Summary
This paper examines pricing and arbitrage opportunities in the New Zealand bank bill futures market. Employing various advances from the stock index futures literature, this study intends to resolve prevailing issues in current Treasury futures contract studies. First, the use of implied forward rate (IFR) model generates more fair Treasury bill futures yields than other forward pricing models. Second, the use of intraday data mitigates the potential measurement error induced if daily closing yield data is used. Third, the paper uses standard no-arbitrage arguments and transaction cost data to derive no-arbitrage bounds for the two main types of arbitrage strategies employed in New Zealand - synthetic bill arbitrage and quasi-arbitrage. This yields more accurate transaction cost estimates, and improve the validity of the results.

Key Findings
• The IFR model performs well in pricing the bill futures contract traded on the NZ Futures and Options Exchange.
• Quasi-arbitrage opportunities are scarce and much less profitable than documented in prior studies.
• Synthetic bill opportunities are more numerous, although the gains are still quite small.
• Overall, the bill futures market is highly efficient with respect to quasi-arbitrage opportunities but less efficient with respect to synthetic bill opportunities.

Practical Application
In the New Zealand Bank bill futures market, the gains to arbitrageurs in terms of yield enhancements of profits are small. Furthermore, arbitrage opportunities are not generally available to arbitrageurs without access to the interbank bill market.