2022 DERIVATIVE MARKETS CONFERENCE. ONLINE

AUT

8TH & 9TH SEPTEMBER 2022

2022 FULL PROGRAMME

AUCKLAND CENTRE FOR FINANCIAL RESEARCH

KIA ORA and WELCOME

Welcome to the 2022 Derivative Markets conference, which is hosted by the Auckland Centre for Financial Research. The Derivative Markets Conference started in 2014 as a boutique conference that focuses on derivative markets research in its broadest sense. This year's conference received around 50 submissions and accepted 36 for inclusion in the programme. The strict selection reflects the strong quality of the papers that are included in the programme. For the second time, this conference will be delivered online as the world still feels the impact of Covid-19 and repercussions that impact international travel. Even though online, we hope you will make the most of interacting with each other during the conference.

We would like to thank all participants of this conference for their contributions through paper presentations, paper discussions and session chairs. The quality of any conference is contingent on the quality of presentations and discussions, and we encourage all participants to contribute to all aspects of the conference, as much as they can.

We also would like to thank our keynote speakers, Professor Carol Alexander, of Sussex University Business School, and Professor Stephen Figlewski, of New York University, for their valuable contributions to this event through delivering keynote speeches. We also thank Professor Bart Frijns for dedicating a special issue of the Journal of Futures Markets to papers presented at this conference. Finally, we would like to thank Ms Tracy Skolmen for her superb assistance with the administrative and logistic side of things.

We hope that you will enjoy this online Conference and wish you all a safe and productive year.

On behalf of the Organising Committee,

Alireza Tourani -Rad
Professor of Finance, Auckland University of Technology
Deputy Dean, Faculty of Business, Economics and Law

AUCKLAND CENTRE FOR FINANCIAL RESEARCH

ORGANIZERS

Dr Adrian Fernandez-Perez, ACFR, Auckland University of Technology, New Zealand
Professor Bart Frijns, Open Universiteit, The Netherlands
Professor Alireza Tourani-Rad, Auckland University of Technology, New Zealand

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Ruggero Jappelli, Goethe University and Leibniz Institute for Financial Research SAFE
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Thaddeus Neururer, University of Akron
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Yi Zhou, San Francisco State University
Yeguang Chi, University of Auckland
Yueliang Lu, University of North Carolina at Charlotte
Yunqi Wang, Southern University of Science and Technology
Zin Heng, University of Queensland

KEYNOTE SPEAKERS

PROFESSOR CAROL ALEXANDER, OF SUSSEX UNIVERSITY BUSINESS SCHOOL

Carol Alexander is an expert in crypto asset and derivatives markets, financial risk analysis, high-frequency data analysis, blockchains, pricing and hedging financial instruments, volatility analysis, investment strategies, benchmarking and portfolio management. She has had a dual career in both industry and as an academic and is currently Professor of Finance at the University of Sussex and Visiting Professor at Peking University Business School. She has also edited the Journal of Banking and Finance since 2013 but will be stepping down after ten years at the end of 2022.

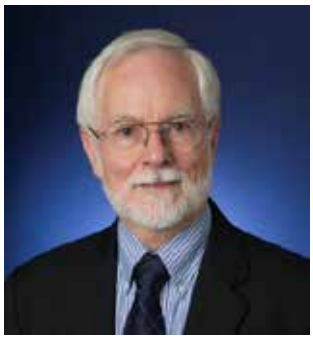
Throughout her corporate and academic careers Carol has designed and implemented mathematical models for pricing, trading, hedging and risk assessment for numerous asset management, exchange, banking and legal clients such as Credit Agricole Asset Management, New York Stock Exchange, Intercontinental Exchange and the FTX.US Exchange. Carol has held corporate roles as a Director and Head of Market Risk Modelling for Nikko Securities; as Academic Director of Algorithmics Inc., and Risk Research Advisor for SAS software. She also acts as an expert witness, most recently for White and Case in Washington DC.

Carol is a member of the Advisory Board for the Fields Institute Centre for Financial Industries, the Louis Bachelier and the Philip Leverhulme prize committees, the FT Wilshire digital assets advisory group and its taxonomy working group, and she is an affiliated academic consultant to Fideres Partners LLP and to Coinstrats in London. She appears regularly in the media, most recently about cryptocurrencies and other digital assets such as non-fungible tokens. She has put some recorded lectures on her own YouTube channel and her lecture notes from many past university courses are available on coalexander.com.

Carol is the author of the best-selling textbook “Market Models” and of the four-volume textbook series Market Risk Analysis. Her latest textbook “Corruption and Fraud in Financial Markets” was edited with Douglas Cumming. All these books are published by Wiley. She has also edited many other books – for these and her academic papers and industry publications, see coalexander.com.

She holds a BSc in Mathematics with Experimental Psychology and a PhD in Algebraic Number Theory from the University of Sussex, and an MSc in Mathematical Economics and Econometrics from the London School of Economics and Political Science.

PROFESSOR STEPHEN FIGLEWSKI, OF NEW YORK UNIVERSITY



Stephen Figlewski is Professor of Finance, Emeritus at the New York University Leonard N. Stern School of Business. He holds a B.A. in Economics from Princeton University and a Ph.D. in Economics from the Massachusetts Institute of Technology. He has published extensively in academic journals, especially in the area of financial futures and options. He was the founding Editor of The Journal of Derivatives, serving as Editor for 25 years, and he edits the SSRN's Derivatives eJournal series published over the Internet. He was the founder and director of the NASDAQ Derivatives Research Project at Stern, which provided research support and sponsored conferences at Stern in derivatives, risk management, and financial engineering. Professor Figlewski has twice taken leaves from NYU to work on Wall Street, doing research on equity derivatives and credit-sensitive securities, and he was at one time a member of the New York Futures Exchange and a Competitive Options Trader at the New York Stock Exchange.

