
NO-ARB MEN
THE NEWS WERE ALL ABOUT IT, SO RORSCHMID MET PROF LA, DOWNTOWN.
HOW DO YOU EXPLAIN THAT?!
HOW?
CIP VIOLATIONS
THEORETICALLY, CIP VIOLATIONS IMPLY ARBITRAGE OPPORTUNITIES ...
... ONLY IF UNCOLLATERALIZED INTERBANK LENDING RATES ARE RISK FREE.
COME BACK WHEN YOU KNOW MORE ABOUT IT
11:55 pm, AT NITE SONG STUDY ROOM ..
WE'RE GONNA USE A NO-ARBITRAGE FRAMEWORK
A NO ARBITRAGE PERSPECTIVE ON GLOBAL ARBITRAGE OPPORTUNITIES
WE'LL TREAT DISCOUNT RATES AS LATENT...
... WE'LL EXTRACT THEM FROM EACH COUNTRY'S INTEREST RATE SWAPS AND USE THEM TO EVALUATE TERM STRUCTURES OF FORWARD PREMIUMS AND CROSS-CURRENCY BASIS SWAPS
I KNOW WHO CAN HELP US. IT'S A JOB FOR AUGUSMANDYAS
LATER, AT AUGUSMANDYAS ...
OUR EFFORTS WERE NOT VAIN
WE MATCH OBSERVED FORWARD CURRENCY PREMIUMS AND GENERATE TIME-SERIES PATTERNS AND MAGNITUDES OF CROSS-CURRENCY BASIS SWAP RATES THAT ARE BROADLY CONSISTENT WITH THE EVIDENCE...
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2000
2010
2020
OUR EVIDENCE IS CONNECTED TO NON-ZERO TREASURY-BASIS AND NEGATIVE INTEREST RATE SWAP SPREADS OVER TREASURIES
THREE MINUTES TO MIDNIGHT, RORSCHMID CAME BACK WITH ANSWERS ... AND QUESTIONS.
OUR MODEL-IMPLIED DISCOUNT RATES ARE EXPLAINED BY A LINEAR COMBINATION OF TREASURY INTEREST RATE AND CREDIT RISK, CONVENIENCE PREMIUM, AND INTERBANK RISK
BUT HOW DO WE EXPLAIN OUR RESIDUAL PRICING ERRORS?
THEY LINE UP WITH MEASURES OF INTERMEDIARY CONSTRAINTS AND THE EXPENSIVENESS OF THE USD
LENDING SUPPORT TO MODELS OF INTERMEDIARY BASED ASSET PRICING FOR QUANTITAVELY REALISTIC RESULTS
I LEAVE IT ENTIRELY IN YOUR HANDS.
68% NO-ARB
32% CONSTRAINTS
PATRICK AUGUSTIN AS AUGUSMANDYAS
MIKHAIL CHERNOV AS Prof LA
LUKAS SCHMID AS RORSCHMID
DONGHO SONG AS NITE SONG