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Price clustering in the CAC 40 index options market

Gunther Capelle-Blancard & Mo Chaudhury

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Abstract

We examine in details the pattern and systematic tendencies of clustering in CAC 40

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recovery by market makers. The volume effect likely represents a liquidity effect and is consistent with the Price Precision Hypothesis.

Notes

¹ In fact, traders are still allowed to use 0.01 index point when they pass 'link orders', such as spreads.

² Classification by increments of 01 (1/100 of a full index point) are available on request. Although in the post-euro 1999 period the tick size is 0.10 index point, we still see some transactions continuing to take place at odd multiples of 0.05 index point and for that matter at multiples of 0.01 index point similar to the pre-euro 1997 to 1998 period.

³ It can also be argued (Mitchell, [2001](#), p. 405) that the decimal system of number counting and presentation suggest a natural tendency to think in terms of 10s (or powers of 10).

⁴ Ap Gwilym et al . ([2005](#)) report that move from fractional to decimal pricing in the UK Long Gilt futures led to an increase in price clustering.

⁵ Indirect support for the cost recovery line of reasoning is also provided by Ap Gwilym and Alibo ([2003](#)). They find that price clustering for the FTSE 100 Futures is reduced

after migration to a decimal pricing system. The latter

⁶ There are an intra-day and weaker

than the by Schwartz et al about

valuation of clustering ([1997](#)). Further

provide analysis in CAC 40

index options also lend

some support to the patterns for the



US stocks include a reverse J-shape for the spreads (McInish and Wood, 1992) and a U-shape for the return volatility (Harris, [1986](#)).

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