Auction-based tests of inventory control and private information in a centralized interdealer FX market

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This study examines how inventory control and private information affect trading prices and volumes in a centralized interdealer foreign exchange (FX) market. Using exogenous variation from FX auctions conducted by the Colombian Central Bank (2008–2014), we analyze settlement data from the COP/USD spot market before and after each auction. Comparing dealers with differing inventory and information shocks, we find that those with reduced inventories increase net USD purchases and pay higher prices post-auction.