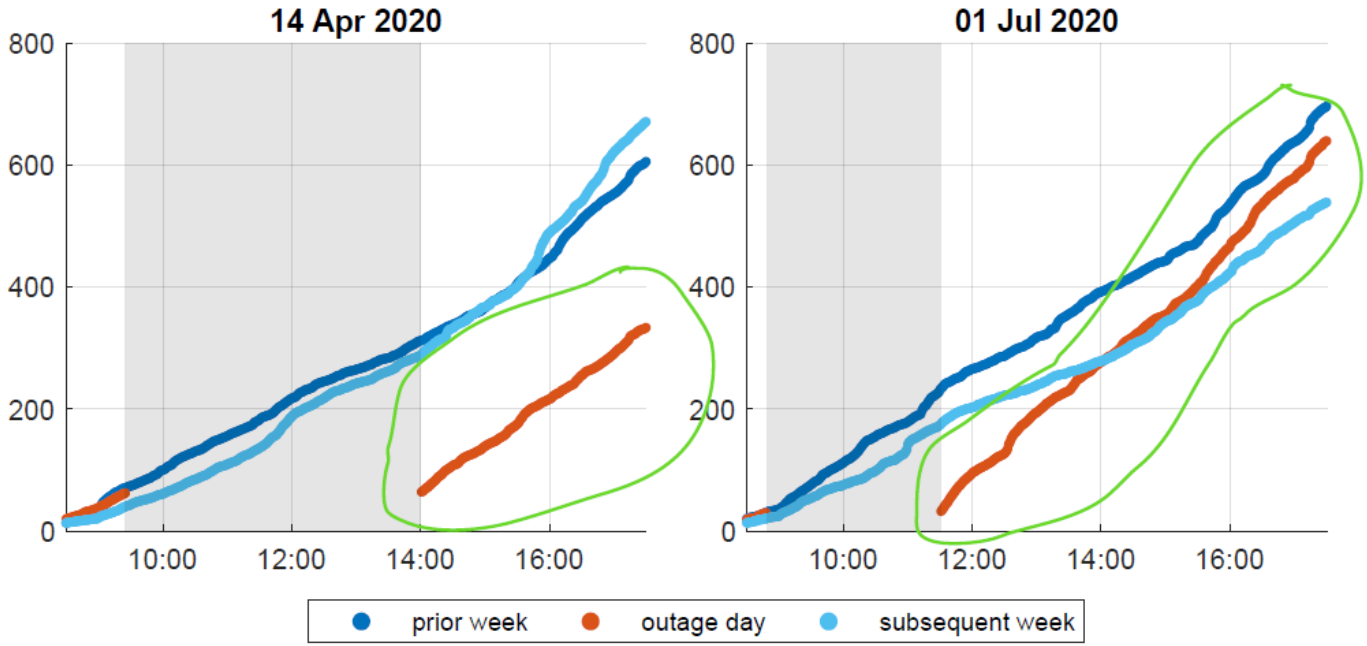

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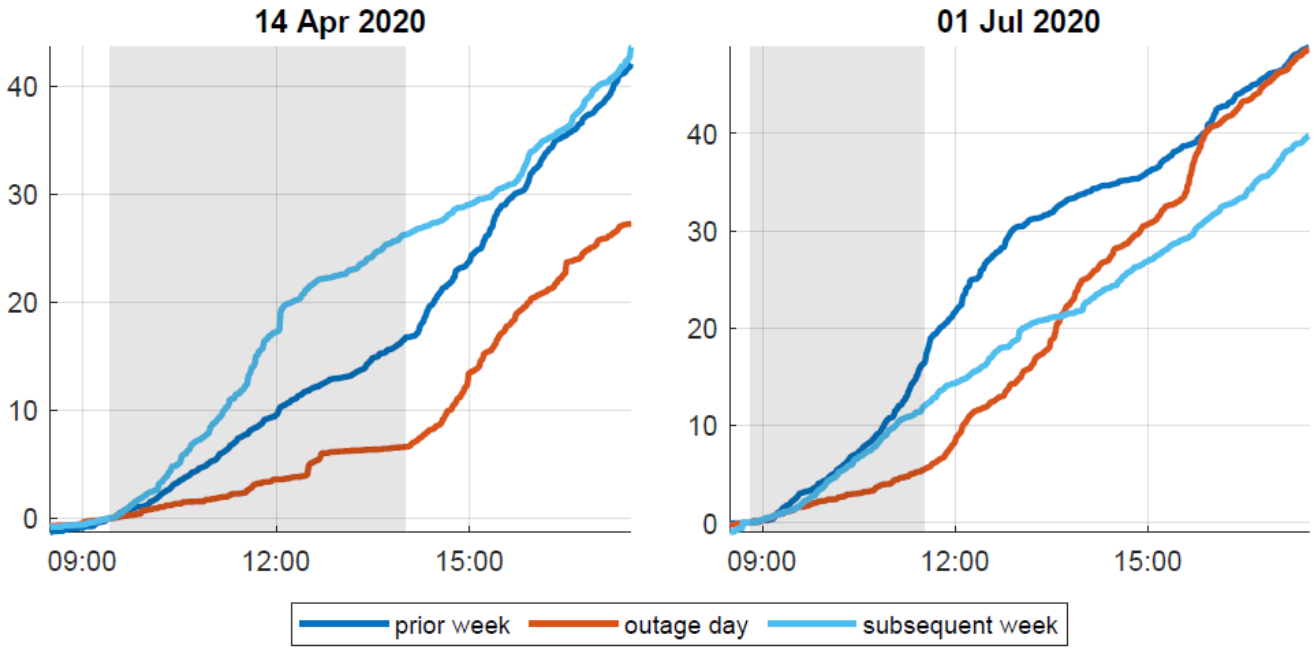
Consistent catch-up in the cash market