ONLINE TECHNOLOGY INFORMATION

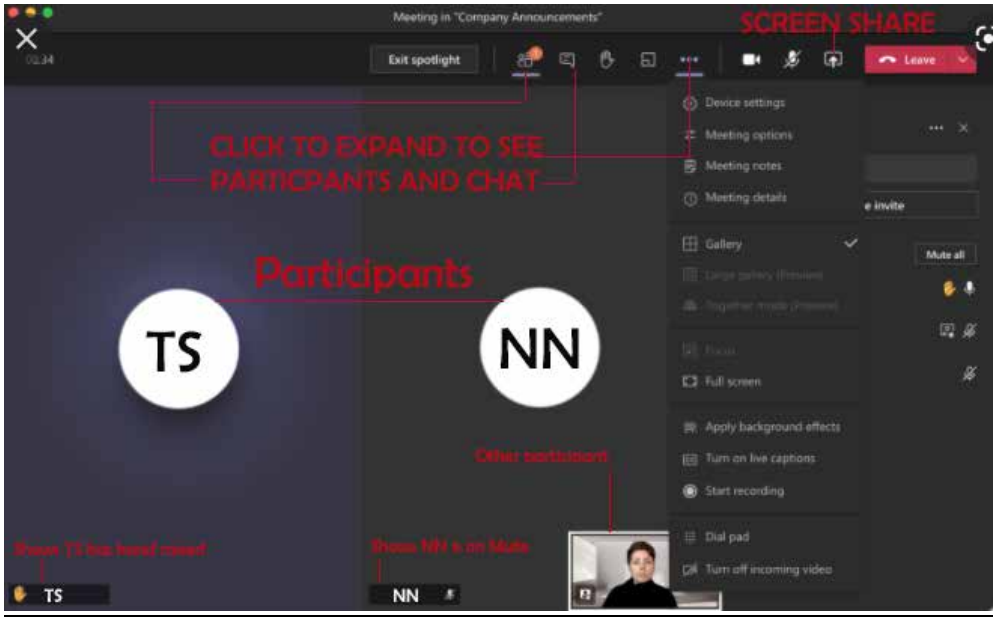
You will receive appointment links for the sessions and Keynotes (held in MS Teams). You will need to download the free software for this application.

MS Teams

Useful tips for Teams

It would be great if everyone had their camera on at the beginning of each session to meet colleagues.

Once presentations start you may want to go on mute and off camera. Don't forget to allow camera and mic for your presentation, discussion, and any Q&A.



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If you have any technical issues during a session, please message @Tracy Skolmen from the chat and I will jump into the session to assist.

VITAL INFORMATION

- Please download MS Teams
- All sessions will be held via MS Teams, links are provided on our conference programme webpage.
- Presentations should be 15-20 minutes.
- Discussions should be 5-10 minutes.
- Q&A should be 5 minutes.
- The Keynotes will be hosted via Teams.
- All details and full-paper links are available on our website.

***ALL TIMING IS LISTED IN NZST**

DAY ONE THURSDAY 8TH SEPTEMBER

THURSDAY 08:00 to 08:30	**WELCOME AND INTRODUCTION BY BART FRIJNS, OPEN UNIVERSITY**
THURSDAY 08:30 TO 10:00	**SESSION 1A - CORPORATE**
CHAIRPERSON	Quan Qi, University of Kentucky
PAPER	**DERIVATIVE SPECULATION AND FINANCIAL FRAGILITY: EVIDENCE FROM CORPORATE BOND MUTUAL FUNDS** Quan Qi, University of Kentucky **Abstract** Using derivative data from a novel SEC filing, I categorize corporate bond mutual funds into those that use derivatives for speculative versus hedging purposes. I document that bond funds that utilize derivatives for speculations are more inclined to liquidate non-derivative assets to meet payment obligations of derivative positions during the Covid-19 crisis, particularly among funds with limited liquid buffers. These forced liquidations generate substantial selling pressure in bond markets, causing sizable asset price drops and excess return volatility. My findings reinforce the recent regulatory concerns regarding the potentially destabilizing effects of speculative derivative usage among mutual funds.
PRESENTER	Quan Qi, University of Kentucky
DISCUSSANT	Oliver Randall, University of Melbourne
PAPER	**FAIR VALUE ASSETS AND VARIANCE RISK PREMIUMS FOR FINANCIAL STOCKS** Thaddeus Neururer, University of Akron **Abstract** Financial firms hold large amounts of fair value assets. However, some balance sheet values are based on quoted prices while others use model-based prices and manager inputs (opaque assets, i.e., Level 2 and Level 3 assets). I test if financial firms' holdings of opaque assets are associated with variance risk premiums in equity options. I find that firms with large holdings of Level 3 assets have larger spreads between implied volatilities and realized volatilities along with more negative straddle returns. These results hold conditional on several other factors including industry membership, option-implied risks, and a proxy of option mispricing. I also present evidence that for larger firms, Level 2 assets are negatively associated with variance risk premiums. Finally, I show that these relationships are strongest in the final years of the sample.
PRESENTER	Thaddeus Neururer, University of Akron
DISCUSSANT	Guanming He, Durham University
PAPER	**DERIVATIVE DISCLOSURES AND MANAGERIAL OPPORTUNISM** Guanming He, Durham University **Abstract** Derivatives are increasingly used by managers not only to hedge risks but also to pursue non-hedging activities for fulfilling opportunistic incentives. The Statement of Financial Accounting Standards No. 161 (hereafter, SFAS 161) requires firms to disclose their objectives and strategies of using derivatives. Using the adoption of this standard, we examine whether and how derivative disclosures influence managerial opportunistic behaviour. We employ insider trades and stock price crash risk to capture managerial opportunism. Applying a difference-in-differences research design with hand-collected data on derivative designations, we find that, after the implementation of SFAS 161, derivative users that comply with SFAS 161 experience a significantly greater decrease in both insider trades and stock price crash risk, compared with a matched control sample of non-derivative-users. We further provide evidence to suggest that SFAS 161 curbs managerial opportunism via reducing information asymmetry between corporate insiders and outside investors and enhancing the effectiveness of derivative hedging. We find no evidence that, compared to the non-derivative-users, derivative users not compliant with SFAS 161 have a greater reduction in either insider trades or stock price crash risk in the post-SFAS-161 period, implying the importance of enhancing the enforcement of the regulation.
PRESENTER	Guanming He, Durham University
DISCUSSANT	Thaddeus Neururer, University of Akron

