

The index day: two auctions and the hours between

OPENING AND CLOSING AUCTIONS

The two scheduled events that begin and end a cash equity session. Orders are collected over a window and matched at a single price that maximises the volume traded, rather than continuously. The closing auction produces the official closing price the index and the funds tracking it are marked against.

An equity session does not simply start. It opens with an auction, runs continuously, and closes with another - and the index inherits that shape from its constituents.

The opening auction

Before continuous trading begins, orders accumulate and are matched at one price chosen to trade the largest possible volume. Every constituent does this, roughly at once, and the index level that emerges is the first real number of the day.

It reflects everything that happened while the market was shut - overnight news, other regions' sessions, the futures market's opinion since yesterday's close. Which is why the index gaps at the open. Nothing was traded between the two levels, so no chart on the cash index can show the path between them, because there was not one.

The closing auction matters more

The closing auction produces the official close, and that price does a great deal of work: funds are valued against it, index levels are struck from it, derivatives settle against it, and performance is measured on it.

So an enormous quantity of price-insensitive orders arrives in those minutes, from participants who must transact at the close rather than at a good price. Volume in the closing auction can exceed a large part of the day's continuous trading.

The hours between, and the hours outside

Continuous session: constituents trade, the index updates every few seconds, spreads are tightest. After the cash close: the index is frozen. The future keeps trading and keeps moving. Before the open: the future has an opinion, the cash index still shows yesterday.

Your platform, quoting from the future as lesson 5 explained, keeps moving through all of it. That is why your chart shows overnight activity that the published index simply does not have.

What this changes

A stop resting overnight on an index product is exposed to the whole of the gap, and the gap is set by hours of news the cash market never priced. That is not a reason to avoid holding overnight - it is a reason to know that the risk of an overnight index position is not the same as the risk of the same position at midday.

Module 4 does the arithmetic on that. This lesson only insists that the day has a shape, and the shape is not accidental.

Check your understanding

1. Why does a cash index gap at the open rather than sliding to its new level?

- a. The provider applies overnight futures moves in one adjustment
- b. No constituents traded overnight, so there is no path between the two levels
- c. The opening auction excludes the largest constituents

Answer: b. The index is computed from share prices, and there were none. The first auction price is the first real number of the day, so the chart has nothing to draw in between.

2. Why does so much volume concentrate in the closing auction?

- a. Spreads are tightest at the close
- b. The official close values funds and settles derivatives, so many participants must transact at it
- c. Exchanges reduce fees in the final minutes

Answer: b. It is obligated flow again: valuation, settlement and performance measurement all reference that one price, so a great deal of money has no discretion about when to trade.

3. Why does your platform's index chart show overnight movement the published index does not?

- a. Your platform interpolates between the close and the open
- b. Your quote derives from the future, which keeps trading
- c. The published index is delayed by several hours

Answer: b. The cash index is frozen when its constituents stop trading. The future is a live market, and that is what your broker is quoting from.