

Seminar series

Securities markets: trends, risks and policies

OTC DISCOUNT

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Abstract:

We study price dispersion and venue choice in the interdealer market for German sovereign bonds, where an exchange and over-the-counter segments coexist. We show that 85% of OTC traded prices are favorable with respect to exchange quotes, indicating the prevalence of an OTC discount. This discount is sizeable and driven by both search and information frictions. More than 75% of volume is transacted via interdealer brokers in trades that are larger, have less price impact, and less discount than comparable bilateral OTC trades. Dealers trade on the exchange for immediacy, highlighting the complementary roles played by the different segments.

Keywords: Market Microstructure, Hybrid Markets, Venue Choice, Interdealer Brokerage, Fixed-Income, OTC Markets, Intermediation Frictions, Search Frictions, Information Frictions

JEL Classification: D4, D47, G1, G14, G24

Link to participate: <https://global.gotomeeting.com/join/755296861>