

# Overnight information and intraday trading behavior: evidence from NYSE cross-listed stocks and their local market information

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## Abstract

In this paper we study how overnight price movements in local markets affect the trading activity of foreign stocks on the NYSE. We find that local price movements affect not only the opening returns of foreign stocks, but also their returns in the first 30-min interval. The magnitude of local price movements is positively related to price volatility of foreign stocks, and this relation is stronger at the NYSE open and weaker afterward. This result helps explain why intraday price volatility is high at the open and lower at midday. However, local price movements cannot account for intraday variations in trading volume. We also find that trading volume for foreign stocks is strongly correlated with NYSE opening price volatility and weakly correlated with local market overnight price volatility. We interpret the result as evidence that the trading activity of foreign stocks on the NYSE is related more to liquidity trading of US investors and less to local market information. © 2000 Elsevier Science B.V. All rights reserved.

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## **1. Introduction**

Extensive empirical evidence documents that the stock market is more active at the beginning of the trading session. Measures of market activity, such as trading volume, price volatility, and number of transactions, are higher at the open and close for NYSE stocks (Jain and Joh (1988), Foster and Viswanathan (1993), and Jang and Lee (1993)). Several studies conjecture that the higher market activity at the open is due to overnight information that accumulates during the NYSE nontrading period. For example, Berry and Howe (1994) document that the number of news announcements released by Reuter's News Service increases at 8:00 am (EST)—one and a half hours before the NYSE open—indicating an increase in public information flow before the open. Foster and Viswanathan (1993) show that informed traders who gather private information during the nontrading period trade more aggressively after the open if they suspect their information will become public soon. Brock and Kleidon (1992) and Gerety and Mulherin (1992) argue that because of the new information that arrives during the nontrading period, the portfolio that is optimal during the previous close will no longer be optimal when the market reopens. Therefore, market activity increases immediately after the open as investors rebalance their portfolios.

In light of the relation between market activity and information flow, many authors examine internationally cross-listed stocks and check whether their price behavior is different from that of non-cross-listed stocks, given their different information-flow patterns (Barclay et al., 1990; Kleidon and Werner, 1993; Chan et al., 1994; Choe, 1994; Foster and George, 1994). Despite the intuitive appeal that the trading behavior of these cross-listed stocks in the morning is related to overnight information released in their local markets, none of these studies directly tests this possibility.

In this paper we examine the intraday patterns of trading volume and price volatility for stocks traded on the NYSE and listed on Asia-Pacific and UK exchanges. We test whether these patterns are related to public information accumulated overnight. Unlike Berry and Howe (1994) who use the number of news articles released during the nontrading period, or other researchers who use close-to-open return volatility, we infer the overnight information flow of these cross-listed stocks directly from price movements in their local markets. Since most information generated during the NYSE nontrading period about these foreign stocks is reflected in local markets, local stock price movement is a good proxy for overnight information. If the market activity at the open is related to overnight information, we expect to find a positive relation between the level of market activity in the morning and the magnitude of local stock price movement.

Furthermore, as information about these foreign stocks (both public and private) is more likely to arrive during the NYSE overnight period than during the trading period, market activity is greater in the morning than the mid-day. This suggests that once we control for the effect of overnight information (local stock price movements), intraday variations in market activity will be reduced.

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