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Empirical Applications of the "Nelson and Siegel" Parsimonious Zero-coupon Yield Curve Model
Essays on Interest Rate Analysis with GovPX Data

REYNA KIDD

Estimation of the Zero Coupon Swap Yield Curve John Wiley & Sons
The use of forward interest rates as a monetary policy indicator is demonstrated, using Sweden 1992-1994 as an example. The forward rates are interpreted as indicating market expectations of the time-path of future interest rates, future inflation rates, and future currency depreciation rates. They separate market expectations for the short-, medium-, and long-term more easily than the standard yield curve. Forward rates are estimated with an extended and more flexible version of Nelson and Siegel's functional form.
An Investigation Into Popular Methods for Constructing Yield Curves McGraw-Hill Professional Publishing
The scope of this study is to estimate the zero-coupon yield curve of tomorrow by using Vasicek yield curve model with the zero-coupon bond yield data of today. The raw data of this study is the yearly simple spot rates of the Turkish zero-coupon bonds with different maturities of each day from July 1, 1999 to March 17, 2004. We completed the missing data by using Nelson-Siegel yield curve model and we estimated tomorrow yield cuve with the discretized Vasicek yield curve model.
An Empirical Analysis of the Canadian Term Structure of Zero-Coupon Interest Rates Springer
From The Handbook of Fixed Income Securities--the most authoritative, widely read reference in the global fixed income marketplace--comes this sample chapter. This comprehensive survey of current knowledge features contributions from leading academics and practitioners and is not equaled by any other single sourcebook. Now, the thoroughly revised and updated seventh edition gives you the facts and formulas you need to compete in today's transformed marketplace. It places increased emphasis on applications, electronic trading, and global portfolio management.
Construction of Zero-coupon Yield Curve from Coupon Bond Yield Using Australian Data Princeton University Press
This paper presents estimates of zero coupon yield curve of Australian treasuries. Pure discount bonds and implied forward rates, although not available for the entire yield curve, are extremely useful for pricing, modelling and analyzing financial securities, hence, the need to extract the theoretical yield curve from noisy prices observed in the market place. Two popular models for curve fitting: the Nelson-Siegel and Svensson model, together with two specifications are adopted for estimating zero coupon and forward yield rates. The six parameter Svensson's model outperforms the more parsimonious Nelson-Siegel four parameter functional form. A structural break is detected in the zero coupon time series in the test period.
Empirical Application of the "Nelson and Siegel" Parsimonious Zero-coupon Yield Curve Model Lawrence R Rosen
Since zero-coupon rates are rarely directly observable, they have to be estimated from market data. In this paper we review several widely-used parametric term structure estimation methods. We propose a weighted constrained optimization procedure with analytical gradients and a globally optimal start parameter search algorithm. Moreover, we introduce the R package termstrc, which offers a wide range of functions for term structure estimation based on static and dynamic coupon bond and yield data sets. It provides extensive summary statistics and plots to compare the results of the different estimation methods. We illustrate the application of the package through practical examples using market data from European government bonds and yields.
Bond Pricing and Yield Curve Modeling International Monetary Fund
Key Financial Market Concepts is the ultimate reference tool for anyone working in the finance industry, explaining the 100 essential financial market terms. It provides you with a definition of what each concept is, how it works, when it is likely to arise, how it's calculated and how best to use it. You'll also get access to many of the formulas used, already programmed into a Microsoft Excel spreadsheet. From simple and compound interest, through to bonds and yields and the Black and Scholes model, this book has it covered. The full text downloaded to your computer With eBooks you can: search for key concepts, words and phrases make highlights and notes as you study share your notes with friends eBooks are downloaded to your computer and accessible either offline through the Bookshelf (available as a free download), available online and also via the iPad and Android apps. Upon purchase, you'll gain instant access to this eBook. Time limit The eBooks products do not have an expiry date. You will continue to access your digital ebook products whilst you have your Bookshelf installed.
Direct Extracting the Forward Yield Curve from the Coupon Bond Prices John Wiley & Sons
This text takes risk management theory and explains it in a 'this is how you do it' manner for practical application in today's financial world.
Spline Methods for Extracting Interest Rate Curves from Coupon Bond Prices McGraw Hill Professional
A book that shows why all zeros are not equal--and how to evaluate a deal before signing on the dotted line.
Construction of Zero-Coupon Yield Curve from Coupon Bond Yield Using Australian Data Pearson UK
The term structure of interest rates plays a central role in the valuation, pricing and management of interest rate dependent securities. In this paper I focus on the application of the B-Spline methodology to construct zero coupon and forward rate curves for the swap market. By allowing the placements of the knot points for the B-splines to be part of the optimisation process it is possible to construct smooth zero coupon curves that do not violate the bid-ask constraints of the market rates/prices observed.
Comparative Analysis of Zero Coupon Yield Courve Estimation Methods Using JGB Price Data Prentice Hall
I estimate a dynamic term-structure model with time-varying risk premia on a panel of Treasury coupon bonds, without relying on an interpolated zero-coupon yield curve or a selection of

maturities. The model allows me to incorporate prices and realized returns of coupon bonds into the estimation and testing of the model. I perform specification tests that are infeasible using zero-coupon yields: I quantify the deviations between the prices of bonds older and younger than 15 years during the financial crisis. I show that prices of risk estimated from vector autoregressions of factors do not forecast returns of actual Treasury bonds.

