

## **20120201 Bank of Finland: Why is price discovery in credit default swap markets news-specific? (Discussion Paper 6/2012)**

**Source: Bank of Finland**

### **Summary**

We analyse daily lead-lag patterns in US equity and credit default swap (CDS) returns. We first document that equity returns robustly lead CDS returns. However, we find that the CDS-lag is due to common (and not firm-specific) news and arises predominantly in response to positive (instead of negative) equity market news. We provide an explanation for this news-specific price discovery based on dealers in the CDS market exploiting their informational advantage vis-à-vis institutional investors with hedging demands. In support of this explanation we find that the CDS-lag and its news-specificity are related to various firm-level proxies for hedging demand in the cross-section as well as measures for economy-wide informational asymmetries over time.

*To download the paper, click [here](#).*

**NovaRes Team**