



# TRADING THE YIELD CURVE WITH INTEREST RATE DERIVATIVES



ICMA Executive Education is a joint partnership between the International Capital Market Association and the ICMA Centre, Henley Business School, University of Reading



## INTERNATIONALLY RECOGNISED QUALIFICATIONS FOR THE **FINANCIAL MARKET**

### **COURSE OVERVIEW**

The course explains how to use exchange-traded and over-the-counter (OTC) derivatives to profit from expected changes in the yield curve. Different derivative instruments are compared and contrasted in terms of their interest rate exposure and counter party credit risk, with their relative value assessed as tools for expressing views about the future level and volatility of interest rates.

Attending the course will help you:

- Understand factors driving the yield curve and trading the yield curve
- Look at trading the yield curve and managing interest rate risk with bond futures
- Learn about swaps, swap variations and trading the yield curve with swaps



# COURSE CONTENT

The course content is divided into several topic areas, which are then broken down into multiple subtopics:

## 1. Yield Curve Basics

- Zero-coupon yields and discount factors
- Building yield curves from market data

## 2. Factors Driving the Yield Curve

- Break-even forward prices for outright trades
- Risk-weighting of steepening, flattening and curvature trades

## 3. Bond Futures Basics

- US Treasury note futures and on-the-run (OTR) US Treasury futures
- Gross basis and net basis

## 4. Trading the Yield Curve with Bond Futures

- Risk-weighted curvature trades with bond futures
- Synthetic basis trades with OTR futures

## 5. Managing Interest Rate Risk with Bond Futures

- Using bond futures to adjust portfolio duration
- 'Ultra' Treasury bond futures and liability-driven investing

## 6. Sovereign Yield Spread Futures

- Contract specification
- Margining, clearing and settlement
- Trading sovereign yield spreads with sovereign yield spread futures

## 7. OTC Interest Rate Swaps

- Hedging swaps with futures and government bonds
- Swap pricing and revaluation

## 8. Swap Variations

- Forward starting swaps
- Constant maturity swaps (CMS)
- Overnight index swaps (OIS)
- Counter party Credit Risk and Central Clearing
- Collateralization and margination in the OTC market

## 9. Swap Futures

- Contract specification
- Margining, clearing and settlement
- Trading swap futures

## 10. Trading the Yield Curve with Swaps

- Steepening and flattening and curvature trades: vanilla swaps vs. CMS
- Trading the swap spread
- 'Ultra' Treasury bond futures and the 30-year swap spread

## 11. Managing Interest Rate Risk with Swaps

- Hedging with swaps and swap futures
- Hedging a new bond issue with a forward starting swap

## 12. Caps, Floors and Swaptions

- OTC interest rate caps and floors
- OTC swaptions
- Hedging and risk measures

## 13. Trading Views on Rates and Volatility with Caps, Floors and Swaptions Directional and Spread Trades

- Volatility trades
- Conditional steepening and flattening trades
- Correlation trades

## 14. Options on Futures

- Options on US Treasury note and bond futures
- Trading views on rates and volatility with futures options
- Mortgage hedging

# COURSE FORMAT

The course is a two day classroom-based programme, taking place in London throughout the year. This is a non-examined course but delegates will receive a certificate of attendance, issued jointly by ICMA and Henley Business School, University of Reading.

# TARGET AUDIENCE

Although no prior knowledge of interest rate derivatives is assumed, familiarity with the basic types of derivative security (forwards and futures, swaps and options) is recommended. Participants should have a basic understanding of fundamental financial market concepts such as present value and risk and return.

# PROGRAMME RECOGNITION

As a result of the continuing high standard of content within our training, candidates who study ICMA Executive Education qualifications will receive a designated number of credit hours which can be used towards study with the CFA.

## ICMA EXECUTIVE EDUCATION

For many years ICMA Executive Education has been regarded as the benchmark in training for both the front office and operations areas of business. Our qualifications and specialist programmes are internationally recognised and are required training by many of our member firms. ICMA Executive Education is unique in that ICMA and the ICMA Centre, Henley Business School, University of Reading work together to deliver training courses, taught by current and former financial markets practitioners which blend practical and academic know-how, so that candidates have a thorough understanding of the topics being discussed.

Seven examined qualifications are offered:

- Financial Markets Foundation Qualification (FMFQ)
- Securities Operations Foundation Qualification (SOFQ)
- Introduction to Fixed Income Qualification (IFIQ)
- Introduction to Primary Markets Qualification (IPMQ)
- ICMA Fixed Income Certificate (FIC)
- Operations Certificate Programme (OCP)
- Primary Market Certificate (PMC)

All are recognised as certificates of competence in the capital markets and are successfully completed by large numbers of international participants each year. In addition to our examined qualifications we also offer a selection of non-examined specialist programmes throughout the year. These programmes look at a single topic from the syllabus of one of our advanced qualifications, but are explored in much greater depth to a targeted audience. The training is extremely focused and provides an opportunity to network and discuss the issues affecting the financial markets with your industry peers.

ICMA Executive Education is able to provide any of its public qualifications and specialist programmes on an in-house basis.

## ICMA CENTRE

The ICMA Centre, University of Reading has an international reputation for providing quality teaching programmes tailored to the capital markets industry. Established in 1991 with funding provided by the International Capital Market Association (ICMA), the Centre is housed in a purpose-built modernist building with state-of-the-art facilities including two dealing rooms. In 2008, ICMA enabled an expansion to the building that now includes an additional 50 seat dealing room, 170 seat lecture theatre as well as new seminar rooms and a dedicated research area.

## THE INTERNATIONAL CAPITAL MARKET ASSOCIATION

The International Capital Market Association (ICMA) represents financial institutions and other participants in the international capital market worldwide with over 530 members in 61 countries. ICMA's market conventions and standards have been the pillars of the international debt market for 50 years, providing the framework for good market practice which facilitates the orderly functioning of the market. ICMA actively promotes the efficiency and cost effectiveness of the capital markets by bringing together market participants including regulatory authorities and governments.

## FURTHER INFORMATION AND REGISTRATION

For further information and to register for any of our programmes, please visit:

[www.icmagroup.org/education](http://www.icmagroup.org/education)

or contact us at: [education@icmagroup.org](mailto:education@icmagroup.org)

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