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Price-Formation Process of an Emerging Futures Market: Call Auction Versus Continuous Auction

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Abstract

This study assesses the market qualities of alternative price-formation processes for an emerging futures market—the Taiwan futures market. In 2002, the price formation process in the market changed during the period of trade between call auction and continuous auction. The performances of call auction and continuous auction are compared using intraday data. Empirical results show that the market is more liquid, and volatility is slightly lower, under continuous auction than under call auction. Also, there is robust evidence that continuous auction improves informative efficiency. The study suggests that for an emerging futures market like that of Taiwan, continuous auction offers a better trading environment for futures trading. In addition to demonstrating the virtue of continuous auction, this study also finds that the

asymmetry in volatility is related to the price formation process. The asymmetry effect exists under continuous auction, but not under call auction.

Keywords:

asymmetry call auction continuous auction emerging market futures market price-formation process

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