THURSDAY 08:30 TO 10:00	SESSION 1B - OPTIONS AND STOCK MARKETS
CHAIRPERSON	Adrian Fernandez-Perez, Auckland University of Technology
PAPER	**WHY DOES OPTION OPEN INTEREST PREDICT STOCK RETURNS?** Yi Zhou, San Francisco State University **Abstract** We investigate the role of the information content of non-directional option open interest in the cross-sectional pricing of individual securities and equity portfolios. We find that firms with more option open interest have higher values of Tobin's q and the effect is stronger in stocks with greater information asymmetry. Firms with more option open interest have greater corporate investment sensitivity to stock prices, higher leverage and default risk, negative earnings surprises, and lower profitability. Sorting stocks ranked into quintile portfolios by past option open interest produces spreads in average returns of approximately 62 basis points per month.
PRESENTER	Yi Zhou, San Francisco State University
DISCUSSANT	Lingjie Ma, University of Illinois at Chicago
PAPER	**THE CONDITIONAL EXPECTED RETURN AND AUTOCORRELATION FROM THE DERIVATIVES** Yueliang (Jacques) Lu, University of North Carolina at Charlotte Weidong Tian, University of North Carolina at Charlotte **Abstract** We express conditional expected future returns and stock market autocorrelations with publicly available derivatives data. Our approach is robust to pricing kernel process choice and provides a real-time conditional point of view. We demonstrate a moderate short-term reversal of market returns with this approach. Furthermore, our approach implies comparable autocorrelation by statistical inference model with a gradually fading memory feature. We construct a reversal signal based on this approach and show that the corresponding market timing strategy outperforms the buy-and-hold strategy overall. Finally, we demonstrate that the term structure of one-month future returns is pro-cyclical.
PRESENTER	Yueliang (Jacques) Lu, University of North Carolina at Charlotte
DISCUSSANT	Yi Zhou, San Francisco State University
PAPER	**CROSS-ASSET TIME-SERIES MOMENTUM: CRUDE OIL VOLATILITY AND GLOBAL STOCK MARKETS** Adrian Fernandez-Perez, Auckland University of Technology Ivan Indriawan, University of Adelaide Yiuman Tse, University of Missouri – St. Louis Yahua Xu, Central University of Finance and Economics **Abstract** We examine the profitability of a cross-asset time-series momentum strategy (XTSMOM) constructed using past changes in crude oil implied volatility (OVX) and stock market returns as joint predictors. We show that past changes in OVX negatively predict but past stock market returns positively predict future stock market returns globally. The XTSMOM outperforms the single-asset time-series momentum (TSMOM) and buy & hold strategies with higher mean returns, lower standard deviations, and higher Sharpe ratios. The XTSMOM can also forecast economic cycles. We contribute to the literature on cross-asset momentum spillovers as well as on the impacts of crude oil uncertainty on stock markets.
PRESENTER	Adrian Fernandez-Perez, Auckland University of Technology
DISCUSSANT	Alexei G. Orlov, U.S. Commodity Futures Trading Commission

THURSDAY 10:00 to 10:30	BREAK

THURSDAY 10:30 TO 12:00	SESSION 2A - SENTIMENT
CHAIRPERSON	John Hua Fan, Griffith University

PAPER **WISDOM OF CROWDS AND COMMODITY PRICING**

John Hua Fan, Griffith University
Sebastian Binnewies, Griffith University
Sanuri De Silva, Griffith University

Abstract

We extract commodity-level sentiment from the Twittersphere in 2009-2020. A long-short systematic strategy based on sentiment shifts more than doubles the Sharpe ratio of extant commodity factors. The sentiment premium is unrelated to fundamentals but is exposed negatively to basis risk and is more pronounced during periods of macro contraction and deteriorating funding liquidity. Sentiment-induced mispricing is asymmetric, i.e., commodities with low (high) sentiment shifts tend to be overvalued (undervalued) when the aggregate market is in backwardation (contangoed). Furthermore, the observed premium arises almost entirely from commodities with the most retweet activities, while retweets and likes themselves do not exhibit stronger predictive ability compared to non-influential tweets.

PRESENTER John Hua Fan, Griffith University
DISCUSSANT Zin Yau Heng, University of Queensland

PAPER **OPTION-IMPLIED FIRM-LEVEL SENTIMENT AND STOCK RETURNS**

Gady Jacoby, College of Management Academic Studies
Fuwei Jiang, Central University of Finance and Economics
Lei Lu, University of Manitoba
Qi Zhang, University of Manitoba

Abstract

We propose a novel firm-specific investor sentiment measure—the daily change in the open interest weighted implied volatility ratio of out-of-the-money (OTM) calls over that of OTM puts. To validate this ratio as a sentiment measure, we show that, at the aggregate, our firm-level sentiment measure is highly correlated with existing market-level sentiment indices. We find that an increase in our aggregate market sentiment measure predicts a short-term stock return increase with a subsequent reversal. We then proceed to examine how our firm-level sentiment measure affects returns in the cross section. A long-short portfolio strategy, based on a long position in the high-sentiment portfolio and a short position in the low-sentiment portfolio, generates a significant abnormal return of 70 bps per month (8.73% annualized). This effect of sentiment on stock returns is more pronounced for hard-to-value stocks, which are small, young, high-volatility, and less-liquid stocks. Finally, we apply a Fama-MacBeth regression at the stock level to show that a higher sentiment in the current period predicts a higher return next period.

PRESENTER Qi Zhang, University of Manitoba
DISCUSSANT Sumit Saurav, Indian Institute of Management Ahmedabad

PAPER **SPILLOVER BETWEEN INVESTOR SENTIMENT AND VOLATILITY: THE ROLE OF SOCIAL MEDIA**

Ni Yang, Auckland University of Technology
Adrian Fernandez-Perez, Auckland University of Technology
Ivan Indriawan, The University of Adelaide

Abstract

This study examines the attributes of informational spillover across different asset volatilities and social media sentiments. Specifically, we uncover the spillover effect between investor sentiment and market implied volatility among stock, bond, foreign exchange, and commodity markets. We find that sentiments and volatilities are weakly connected. There is a stronger spillover from the market-specific volatility to the sentiment of the same market, but a marginal effect the other way round. Second, the informational spillover is mainly from market volatilities to market sentiments, and the most significant net transmitter is the VIX. Third, the connectedness of market sentiment and volatility increases in turbulent economic periods. Lastly, the role of sentiments can switch from net receiver to net transmitter at turmoil times.