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"Dealers use futures mostly as a hedging instrument for inventory risk while clients use it as a pricing signal."

3: Nature of the Outage Shock

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  - effects on term structure vs on noise
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  - how does the network adjust? What happens to trading relationships?
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- **Hypothesis**: Clients with weaker relationships were the ones who stopped trading with dealers after the outage
  - they started trading with each other $\longrightarrow$ large noise on C2C
  - strong client-dealer relationships persevered $\longrightarrow$ lower noise on D2C

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Goldberg (2020), Goldberg-Nozawa (2021)

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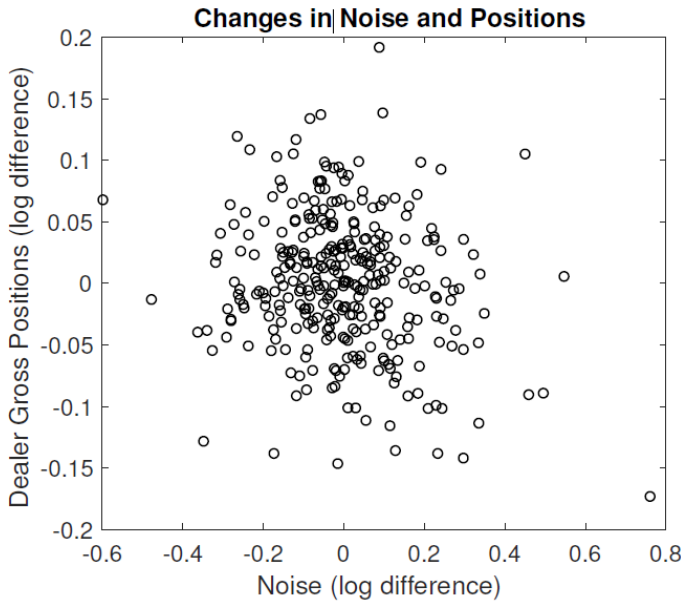

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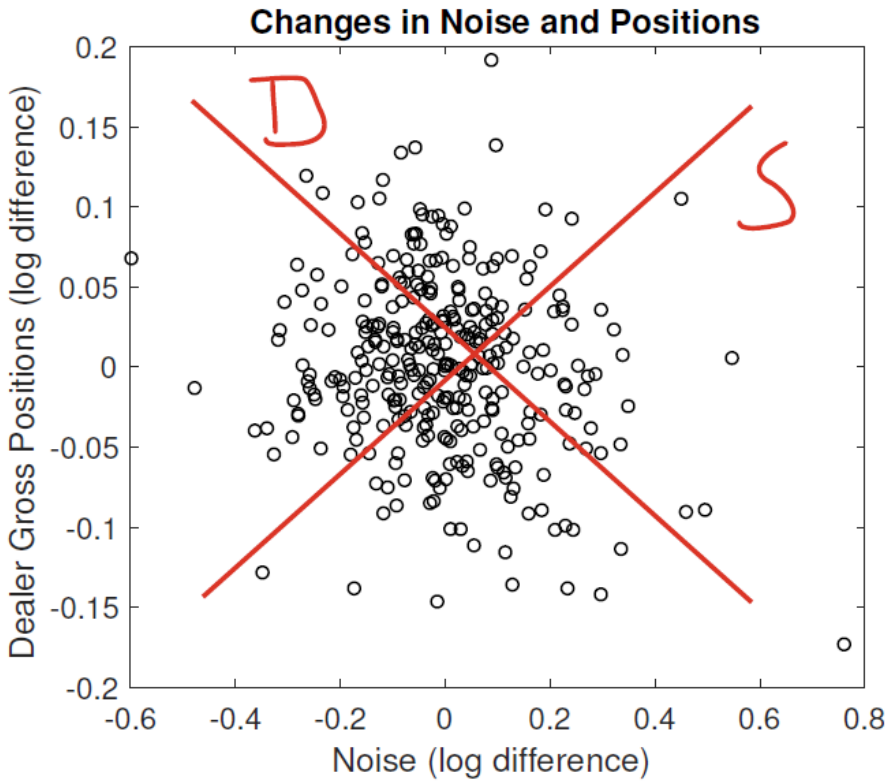

