

Treasury bond:

commonwealth security; fixed rate; through tender process;
most actively traded;
performs most of the bond market's price discovery role.(default-free rate)

Semi-government bonds:

state government securities; fixed or floating; through dealer panels
less liquid compared to treasury bonds \Rightarrow higher yield

Non-government bonds:

by large, non-financial corporations(Telstra); financial institutions; MBS;
most have an investment-grade
coupon is not guaranteed

Bond pricing conventions

coupon are paid twice yearly; yield quoted as an annual simple rate
ex-interest period(9th to 15th) do not receive the next coupon paid on 15th
cum-interest on all other days

Yield = Coupon	PV = FV	Par
Yield > Coupon	PV < FV	Discount
Yield < Coupon	PV > FV	Premium

The sawtooth-shaped price pattern of coupon bond assuming yield remain unchanged.

The price of bond at maturity must equal to its face value.

It follows that the price of bond traded at premium will gradually decline to its face value at maturity. And the price of bond traded at discount will gradually increase to its face value at maturity.

During the cum-interest period, the price of the bond will increase along time because it is approaching the coupon payment date and the coupon has not been paid. (can be viewed as interest accumulates)

When the ex-interest date comes, the current coupon is removed from the bond and thus the price of bond will fall.

Hence, the increases in cum-interest periods and declines in the ex-interest dates will form the sawtooth-shape over the time period.

The Australian bond market is based on OTC trading. How can the bond market still achieve price discovery?

The small number of authorized dealers facilitate price discover as they can easily communicate with each other and pool all relevant information. When a dealer gets a call from a client, dealer provides a bid/offer depending on the client wants to sell or buy, and they argue with it until they both agree.