PRESENTER Ni Yang, Auckland University of Technology
DISCUSSANT Yueliang (Jacques) Lu, University of North Carolina at Charlotte

THURSDAY 10:30 TO 12:00	SESSION 2B - ANNOUNCEMENTS/NEWS
CHAIRPERSON	Stephen Figlewski, New York University
PAPER	**WHAT MOVES THE MARKET? INDIVIDUAL FIRMS' EARNINGS ANNOUNCEMENTS VERSUS MACRO RELEASES AS DRIVERS OF INDEX RETURNS** Maria Ogneva, Marshall School of Business Jingjing Xia, Wenzhou-Kean University Tiange Ye, University of Southern California **Abstract** In this paper, we characterize the relative importance of two sources of fundamental market-wide news—large firms' earnings announcements and macroeconomic releases. Our investigation is motivated by growing concerns in the financial community about the increasing impact of individual firms' news on the broad stock market indices and the disconnect between the stock market and the economy at large. We leverage the S&P500 index futures data and use narrow intraday and overnight windows to isolate the market-wide reactions to earnings and macro announcements. We find that earnings announcements represent an economically significant source of index-level market activity—an average earnings announcement experiences around 21% (47%) of abnormal volatility (trading volume) associated with an average macroeconomic release. The returns earned over earnings announcement windows serve as a significant driver of daily index price movement. Importantly, earnings announcements' contribution to index-level volatility has been relatively stable over our sample period from 2004 to 2018, while we observe a drastic decrease in the volatility explained by macro announcements. The latter is consistent with a growing disconnect between the stock market and the broader macroeconomy.
PRESENTER	Jingjing Xia, Wenzhou-Kean University
DISCUSSANT	Prasad Hegde, Auckland University of Technology
PAPER	**VARIANCE RISK PREMIUM TERM STRUCTURE AND MONETARY POLICY** Xiaoman Su, Heng Feng Bank Chardin Wese Simen, University of Liverpool **Abstract** In this paper, we find that the changes in the variance risk premium (VRP) which reflects the market price of variance risk positively respond to the interest rate shocks and the strength of response declines with maturity. The shape of the response is mainly driven by the reactions of implied variance and bad VRP. Additionally, timing surprise, expansionary policy, and negative surprise matter for the effects. Overall, investors are sensitive to the downside variance risk and require a higher variance risk premium as compensation for the increased risk.
PRESENTER	Xiaoman Su, Heng Feng Bank
DISCUSSANT	Junyu Zhang, University of Otago
PAPER	**DOES OPTIONS TERM STRUCTURES REFLECTS RISKS?** Fei Gao, Singapore Institute of Technology Bingqiao Li, Singapore Institute of Technology **Abstract** Information embedded in options market is commonly used to predict underlying stock returns and volatility. While implied volatility is well-studied in the literature, options' time-to-maturity (TTM) has received relatively little attention. This paper examines the TTM of single stock options and tests whether it reflects company's risks. By aggregating TTM using options trading volume into volume-weighted maturity (V WM), we find that on average option investors tend to choose shorter term options if the perceived underlying stock has more uncertainty in the following trading day. When longer term options are traded at the aggregate level, the following underlying stock return would be larger on average.
PRESENTER	Fei (Phoebe) Gao, Singapore Institute of Technology
DISCUSSANT	Xiaoman Su, Heng Feng Bank

THURSDAY 12:00 TO 12:15	BREAK

THURSDAY 12:15 TO 13:15

KEYNOTE ADDRESS

PROFESSOR CAROL ALEXANDER, OF SUSSEX UNIVERSITY BUSINESS SCHOOL

HEDGING CRYPTO DERIVATIVES

Crypto derivatives markets have unique products which are traded in self-regulated markets where leverage can be huge and there are no margin calls. Winning positions can be automatically deleveraged and losing positions may be liquidated automatically by the exchange with the trader being declared bankrupt. To accommodate the unique products and microstructure of these self-regulated crypto derivatives exchanges, the market makers need to employ hedging strategies that are quite different from those used in traditional financial markets. Focussing on bitcoin derivatives, this talk provides an overview of two recent papers on hedging with futures and delta hedging options.

THURSDAY 13:15 TO 13:30

BREAK

THURSDAY 13:30 TO 15:00

SESSION 3 A - LIQUIDITY

CHAIRPERSON Oliver Randall, University of Melbourne

PAPER

BOND MUTUAL FUNDS: SYSTEMIC LIQUIDITY AND DERIVATIVE USE

Minsoo Kim, University of Melbourne

Oliver Randall, University of Melbourne

Abstract

We show, both theoretically and empirically, that there is a systemic component to liquidity management by bond mutual funds. Through cash holdings and bond prices, funds are interconnected: a fund's optimal portfolio choice depends not only on the fund's own cash holdings but also on all the other funds' cash holdings, because an aggregate cash shortfall during outflows induces downward price pressure on bonds which the fund may need to sell. This is especially important during crisis periods for bond mutual funds, who exhibit a pecking order from liquidating cash to less liquid corporate bonds when financing fund outflows. We use novel data on derivative holdings to document large cross-sectional variation in how bond mutual funds use them, and its implications on liquidity management: some hedging their returns, some amplifying them, some not using them at all.

PRESENTER Oliver Randall, University of Melbourne

DISCUSSANT Quan Qi, University of Kentucky

PAPER

HOW DOES STANDARDIZATION WORK IN DERIVATIVE MARKETS? EVIDENCE FROM THE OPTIONS ON JGB FUTURES

Takahiro Hattori, University of Tokyo

Abstract

To be listed on the exchange market, derivative products are standardized, which contributes to the existence of the highest liquid derivative market. However, standardization could deteriorate liquidity if it does not appropriately match market conditions and investor needs. In this study, we take advantage of the Japan Exchange Group's (JPX) reform of the standardization of Japanese Government Bond (JGB) futures options. Under low yield and volatility in the JGB market, the JPX has changed the strike price intervals of the JGB futures options from JPY 0.5 to JPY 0.25, which is the first attempt by the Exchange to change the strike prices of bond futures options as far as we know. Using this reform, we empirically demonstrate that the JPX reform improves liquidity in the options on JGB Futures market.

PRESENTER Takahiro Hattori, University of Tokyo

DISCUSSANT Ruggero Jappelli, Goethe University and Leibniz Institute for Financial Research SAFE

PAPER	**LIQUIDITY DERIVATIVES** Matteo Bagnara, Goethe University and Leibniz Institute for Financial Research SAFE Ruggero Jappelli, Goethe University and Leibniz Institute for Financial Research SAFE **Abstract** It is well established that investors price market liquidity risk. Yet, there exists no financial claim contingent on liquidity. We propose a contract to hedge uncertainty over future transaction costs, detailing potential buyers and sellers. Introducing liquidity derivatives in Brunnermeier and Pedersen (2009) improves financial stability by mitigating liquidity spirals. We simulate liquidity option prices for a panel of NYSE stocks spanning 2000 to 2020 by fitting a stochastic process to their bid-ask spreads. These contracts reduce the exposure to liquidity factors. Their prices provide a novel illiquidity measure reflecting cross-sectional commonalities. Finally, stock returns significantly spread along simulated prices.
PRESENTER	Ruggero Jappelli, Goethe University and Leibniz Institute for Financial Research SAFE
DISCUSSANT	Takahiro Hattori, University of Tokyo