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	Baseline			Controlling for Transaction Size		
	(1) Venue	(2) Segment	(3) Eurex	(4) Venue	(5) Segment	(6) Eurex
Outage × OTC bilateral	1.97***			1.37***		
	[0.40]			[0.17]		
Outage × OTC via IDB	0.14			0.27		
	[0.28]			[0.27]		
Outage × OTC via SI	0.18			0.30		
	[0.25]			[0.22]		
Outage × electronic platforms	0.91***			0.50*		
	[0.17]			[0.24]		
Outage × regular exchange	4.46***			2.06		
	[0.97]			[1.37]		
Outage × C2C		2.39***			1.20***	
		[0.09]			[0.13]	
Outage × D2C		0.65***			0.40**	
		[0.11]			[0.13]	
Outage × D2D		0.32			0.57*	
		[0.21]			[0.24]	

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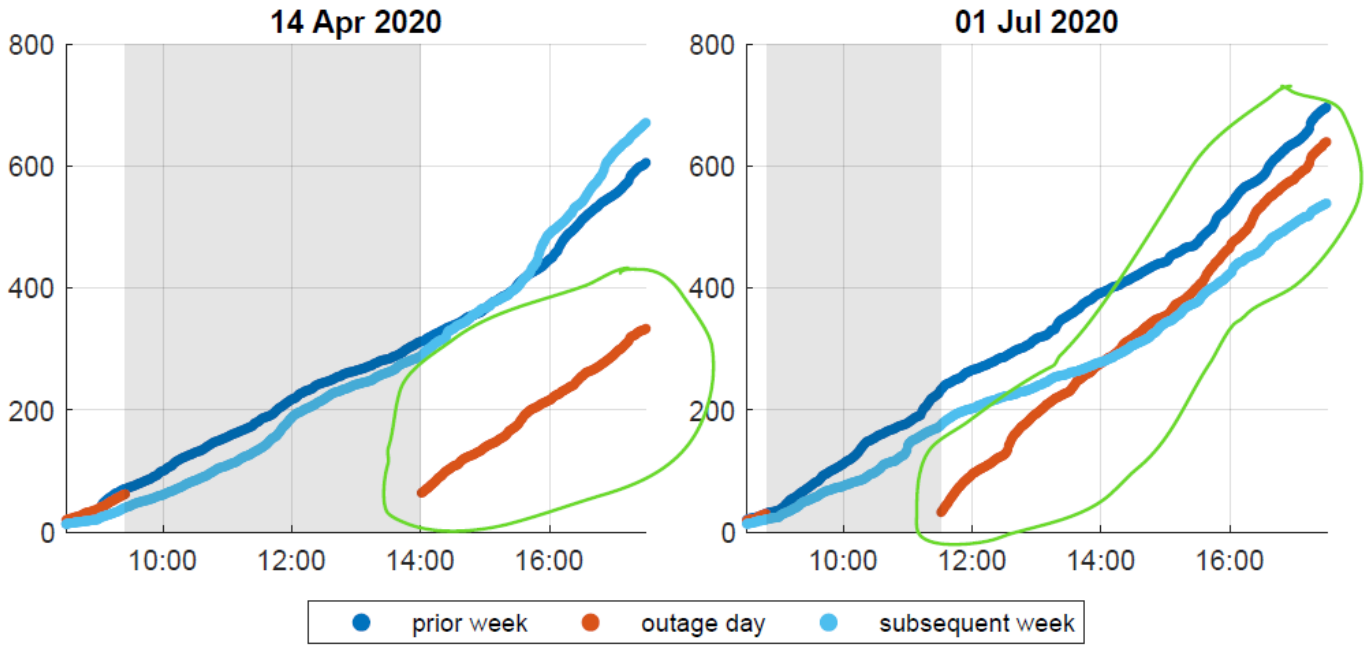
- which clients drive the results?
  - active vs less active (O'Hara-Zhou (2021))
  - more informed vs less informed (Ranaldo-Somogyi (2021))
  - etc.

6: Which clients/dealers drive the recovery?



Conclusion

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