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Bid-to-cover and yield changes around public debt auctions in the euro area¹

By Roel Beetsma,² Massimo Giuliadori,³ Jesper Hanson,⁴ and Frank de Jong⁵

Abstract

Earlier research has shown that euro-area primary public debt markets affect secondary markets. We find that more successful auctions of euro area public debt, as captured by higher bid-to-cover ratios, lead to lower secondary-market yields following the auctions. This effect is stronger when market volatility is higher. We rationalize both findings using a simple theoretical model of primary dealer behavior, in which the primary dealers receive a signal about the value of the asset auctioned.

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Keywords: public debt auctions, bid-to-cover ratios, primary and secondary markets, primary dealers, volatility.

JEL codes: G11, G12, G14, G18.

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