THURSDAY 13:30 TO 15:00 SESSION 3B – BEHAVIORAL FINANCE

CHAIRPERSON	Zin Yau Heng, University of Queensland
PAPER	**THE ROLE OF OPTION-BASED INFORMATION ON STOCKTWITS, OPTIONS TRADING VOLUME AND STOCK RETURNS** Zin Yau Heng, University of Queensland Henry Leung, University of Sydney **Abstract** We examine the relation between activities of information channels and stock returns. The activities of information channels are signals from option trading market and sentiments of StockTwits. Besides, we also examine whether those activities are shared across the information channels. We use a net trade option volume ratio as a proxy for signals from the options market and use bullishness and agreement variable as proxies for activities of StockTwits. We partition the net trade option volume by different option maturity lengths and moneyness. We find that signals from all option maturity lengths and moneyness except for the medium and deeply out of the money groups have positive and significant association with bullish sentiment. Second, we show significant evidence of pooling equilibrium activities between stock market and information channels. The pooling equilibrium activities exhibit that informed investor not only invest in the option market and sending bullish information through option market and StockTwits. Third, the signals from options with deep leverage show possible positive and significant future returns. Fourth, the signals from options market (with ATM, ITM, DITM, and DOTM groups) have a significant and positive association with agreements on StockTwits. Fifth, the agreement on sentiments has a possible positive and significant association with the current and future stock returns.
PRESENTER	Zin Yau Heng, University of Queensland
DISCUSSANT	Ni Yang, Auckland University of Technology
PAPER	**OVERREACTION TO VOLATILITY SHOCK AND OPTION RETURNS** Jingda Yan, Hong Kong University of Science and Technology **Abstract** I show that overreaction to the volatility shock generates a demand pressure for stock options with high volatility shock, making such options overpriced. Empirically, I find that straddles written on high variance change stocks underperform those on low variance change stocks by 5.30% per month. Volatility uncertainty and other risk factors can't explain my results. Further decomposition result shows that the idiosyncratic component of the variance change is the driving force for this return predictability. Variance risk premium regressions corroborating with earnings announcement test confirm investors overreact to the idiosyncratic component of the variance change, which generates the demand pressure. Dealers charge higher premiums and bid-ask spreads as compensation for the increased market making risk caused by the demand pressure.
PRESENTER	Jingda Yan, Hong Kong University of Science and Technology
DISCUSSANT	Ti Zhou, Southern University of Science and Technology

PAPER	**BELIEF DISTORTION NEAR 52W HIGH AND LOW: EVIDENCE FROM EQUITY OPTIONS MARKET**
	Sumit Saurav, Indian Institute of Management Ahmedabad Sobhesh Kumar Agarwalla, Indian Institute of Management Ahmedabad Jayanth R. Varma, Indian Institute of Management Ahmedabad
	Abstract We examine investors' behavioral biases and preferences in the options market near 52-Week high and low (52W-H/L). We document that as the stock price approaches 52W high (low), the skewness of RND and out-of-the-money (OTM) call volume decreases (increases), while OTM put volume increases (decreases). After crossing the 52W high(low), the skewness of RND and OTM call volume increases (decreases), while OTM put volume decreases (increases). The effects are economically large and significant. Our findings provide evidence consistent with anchoring theory of belief distortion near 52W-H/L. There is no evidence of preference distortion, contrary to what prospect theory predicts.
PRESENTER	Sumit Saurav, Indian Institute of Management Ahmedabad
DISCUSSANT	Jingda Yan, Hong Kong University of Science and Technology

END OF DAY ONE

DAY TWO FRIDAY 9TH SEPTEMBER

FRIDAY 10:00 TO 11:30	SESSION 4 A - COMMODITIES
CHAIRPERSON	Bart Frijns, Open University

PAPER **NIGHT TRADING MOMENTUM AND DETERMINANTS OF PREDICTABILITY: EVIDENCE FROM CHINESE METAL FUTURES MARKET**

Elie Bouri, Lebanese American University

Gaoping Ma, Central University of Finance and Economics

Yahua Xu, Central University of Finance and Economics

Z. Ivy Zhou, University of Wollongong

Abstract

In this paper, we analyse the impact of the launch of night trading, a unique trading mechanism in China, on intraday momentum in four Chinese metal futures markets, namely gold, silver, aluminium, and copper. Based on high-frequency (1-minute) data, we find that before the launch of night trading, the first half-hour return in the daytime has a positive predictability for half-hour returns later in the same day in the four markets, but not necessarily the last half-hour returns as often found in the stock market. After the launch of night trading, the predictive ability of the first half-hour return in the daytime disappears, whereas the first half-hour returns at the night trading becomes the new efficient predictor. As a possible explanation for the change of intraday predictive patterns, we refer to the immediate reaction of domestic investors to international news released in the evening. We further provide evidence that the magnitude of the intraday predictability varies with levels of realized volatility, trading volume, and illiquidity. Additional analysis shows that the profits generated by a market timing strategy based on our findings exceed those of the always-long benchmark strategy.

PRESENTER Yahua Xu, Central University of Finance and Economics

DISCUSSANT Adrian Fernandez-Perez, Auckland University of Technology

PAPER **FORECASTING THE PRICE OF CRUDE OIL WITH A STRUCTURAL MODEL**

Lingjie Ma, University of Illinois at Chicago

Abstract

The price of oil (WTI) has been extremely volatile recently due to many factors, such as shifts in geopolitical power, supply of major producers such as Saudi Arabia, war, demand from China, and the COVID-19 pandemic, to name a few. In this paper, I investigate fundamental sources of crude oil price movements, identify factors that impact the long-term trend and short-term fluctuations, respectively, and propose a structural two-equation model to forecast the price of oil. The 10-yearout-of-sample price forecasts shows the strong efficacy of this structural approach in terms of both the model alpha accuracy and the portfolio performance.

PRESENTER Lingjie Ma, University of Illinois at Chicago

DISCUSSANT Daxuan Cheng, Macquarie University

PAPER **THE PRICING OF GEOPOLITICAL RISK IN CROSS-SECTIONAL COMMODITY RETURNS**

Daxuan Cheng, Macquarie University

Yin Liao, Macquarie University

Zheyao Pan, Macquarie University

Abstract

In this study, we investigate whether geopolitical risk is a pricing factor in cross-sectional commodity futures returns. By estimating the exposure of commodity futures returns on a historical geopolitical risk index, we find that commodities with high-risk betas generate 7.92% higher annual returns than those with low-risk betas. The results indicate that high geopolitical risk-related commodity futures contracts require extra compensation. A moving average procedure shows that the geopolitical risk beta has a regular changing pattern that cycles every 10 years, and the relative risk premium tends to be higher than average before economic recessions and to further increase during the recession periods. Finally, we find that geopolitical threats better explain the variation of commodity futures return than do geopolitical actions.

