

Seminar 5

1. Read the [following article](#) and answer the following questions:
Which yield curve is higher in the US (2-year or 10-year) and why?
What signals about the future of the US economy do we get from yield curves?
For more details read also [this article](#).
Links to articles:
<https://www.cnbc.com/2022/07/13/us-bonds-treasury-yields-tick-higher-as-traders-prepare-for-inflation.html>
<https://ig.ft.com/the-yield-curve-explained/>

2. Suppose the market price of a 20-year pure discount bond with a face value of \$1,000 is \$214.55. What is the spot interest rate for the 20-year maturity expressed in percentage per annum?

3. Consider a 2-year euro-denominated bond that has a current market price of €970, a face value of €1,000, and an annual coupon of 5%. Suppose the 1-year euro-denominated spot interest rate is 5.5%. What is the 2-year euro-denominated spot interest rate?

4. The 1-year rates can be viewed as spot interest rates, and the 2-year rates are yields to maturity in annualized percent. The spot exchange rate is ¥132.192/£.

	U.K.	Japan
1 year	1.105	0.370
2 year	1.770	0.430

What should be the 2-year forward rate to prevent arbitrage?

5. Please, try to calculate EUR/USD 2 year forward rate based on the current market data. Find the current EUR/USD spot rate, Germany 2-Year Bond Yield and U.S. 2 Year Treasury Note. Compare your result to market forward rate.