

# Information Shocks, Liquidity Shocks, Jumps, and Price Discovery – Evidence from the U.S. Treasury Market

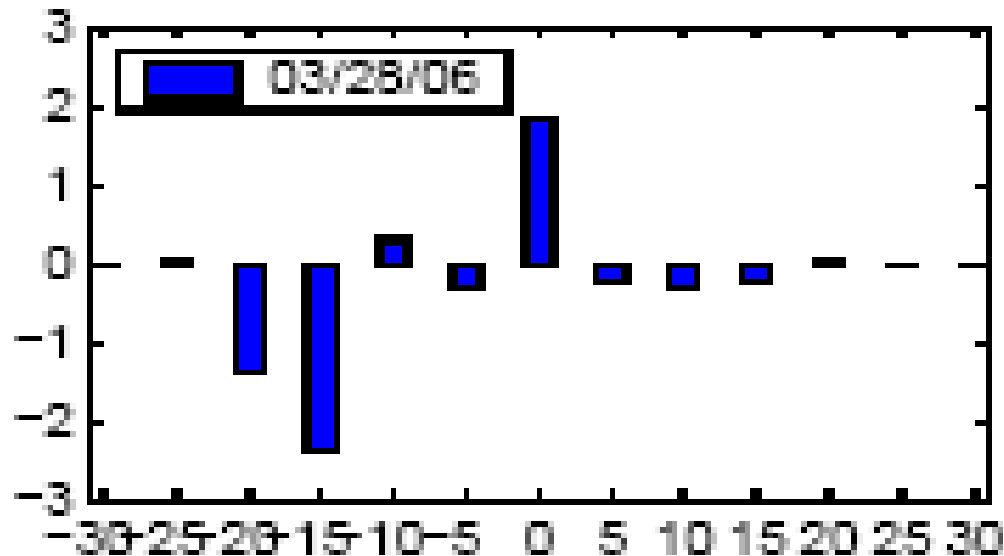
Discussion by

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- Better understand jumps in Treasury markets
- Look at influence of liquidity on jumps

# Jumps

- Security returns are better explained with continuous processes that include jumps
  - Relevant for pricing and risk management
- What horizon is relevant?
  - Replicating portfolio
  - What do practitioners say?



# Source of Jumps

- “ A large price change occurs either when
  - A market order hits the existing limit orders following the announcement
  - New limit orders come in and set a new price moving the existing mid-quote up/down. “
- Is the data able to distinguish between these two causes of jumps?
  - Not just quotes but full limit order book
- Public information vs. private information
  - For public information, active vs. passive changing of quotes

# News vs. No-News Jumps

- Source of jump may be different between news and no-news jumps
  - Are no-news jumps informed trading or unanticipated news?
  - Do no-news jumps happen concurrently across bonds?
- Perhaps extend the sample back to 2003 to get more observations
  - 10% of jumps are no-news

# Liquidity and Jumps

- “Liquidity shocks in general precede jumps in bond prices and play an important role in bond price jumps”
- Could selection bias play a role?
  - Reduction in liquidity could be random
  - For no-news jumps, examine depth at bid *or* ask (jump specific)
- Liquidity vs. informed trading
  - Look for reversals over longer periods

# News vs. No News

