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Further evidence on segmentation in the treasury bill market

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Abstract

This paper shows that differences in supplies of 13- and 12-week Treasury bills have statistically significant and economically meaningful effects on their yield differentials from January 1985 through October 1991, controlling for the general slope of the Treasury bill yield curve, the tendency of bills maturing at month-ends to have lower yields and the tendency of bills whose supply is augmented by cash management bills to have higher yields. The finding that market participants do not arbitrage away yield differentials that owe to differences in supplies indicates that demand curves for individual bills are downward sloping and that segmentation in the Treasury bill market is more pervasive than previously documented.

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> …More specific questions arise: do the practices of simultaneous auctions2 and of non-competitive bids3 increase the revenue of the Treasury? Other important issues are related to the structure of debt issuance: determining the reopening policy, reducing the cost associated with short-term Cash Management Bills (Seligman, 2001), finding the issue size that generates most liquidity at the lowest cost (Fleming, 2002), controlling for the fact that bills maturing at month-ends have lower yields (Park and Reinganum, 1986; Simon, 1994a). In general, the empirical literature on Treasury bill auctions concerns either the relative performance of different auction mechanisms (Umlauf, 1993; Simon, 1994b; Heller and Lengwiler, 1997; Hortaçsu, 2002; Février et al., 2002), or the comparison of prices that result from the auction with prices that prevail on other government security markets (Cammack, 1991; Spindt and Stolz, 1992; Jegadeesh, 1993; Goldreich, 1997).…

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> …Stock prices rise when shares are listed on the S&P 500 index, an event that appears to be non-informative (Shleifer, 1986; Harris and Gurel, 1986; Kaul et al., 2000). Yields on specific Treasury bills whose supply is announced to increase rise relative to yields of bills with adjacent maturity; there would be no change in relative yields if they responded solely to the arrival of information (Simon, 1994). The idea that exchange rates respond to non-informative order flow gains further, though informal, support from the observation that dealers' strategies for dealing with orders presume an influence from any and all such orders.16…

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