PRESENTER Daxuan Cheng, Macquarie University

DISCUSSANT John Hua Fan, Griffith University

FRIDAY 10:00 TO 11:30 — SESSION 4 B - OPTIONS/MATHEMATICAL FINANCE

CHAIRPERSON José Da Fonseca, Auckland University of Technology

PAPER **PRICING PATH-DEPENDENT OPTIONS UNDER STOCHASTIC VOLATILITY VIA MELLIN TRANSFORM**

Jiling Cao, Auckland University of Technology

Jeong-Hoon Kim, Yonsei University

Xi Li, Auckland University of Technology

Wenjun Zhang, Auckland University of Technology

Abstract

In this paper, we derive closed-form formulas of first-order approximation for down-and-out barrier and floating strike lookback put option prices under a stochastic volatility model, by using an asymptotic approach. To find the explicit closed-form formulas for the zero-order term and the first-order correction term, we use Mellin transform. We also conduct a sensitivity analysis on these formulas and compare the option prices calculated by them with those generated by Monte-Carlo simulation.

PRESENTER Xi Li, Auckland University of Technology

DISCUSSANT Komi Edem Dawui, The World Bank

PAPER **COVARIANCE RISK PREMIUM**

Xiaolan Jia, University of Otago

Xinfeng Ruan, University of Otago

Jin E. Zhang, University of Otago

Abstract

Covariance risk premium (CRP), defined as the difference between the historical and the risk-neutral covariance rates (HC and RC) of the implied volatility changes and the market index returns, is positively and significantly related to future stock market returns at horizons from 1 month to 24 months. This paper empirically documents that CRP has significant in-sample, and out-of-sample predictive ability, generates sizable economic value for a mean-variance investor and outperforms many well-known predictors. In addition, CRP can predict cross-sectional stock returns at the portfolio level.

PRESENTER Xinfeng (Edwin) Ruan, University of Otago

DISCUSSANT Xi Li, Auckland University of Technology

PAPER **CMS DERIVATIVES PRICING IN THE LINEAR-RATIONAL WISHART MODEL**

José Da Fonseca, Auckland University of Technology

Komi Edem Dawui, The World Bank

Yannick Malevergne, Université Paris

Abstract

This study derives analytical pricing formulas for the constant maturity (CMS) and related derivatives in a linear-rational multi-curve term structure model based on the Wishart process. In the proposed approach, using the affine property of the Wishart process and the linear rational structure of the model, it is shown how the CMS price can be efficiently approximated by using a polynomial function of the Wishart model parameters. This methodology is also applied to the pricing of other CMS derivatives such as the CMS spread option and leads to fast and accurate approximation results. Using a calibrated model on market data, the approximation results compared to a Monte Carlo approach confirm the accuracy of the method. The approach is in fact very versatile as it can also be applied to other interest rate derivatives such as the in-arrears swap or in-arrears cap.

PRESENTER Komi Edem Dawui, The World Bank

DISCUSSANT Xinfeng (Edwin) Ruan, University of Otago

FRIDAY 11:30 TO 11:45 — BREAK

FRIDAY
11:45 TO 12:45

KEYNOTE ADDRESS

PROFESSOR STEPHEN FIGLEWSKI, NEW YORK UNIVERSITY

PERSPECTIVES ON VOLATILITY AND EQUITY MARKET OPTIONS FROM FIVE DECADES OF RESEARCH

In 1973 the Black-Scholes model was published, and the Chicago Board Options Exchange was founded to trade standardized option contracts. We understood immediately that volatility was the crucial parameter in the model. Given a volatility input and a few directly observable parameters, the model yields a theoretical option value. But also, and more importantly for market participants, given the option's market price, the model can be inverted to yield the market's "implied volatility". Over the decades, volatility in option modelling has evolved from a single number that one could compute from past stock returns into a dynamic process with a stochastic diffusive component and stochastic jumps. The implied volatility of the underlying stock extracted from its options became the "volatility smile," then a "volatility surface" with its own somewhat mysterious dynamics, and finally an entire "risk-neutral" probability density (RND) over future states of the world. The RND embeds both the market's objective probability estimates and its risk aversion, tremendously valuable information, but the research challenge is to separate objective probability estimates from the risk-neutralization.

The talk will describe my personal evolution through this development of derivatives theory and practice over the years. I will offer my own idiosyncratic views on the current state of our understanding and suggest some promising directions for future research.

FRIDAY
12:45 TO 13:00

BREAK

FRIDAY
13:00 TO 14:30

SESSION 5 A - FORECASTING

CHAIRPERSON Alireza Tourani-Rad, Auckland University of Technology

PAPER

INTERNATIONAL STOCK RETURN PREDICTABILITY: THE ROLE OF U.S. VOLATILITY RISK

Yizhe Deng, Ping An Bank,
Fuwei Jiang, Central University of Finance and Economics
Yunqi Wang, Southern University of Science and Technology
Ti Zhou, Southern University of Science and Technology

Abstract

We study the impact of U.S. equity volatility risk on international equity risk premia. A single factor constructed from the term structure of U.S. option-implied forward variance consistently predicts the stock market returns on the U.S. and 10 non-U.S. industrialized countries both in- and out-of-sample. The predictability of the U.S. forward variance factor is stronger when the U.S. volatility spillover intensity is higher or when global stock markets are more connected. We find that the information in the U.S. forward variances is linked to the U.S. macroeconomy and helps to predict the changes in local economic activity and economic uncertainty, suggesting that the predictive ability of the factor stems from the impact of U.S. volatility on the global investment opportunities. Overall, our evidence is consistent with an inter-temporal capital asset pricing model and underscores the role of the U.S. volatility in shaping the international risk-return trade off.