High Dimensional Yield Curves

Rebonato provides an authoritative, clear, and up-to-date explanation of the cutting-edge innovations in affine modeling for government bonds, and provides readers with the precise tools to develop their own models. This book combines precise theory with up-to-date empirical evidence to build, with the minimum mathematical sophistication required for the task, a critical understanding of what drives the government bond market.

Eurodollar Yield Curve Construction

This paper briefly surveys the various approaches to modelling the zero coupon yield curve is the starting point for much finance research. The method adopted here for the Australian Treasury bond data is based upon polynomial spline fitting, but with the constraint that the long end of the term structure is stable. This approach has also been successfully applied to the Danish bond market (Tanggaard and Jakobsen (1988)). The forward rate curve then becomes the important input data for the modelling of the term structure of interest rates and pricing of interest rate contingent claims using the Heath-Jarrow-Morton (1992) model.

Zero-coupon Yield Curve Estimation

In this dissertation we survey a variety of methods for constructing zero-coupon yield curves. We show that, when accuracy is of the utmost importance, the bootstrap described by Hagan and West (2006), Smit (2000), and Daeves and Parlar (2000) provides the ideal framework. This bootstrap requires the use of an interpolation algorithm, and a large portion of this dissertation will thus be devoted to the task of establishing an ideal method for interpolating yield curve data. Only two of the interpolation methods considered in this dissertation are seen to perform promisingly: the monotone convex method developed by Hagan and West (2006), and the monotone preserving r(t)t method developed in this dissertation. We show that the monotone preserving r(t)t method performs slightly better than the monotone convex method, in terms of the continuity of the forward curve, and in terms of the stability of the interpolation function. When economic appeal is of the utmost importance, we find parametric models to be more suitable than bootstrapping. However, we show that bootstrapping can be used to obtain a hypothetical set of zero-coupon bond prices, which can be used to calibrate parametric models. We compare the performance of the Nelson and Siegel (1987) and Svensson (1992) models, when applied to a historic set of South African swap curves, and show that the Svensson (1992) model performs better than the Nelson and Siegel (1987) model on a consistent basis. Copyright.

Estimating and Interpreting Forward Interest Rates

Due to economic feedback the actual risk in bonds from changes in Federal Reserve policy should generally be smaller than measured using conventional duration measures. We introduce the notion of Federal Reserve policy durations. For example, target inflation duration, which measures the change in the price of a treasury bond that arises from a change in Central Bank target inflation rate that occurs at some time in the future before the maturity of the bond. For Central Banks following a policy setting rule such as a Taylor rule, we derive a simple analytic expression for the target inflation duration of zero coupon Treasury bonds in terms of model economic parameters and the parameters in the Taylor rule. The correction to the traditional duration of a zero coupon bond is proportional, at leading order, to the product of three terms: the Taylor rule output gap coefficient, the coefficient in the economy that determines the response of the output gap to the real rate, and the square of the maturity of the zero coupon bond.

Estimating and Interpreting the Yield Curve

Following a meeting on the estimation of zero-coupon yield curves held at the BIS in June 1996, participating central banks have since been reporting their estimates to the Bank for International Settlements. The BIS Data Bank Services provide access to these data, which consist of either spot rates for selected terms to maturity or represent estimated parameters from which spot and forward rates can be derived. In the case estimated parameters are reported, the Data Bank Services provides, in addition to the parameters also the generated spot rates. The purpose of this document is to facilitate the use of these data. It provides information on the reporting central banks' approaches to the estimation of the zero-coupon yield curves and the data transmitted to the BIS Data Bank. In most cases, the contributing central banks adopted the so-called Nelson and Siegel approach or the Svensson extension thereof. A brief overview of the relevant estimation techniques and the associated mathematics is provided below. General issues concerning the estimation of yield curves are discussed in Section 1. Sections 2 and 3 document the term structure of interest rate data available from the BIS. The final section provides examples of estimated parameter and selected spot and forward rates derived thereof. A list of contacts at central banks can be found after the references. The remainder of this document consists of brief notes provided by the reporting central banks on approaches they have taken to estimate the yield curves. Since the last release of this manual in March 1999 there have been four major changes: Switzerland started to report their estimates of the yield curve to the BIS in August 2002. Furthermore, Sweden began to use a new estimation method in 2001, the United Kingdom since September 2002 and Canada since January 2005. These changes are included in Tables 1 and 2.

