The relationship between central bank auctions and bill market liquidity

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AbstractThis paper investigates the relationship between central bank (reverse) auctions and bill market liquidity. The analysis includes data on the purchases of bills in the auctions by the Dutch Central Bank under the European Central Bank’s Pandemic Emergency Purchase Programme (PEPP). The results indicate that auctions contribute to smooth market functioning. Two findings stand out. First, by purchasing bills using auctions rather than bilaterally, the central bank increases the bid-to-cover ratio at bill issuance, especially in times of stress. Second, bills are offered at larger sizes and lower prices in central bank auctions near primary issuance.JEL CodeE42 : Macroeconomics and Monetary Economics→Money and Interest Rates→Monetary Systems, Standards, Regimes, Government and the Monetary System, Payment SystemsE44 : Macroeconomics and Monetary Economics→Money and Interest Rates→Financial Markets and the MacroeconomyE52 : Macroeconomics and Monetary Economics→Monetary Policy, Central Banking, and the Supply of Money and Credit→Monetary PolicyE58 : Macroeconomics and Monetary Economics→Monetary Policy, Central Banking, and the Supply of Money and Credit→Central Banks and Their PoliciesG12 : Financial Economics→General Financial Markets→Asset Pricing, Trading Volume, Bond Interest Rates