

## COURSE OUTLINE:

# Inflation Products

2 days  
16 CPE Credits

## Overview

This two day programme covers the mechanics and applications of inflation linked bonds and derivatives. The programme starts by reviewing essential concepts: nominal vs. real rates and breakeven inflation, and continues by looking at the operation of the index-linked bond market. Excel based case studies are designed to give participants a very practical understanding of the cash flows and pricing of the markets. We will look at the pricing and risk management of inflation linked bonds and consider the impact of seasonality in the underlying CPI indices. Participants will then be taken through the operation of inflation derivatives, where derivative structures are explained and the participants will structure common risk management solutions using inflation swaps and options. The final session involves the pricing of the risk management solutions in an Excel framework.

## Learning Objectives

Upon completion of this seminar, delegates will be able to:

- » Understand nominal and real yields and the calculation of breakeven inflation
- » Calculate cash flows on inflation linked bonds
- » Calculate the inflation curve from bonds and swaps
- » Understand breakeven trades
- » Compute the duration of a linker (and compare to non-indexed duration)
- » Discuss and analyse index seasonality
- » Understand the principles and mechanics of inflation swaps
- » Construct effective hedges using inflation derivatives
- » Price inflation derivative structures
- » Hedge inflation derivative structures

## Who Should Attend

This course is useful for:

- » Portfolio Managers who invest in inflation-linked securities
- » Corporate Treasurers with inflation-linked assets and liabilities
- » Pension Fund Managers
- » Risk Managers
- » Bankers needing to understand the inflation markets

## Program Level

**Program Level:** Introductory

**Prerequisites:** Suggested one-two years experience in a capital markets/structured finance related function or relevant business related degree.

**Advanced Preparation:** None

**Delivery Method:** Group-Live

## Accreditation

Moody's Analytics is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: [www.nasbaregistry.org](http://www.nasbaregistry.org).

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Our training solutions leverage over a century of experience in risk assessment and the comprehensive tools, data, and analysis of Moody's Analytics to deliver timely, in-depth, and comprehensive knowledge. In delivery, our people make the difference – they combine deep experiences as financial practitioners, intellectual passion for the content, and superior academic credentials with a commitment to delivering outstanding quality.

# Inflation Products – Agenda

## DAY ONE

### Session 1: Key concepts for inflation markets

- » The Fisher parity, nominal vs. real rates
- » Breakeven inflation
- » Case study: quantitative easing and real yields
- » Components of breakeven
- » Risk premium and issuers' motivations

### Session 2: Index linked bonds

- » Panorama of linkers markets
- » Inflation indices
- » Indexation mechanics
- » Case study: working out payment details for linkers
- » Breakeven curve
- » Case study (Excel): bootstrapping forward CPIs from conventional and index linked bond prices
- » Breakeven trades: rationale and mechanics & the impact of repos
- » Linkers duration
- » Inflation indices seasonality
- » Linkers carry and seasonality

### Session 3: Inflation swaps

- » Market drivers and participants
- » Zero-coupon swaps: principle and mechanics
- » Building the forward CPI curve from zero-coupon swaps
- » Seasonality adjustments
- » Revenue swaps
- » Liability swaps
- » Case study (Excel): pricing of an infrastructure and a pension liability swap
- » Year on year swaps and convexity
- » Asset swaps: the link between nominal and real worlds
- » Case study (Excel): pricing of an asset swap

### Session 4: Inflation options

- » Caps/floors & swaptions
- » Limited Price Index (LPI) structures
- » Hybrids

### Session 5: Inflation risk workshop (Excel)

- » A practical session, based on the swaps covered in Session 3, in which we calculate:
- » The hedges if hedged with zero-coupon swaps and interest rate swaps
- » The hedges if hedged with index-linked bonds, conventional bonds and swaps
- » The inflation index fixing risk profiles

## RELATED COURSES

- » Structured Finance
- » Introduction to Derivatives
- » Introduction to Credit Derivatives
- » Counterparty Credit Risk

### Tailor Any Seminar for Your Organization

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### Fees & Cancellations

The fee listed is per participant and includes refreshments, lunches and seminar materials. Seminar fees do not include tax, transportation or hotel accommodations. Payment must be received in full prior to the start of the seminar. Registrations may be cancelled in writing via letter or email at least 30 days before the first date of the training for a full refund. Cancellations received less than 30 days in advance are eligible for substitution with another seminar, but fees will not be refunded. We reserve the right to cancel or reschedule seminars at any time. For further information on our refund and complaint policy, please contact us.

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