Who Trades at the Close? Implications for Price Discovery and Liquidity, by Vincent Bogousslavsky and Dmitriy Muravyev

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- **Closing auctions** set daily closing stock prices and account for a significant daily volume
  What are the causes and implications of this trend?
  Main results:
- Closing volume is driven by indexing and ETFs
- Auctions match large volume "cheaply" ("more liquid")
- Auction price almost never settles within the bid-ask spread (tick size)
- Price deviations revert quickly and completely (uninformed demand?)

Results: overview

**Closing volume is driven by indexing and ETFs:**

- Spikes on index rebalancing days and end-of-month days
- *Lower* on and around earnings announcements; *pre-close volume is higher*

  Probably **informed trading** doesn't drive auction volume?

- Closing volume is not fully explained by rebalancing and creation/redemption
  Closing auctions may attract other investors: higher volume and liquidity
- Price movement at closing is small (low PI?, uninformed OF?)
- Information efficiency? (can go both ways)
- **Importantly:** quick overnight reversion – uninformed demand?
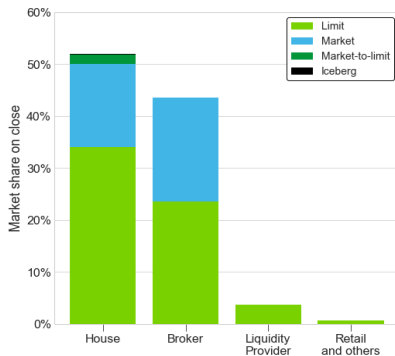- Intraday "redistribution" of liquidity? Lower at open, higher at close

Closing auction: details

- Book building (Euronext)
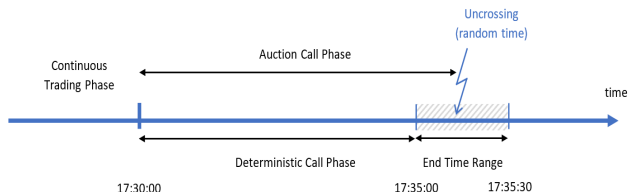
- Two phases: deterministic (5 minutes) and random call at $t = 5 + \widetilde{\epsilon}$
- Single shot, but book is observable – strategic timing(?)
- LPs tend to be neutral at the end of the day – closing auction helps(?)

More detail: Euronext

- Participant and order types (Quant report, 2021)

- 'House'=prop trading desk/firm, 'Broker'=agency flow, 'LP'=benefit from LP fee, 'Retail'=retail brokers
- Note: Institutional (House + Broker) are more than 95% of turnover, mostly LO

Order imbalance: MO and LO

- Market structure – endogenous choice?
- *"Batching" mechanism vs continuous auction:* **growth of volume** could be because of LP activity

Comments
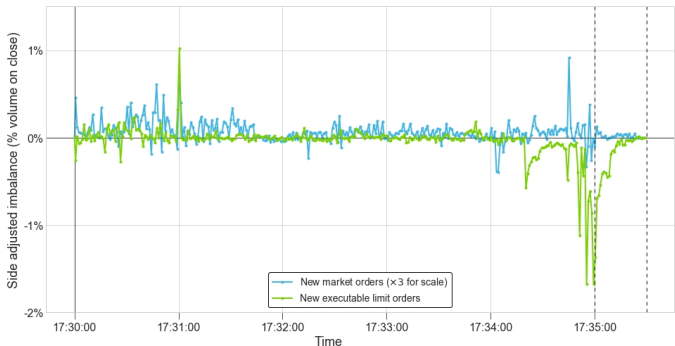
- Nice results
- *Notion of informed trading:* informed on OF vs on fundamental
- Can one get some info on traders' types? (maybe prop data)
- **Point:** mostly institutional traders in closing auction (95% Euronext), and institutions trade a lot in ETFs (LQ, etc.)
- Causality could be different: driven by types of traders, not types of assets
- On supply side, lots of LP by institutions, hence more liquidity
- Overall, it could be a story of **institutional strategies**, not **market structure**