PRESENTER Ti Zhou, Southern University of Science and Technology
DISCUSSANT William J. Procasky, Texas A&M University, Kingsville

PAPER	**THE ROLE OF RISK-NEUTRAL MOMENTS IN FORECASTING FUTURE REALISED VOLATILITY: AN INTERNATIONAL PERSPECTIVE** Junyu Zhang, University of Otago Xinfeng Ruan, University of Otago Jin E. Zhang, University of Otago **Abstract** This paper estimates the predictability of future volatility on eleven stock markets by using the risk-neutral moments of corresponding international proxy ETFs. Our evidence shows that the risk-neutral standard deviation and excess kurtosis can positively and negatively predict the future volatility, respectively, while the predictive significance of risk-neutral skewness is relatively weaker but can negatively predict the future volatility in some locations. Results from model confidence set analysis show that incorporating location-based risk-neutral moments into the HAR-RV model can improve the predictability of future volatility in some markets, while volatilities in all markets are sensitive to international-combined risk-neutral moments, where these aggregated factors can significantly enhance the predictive power.
PRESENTER	Junyu Zhang, University of Otago
DISCUSSANT	Qi Zhang, University of Manitoba

PAPER	**THE IMPACT OF COVID-19 ON THE RELATIVE MARKET EFFICIENCY AND FORECASTING ABILITY OF CREDIT DERIVATIVE AND EQUITY MARKETS** William J. Procasky, Texas A&M University, Kingsville Anwen Yin, Texas A&M International University **Abstract** While there has been a significant amount of research related toCOVID-19'simpact on financial markets, we address the potential change in relative market efficiency and associated forecasting power for the first time. Specifically, we examine the impact of COVID-19 on previously observed predictive power of cross-market informational flow in the high yield CDS and equity markets. Our analysis reveals that contrary to historically documented greater forecasting ability during periods of high volatility, a very significant structural break occurred with COVID-19 in which neither market demonstrated any predictive power with respect to the other. This indicates that investors reacted to the pandemic and new information coming to market very differently than in the past. Moreover, we observe that the structural break only lasted four months, which we attribute to the success of the unprecedented monetary and fiscal stimulus measures in stabilizing financial markets. Finally, we note the break was more severe in the equity than in the CDS markets, a finding consistent with the CDS market having an overall informational advantage over the equity market.
PRESENTER	William J. Procasky, Texas A&M University, Kingsville
DISCUSSANT	Jingjing Xia, Wenzhou-Kean University

FRIDAY 13:00 TO 14:30 SESSION 5 B -VOLATILITY

CHAIRPERSON	Guanglian Hu, University of Sydney
PAPER	**HARVESTING THE VOLATILITY SMILE: A DYNAMIC NELSON SIEGEL APPROACH** Sudarshan Kumar, IIM Calcutta **Abstract** While there is a large literature on modelling volatility smile in options markets, almost all such studies are eventually focused on the forecasting performance of the model parameters and not on the applicability of the models in a trading environment. Drawing on the analogy of a volatility smile as interest rate term structure, we evaluate the performance of the Dynamic Nelson Siegel approach to model the dynamics of volatility smile in a trading environment against competing alternatives. Based on rank ordering of options identified by model-based mispricing, our trading strategy is to go long the options in the upper deciles and going short the options in the lower deciles. We show that, in general, dynamic models outperform their static counterparts, with the worst dynamic model outperforming the best static model in terms of percentage of positive returns from the trading portfolios and the Sharpe ratio. Specifically, we find that the Dynamic Nelson Siegel model consistently outperforms all other competing specifications on most of our selected criteria.
PRESENTER	Sudarshan Kumar, IIM Calcutta
DISCUSSANT	Asli Eksi, Salisbury University

PAPER	**NON-FUNDAMENTAL SHOCKS AND IMPLIED VOLATILITY SKEW: EVIDENCE FROM S&P 500 INDEX INCLUSIONS**
	Asli Eksi, Salisbury University
	Abstract
	Using S&P 500 index inclusions, we examine how a non-fundamental demand shock on the stock price affects the price structure of equity options. We find that the implied volatility skew of stocks added to the index becomes steeper in the months following index inclusion. This effect is not caused by an increase in systematic risk or the pre-inclusion momentum of added stocks. It exists only for stocks that experience a high index addition announcement return and fades after the announcement return reverses. Moreover, the implied volatility skew predicts next month's return for added stocks, but this predictability is mainly driven by return reversals. Overall, our results are consistent with the notion that options market participants trade based on anticipated return reversals when stock prices deviate from their fundamental values, which can lead to options' predictability of stock returns beyond the well-known informed trading channel.
PRESENTER	Asli Eksi, Salisbury University
DISCUSSANT	Guanglian Hu, University of Sydney

PAPER	**DIFFERENTIAL PRICING OF STOCK MARKET VOLATILITY RISKS**
	Guanglian Hu, University of Sydney
	Abstract
	This paper studies the pricing of realized, option implied (i.e., expected risk neutral volatility), and expected (physical) market volatilities in the cross-section of stock returns. Consistent with the notion that volatility shocks are viewed as bad, and investors pay a premium for hedging against increases in volatility, I find that stocks with high sensitivities to changes in realized volatility and expected volatility have significantly low average returns. On the other hand, implied volatility is not priced in the cross-section of stock returns. The differential pricing of market volatility risks is hard to reconcile with standard theories of the volatility risk premium but is potentially consistent with segmentation between options and equity markets.
PRESENTER	Guanglian Hu, University of Sydney
DISCUSSANT	Sudarshan Kumar, IIM Calcutta

FRIDAY 14:30 TO 15:00 — BREAK

FRIDAY 15:00 TO 16:30 — SESSION 6 A - MARKET MICROSTRUCTURE/ REGULATIONS

CHAIRPERSON	Alexei G. Orlov, U.S. Commodity Futures Trading Commission

PAPER	**LEVERAGE CONSTRAINTS AND INVESTORS' CHOICE OF UNDERLYINGS**
	Matthias Pelster, Paderborn University
	Abstract
	This paper investigates the impact of a 2018 intervention by the European Securities and Markets Authority (ESMA) limiting the amount of leverage that investors can take on their trading activities. While it successfully reduced the leverage-usage, investors shifted their trading activities to riskier assets in the process, consistent with the idea that leverage-constraint investors substitute leverage with riskier securities. Thus, the intervention was not as effective as the reduction in leverage suggests. Consistent with the notion that risky investment strategies spread through the population, I find some evidence of spillover effect to investors who are not affected by the regulatory intervention.
PRESENTER	Matthias Pelster, Paderborn University
DISCUSSANT	Fei (Phoebe) Gao, Singapore Institute of Technology

PAPER	**SPILLOVERS OF CUM-EX AND CUM-CUM TRADING WITH SINGLE STOCK FUTURES**
	Valerie Laturnus, University of Frankfurt Arne Reichel, University of Frankfurt Mark Wahrenburg, University of Frankfurt
	Abstract We examine single stock future (SSF) trading and respective underlying around dividend ex-dates to study a specific form of dividend tax arbitrage, widely known as cum-ex and cum-cum trading, across Europe. Both strategies are designed to profit from illicit refunds of tax withheld from dividends. Our results document trading spillovers into more favourable tax regimes, while the excessive trading disappear in markets with enacted tax reforms. In cum-ex trades, SSF have been mispriced to share the realized gains between colluding parties. Ex-day stock price drops are largely unaffected. All findings are robust to controls, such as transaction cost, volatility, and institutional ownership.
PRESENTER	Valerie Laturnus, University of Frankfurt
DISCUSSANT	Matthias Pelster, Paderborn University