Endogenous Yield Curve Risk from Central Bank Policy Uncertainty

U.S. Treasury Securities are crucially important in many areas of finance. However, zero-coupon yields are not observable in the market. Even though published zero- coupon yields exist, they are sometimes not available for certain research topics or for high frequency. Recently, high frequency data analysis has become popular, and the GovPX database is a good source of tick data for U.S. Treasury securities from which we can construct zero-coupon yield curves. Therefore, we try to fit zero- coupon yield curves from low frequency and high frequency data from GovPX by three different methods: the Nelson-Siegel method, the Svensson method, and the cubic spline method. Then, we try to retest the expectations hypothesis (EH) with new zero-coupon yields that are made from GovPX data by three methods using the Campbell and Shiller regression, the Fama and Bliss regression, and the Cochrane and Piazzesi regression. Regardless of the method used (the Nelson-Siegel method, the Svensson method, or the cubic spline method), the expectations hypothesis cannot be rejected in the period from June 1991 to December 2006 for most maturities in many

cases. We suggest the possible explanation for the test result of the EH. Based on the overreaction hypothesis, the degree of the overreaction of spread falls over time. Thus, our result supports that the evidence of rejection of the EH has weaken over time. Also, we introduce a new estimation method for the stochastic volatility model of the short-term interest rates. Then, we compare our method with the existing method. The results suggest that our new method works well for the stochastic volatility model of short-term interest rates.

Yield Curves and Forward Curves for Diffusion Models of Short Rates

Understanding the dynamic evolution of the yield curve is critical to many financial tasks, including pricing financial assets and their derivatives, managing financial risk, allocating portfolios, structuring fiscal debt, conducting monetary policy, and valuing capital goods. Unfortunately, most yield curve models tend to be theoretically rigorous but empirically disappointing, or empirically successful but theoretically lacking. In this book, Francis Diebold and Glenn Rudebusch propose two extensions of the classic yield curve model of Nelson and Siegel that are both theoretically rigorous and empirically successful. The first extension is the dynamic Nelson-Siegel model (DNS), while the second takes this dynamic version and makes it arbitrage-free (AFNS). Diebold and Rudebusch show how these two models are just slightly different implementations of a single unified approach to dynamic yield curve modeling and forecasting. They emphasize both descriptive and efficient-markets aspects, they pay special attention to the links between the yield curve and macroeconomic fundamentals, and they show why DNS and AFNS are likely to remain of lasting appeal even as alternative arbitrage-free models are developed. Based on the Econometric and Tinbergen Institutes Lectures, Yield Curve Modeling and Forecasting contains essential tools with enhanced utility for academics, central banks, governments, and industry.

Zero-coupon Yield Curve Estimation from a Central Bank Perspective

Zero-coupon interest rates are the fundamental building block of fixed-income mathematics, and as such have an extensive number of applications in both finance and economics. The risk-free government zero-coupon term structure is, however, not directly observable and needs to be generated from the prices of marketable, coupon-bearing bonds. The authors introduce the first public-domain database of constant-maturity zero-coupon yield curves for the Government of Canada bond market. They first outline the mechanics of the curve-fitting algorithm that underlie the model, and then perform some preliminary statistical analysis on the resulting yield curves. The full sample period extends from January 1986 to May 2003; it is broken down into two subsamples, reflecting the structural and macroeconomic changes that impacted the Canadian fixed-income markets over that time. The authors examine the evolution of a number of key interest rates and yield-curve measures over the period, perform a principal-components analysis of the common factors that have influenced yield changes over time, and compare holding-period returns over the sample for assets of various maturities.

Yield Curve Modeling and Forecasting

Understand and interpret the global debt capital markets Now in a completely updated and expanded edition, this is a technical guide to the yield curve, a key indicator of the global capital markets and the understanding and accurate prediction of which is critical to all market participants. Being able to accurately and timely predict the shape and direction of the curve permits practitioners to consistently outperform the market. Analysing and Interpreting the Yield Curve, 2nd Edition describes what the yield curve is, explains what it tells participants, outlines the significance of certain shapes that the curve assumes and, most importantly, demonstrates what factors drive it and how it is modelled and used. Covers the FTP curve, the multi-currency curve, CSA, OIS-Libor and 3-curve models Gets you up to speed on the secured curve Describes application of theoretical versus market curve relative value trading Explains the concept of the risk-free rate Accessible demonstration of curve interpolation best-practice using cubic spline, Nelson-Siegel and Svensson 94 models This advanced text is essential reading for traders, asset managers, bankers and financial analysts, as well as graduate students in banking and finance.

Risk Management and Financial Institutions, + Web Site

This book is dedicated to the study of the term structures of the yields of zero-coupon bonds. The methods it describes differ from those usually found in the literature in that the time variable is not the term to maturity but the interest rate duration, or another convenient non-linear transformation of terms. This makes it possible to consider yield curves not only for a limited interval of term values, but also for the entire positive semiaxis of terms. The main focus is the comparative analysis of yield curves and forward curves and the analytical study of their features. Generalizations of yield term structures are studied where the dimension of the state space of the financial market is increased. In cases where the analytical approach is too cumbersome, or impossible, numerical techniques are used. This book will be of interest to financial analysts, financial market researchers, graduate students and PhD students.

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