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What Determines U.S. Swap Spreads?

By Adam Kobor, Lishan Shi, Ivan Zelenko

World Bank Publications. Paperback. Book Condition: new. BRAND NEW, What Determines U.S. Swap Spreads?, Adam Kobor, Lishan Shi, Ivan Zelenko, This title examines the evolution of the U.S. interest swap market. It reviews the theory and past empirical studies on U.S. swap spreads and estimates an error correction model for maturities of 2-, 5- and 10-year over the period 1994-2004. Financial theory depicts swaps as contracts indexed on Libor rates, rendered almost free of counterparty default risk by mark-to-market and collateralization. Swap spreads reflect the Libor credit quality (credit component) and a liquidity convenience premium present in Treasury rates (liquidity component). Multifactor models which were estimated on observed swap rates highlighted the central role played by the liquidity component in explaining swap spread dynamics over the past fifteen years. They also found, however, some puzzling empirical results. Statistical models, on the other hand, mainly based on market analysis, faced technical difficulties, arising from the presence of regime changes, the non-stationarity in swap spreads, and the co-existence of long-term and shorter-term determinants. Against this background, the authors applied the error correction methodology based on the concept of co-integration. They find that U.S. dollar swap spreads and the supply of U. S....



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