PAPER	**HIGH-FREQUENCY TRADING AND MARKET QUALITY: EVIDENCE FROM ACCOUNT-LEVEL FUTURES DATA**
	John Coughlan, U.S. Commodity Futures Trading Commission Alexei G. Orlov, U.S. Commodity Futures Trading Commission
	Abstract We use rich regulatory data on intraday transactions and end-of-day positions of traders in nine futures markets over the past ten years to examine how participation of high-frequency traders (HFTs) affects market quality. Absence of market fragmentation and off-exchange trading in the contracts under consideration, as well as our use of traded bid-ask spreads in addition to the Amihud price impact, allow for a reliable measurement of market quality and HFT activity. Panel estimation evidence shows that greater participation by HFTs is strongly associated with improvements in market quality, although higher rates of aggressive trading on the part of the HFTs, such as those observed when HFTs trade directionally to reduce their positions, produce an adverse effect on market quality. Our results suggest that the market quality improvements brought about by HFTs' market-making outweigh the negative effects of HFTs' aggressive directional trading. We also find that while futures contracts are sensitive to market uncertainty, as measured by VIX, they are even more sensitive to own price volatility. Additionally, we take advantage of the 2015 change in CME's daily settlement methodology for agricultural commodities to address potential endogeneity using a fixed-effects difference-in-difference setup. Our results are robust to relying on alternative estimation techniques, using overly conservative (clustered) standard errors.
PRESENTER	Alexei G. Orlov, U.S. Commodity Futures Trading Commission
DISCUSSANT	Valerie Laturnus, University of Frankfurt

FRIDAY 15:00 TO 16:30 — SESSION 6 B - CRYPTOCURRENCIES

CHAIRPERSON	Jiasun Li, George Mason University
PAPER	**BITCOIN FLASH CRASH ON MAY 19, 2021: WHAT DID REALLY HAPPEN ON BINANCE?**
	Tim Baumgartner, Ulm University Andre Guettler, Ulm University Francis Kim, 80bots
	Abstract Bitcoin plunged by 30% on May 19, 2021. We examine the outage the largest crypto exchange Binance experienced during the crash, when it halted trading for retail clients and stopped providing transaction data. We find evidence that Binance backfilled these missing transactions with data that does not conform to Binford's Law. The Bitcoin futures price difference between Binance and other exchanges was seven times larger during the crash period compared to a prior reference period. Data manipulation is a plausible explanation for our findings. These actions are in line with Binance aiming to limit losses for its futures-related insurance fund.
PRESENTER	Tim Baumgartner, Ulm University
DISCUSSANT	Jiasun Li, George Mason University

PAPER	**FACTOR STRUCTURE OF CRYPTO CURRENCIES**
	Yeguang Chi, Auckland University
	Wenyan Hao, University of Leicester
	Jiangdong Hu, University of California
	Zhenkai Ran, University of Cambridge
	Abstract
	We investigate the cross-section asset-pricing patterns of major cryptocurrencies from 2017 to 2021. We show basis, momentum, and basis momentum factors earn statistically significant excess returns, a result consistent with the commodity futures literature. We document meaningful evidence that contrast the future returns within the factor structure. Daily factor returns are statistically and economically much stronger than weekly factor returns. Monthly factor returns are non-significant.
PRESENTER	Yeguang Chi, Auckland University
DISCUSSANT	Tim Baumgartner, Ulm University

PAPER	**ILLIQUID BITCOIN OPTIONS**
	Yang Guo, Tsinghua University
	Jiasun Li, George Mason University
	Mei Luo, Tsinghua University
	Yintian Wang, Tsinghua University
	Abstract
	This paper conducts a first look into the regulated Bitcoin options market in the United States. Compared to stock options, bitcoin options tend to be ten times more illiquid as measured by bid-ask spreads. The illiquidity significantly affects bitcoin options pricing: Given that investors are on average net sellers of bitcoin options, heightened illiquidity is associated with a significant premium in subsequent delta-hedged returns, which also strengthens under more imbalanced investor orders. To support the reasonings behind our findings, we further exploit a policy change which allows retail participation and significantly influences order imbalances in the Bitcoin options market.
PRESENTER	Jiasun Li, George Mason University
DISCUSSANT	Yeguang Chi, Auckland University

FRIDAY
16:45 TO 17:00

CLOSING REMARKS AND PAPER AWARDS BY ALIREZA TOURANI-RAD, AUCKLAND UNIVERSITY OF TECHNOLOGY

2022 NEW ZEALAND FINANCE MEETING
HYBRID CONFERENCE

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8th & 9th December 2022, from Auckland, New Zealand

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The Auckland Centre for Financial Research at the Faculty of Business, Economics and Law, Auckland University of Technology, hosts its 11th annual meeting on 8th & 9th December 2022. This year's conference will take place both online and in person. The New Zealand Finance Meeting is a general finance conference, and we consider all papers related to finance topics.

KEYNOTE SPEAKERS:

- Nicholas C. Barberis, Stephen & Camille Schramm Professor of Finance, Yale School of Management.
- Jonathan Brogaard, Professor of Finance, David Eccles School of Business, University of Utah.

SPECIAL ISSUE:

There will be a special issue of the Global Finance Journal, to be edited by Alireza Tourani-Rad and Nhut (Nick) H. Nguyen, based on selected papers presented at the 2022 New Zealand Finance Meeting. Please, indicate your interest in submitting to the journal on your registration form. The GFJ submission fees will be waived for all participants. Further details will be sent on acceptance to the conference.

PAPER SUBMISSION:

To submit your paper, please go to the conference website: www.acfr.aut.ac.nz/nzfm2022. **The deadline for paper submissions is 12th September 2022.** Authors will be notified of the outcome of their submission by 10th October 2022 and registration, via our website, will open shortly thereafter.

PAPER AWARDS:

See our website for details.

MEETING ORGANIZERS:

Nhut (Nick) H. Nguyen, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology

Editors:
Nick Nguyen, Auckland University of Technology, New Zealand
Alireza Tourani-Rad, Auckland University of Technology, New Zealand

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AUCKLAND CENTRE FOR FINANCIAL RESEARCH

AUT

Thank you for joining us
Haere rā

The New Zealand Tui is considered one of the greatest singers of the forest!

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