

HOW LIKELY IS AN INFLATION DISASTER? (HILSCHER, RAVIV & REIS)

Discussion by Ricardo Gimeno

Head of Market Intelligence and Analysis

I BANCO DE ESPAÑA CONFERENCE ON THE SPANISH ECONOMY

Banco de España, Madrid

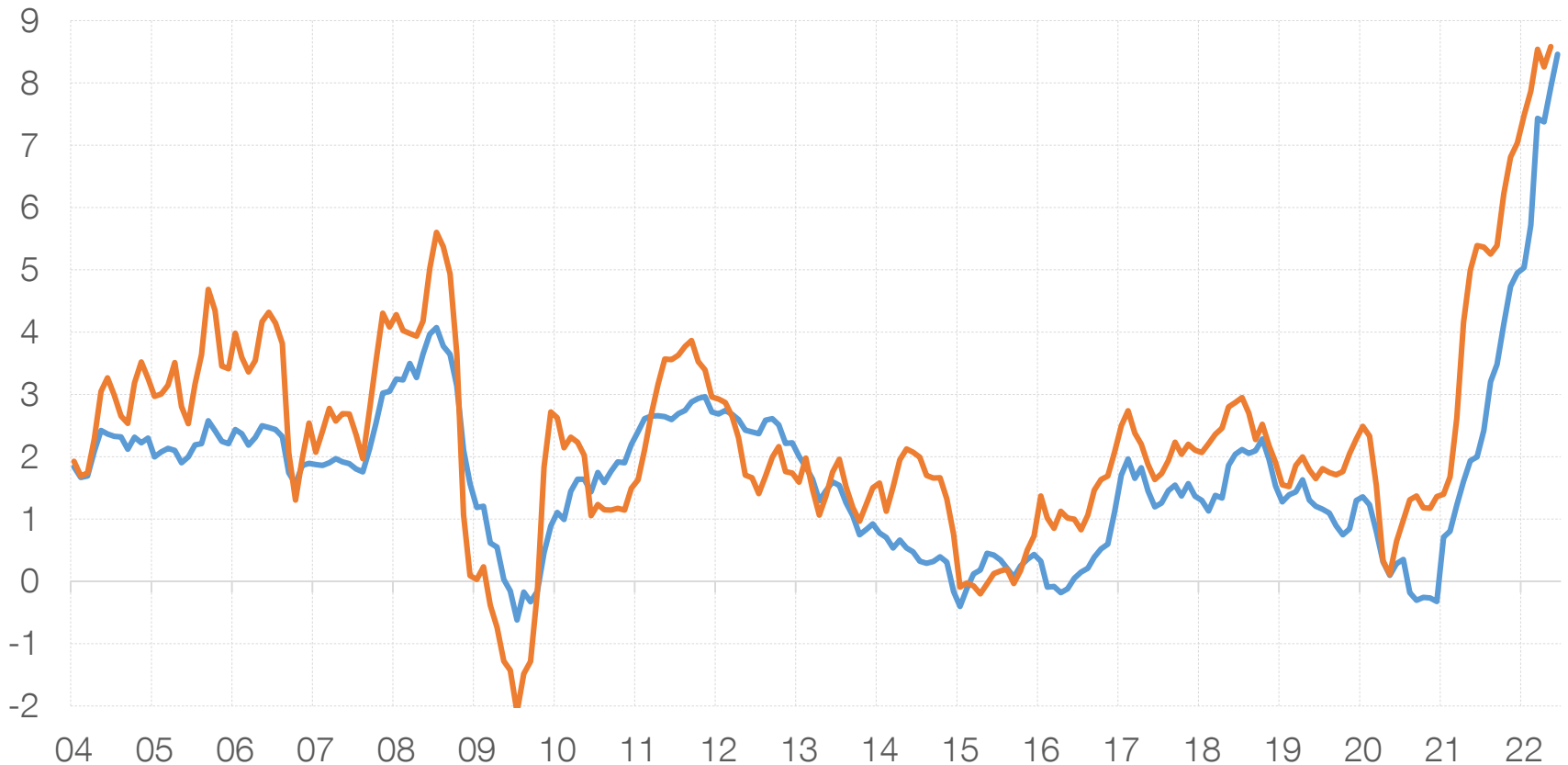
7-8 July, 2022



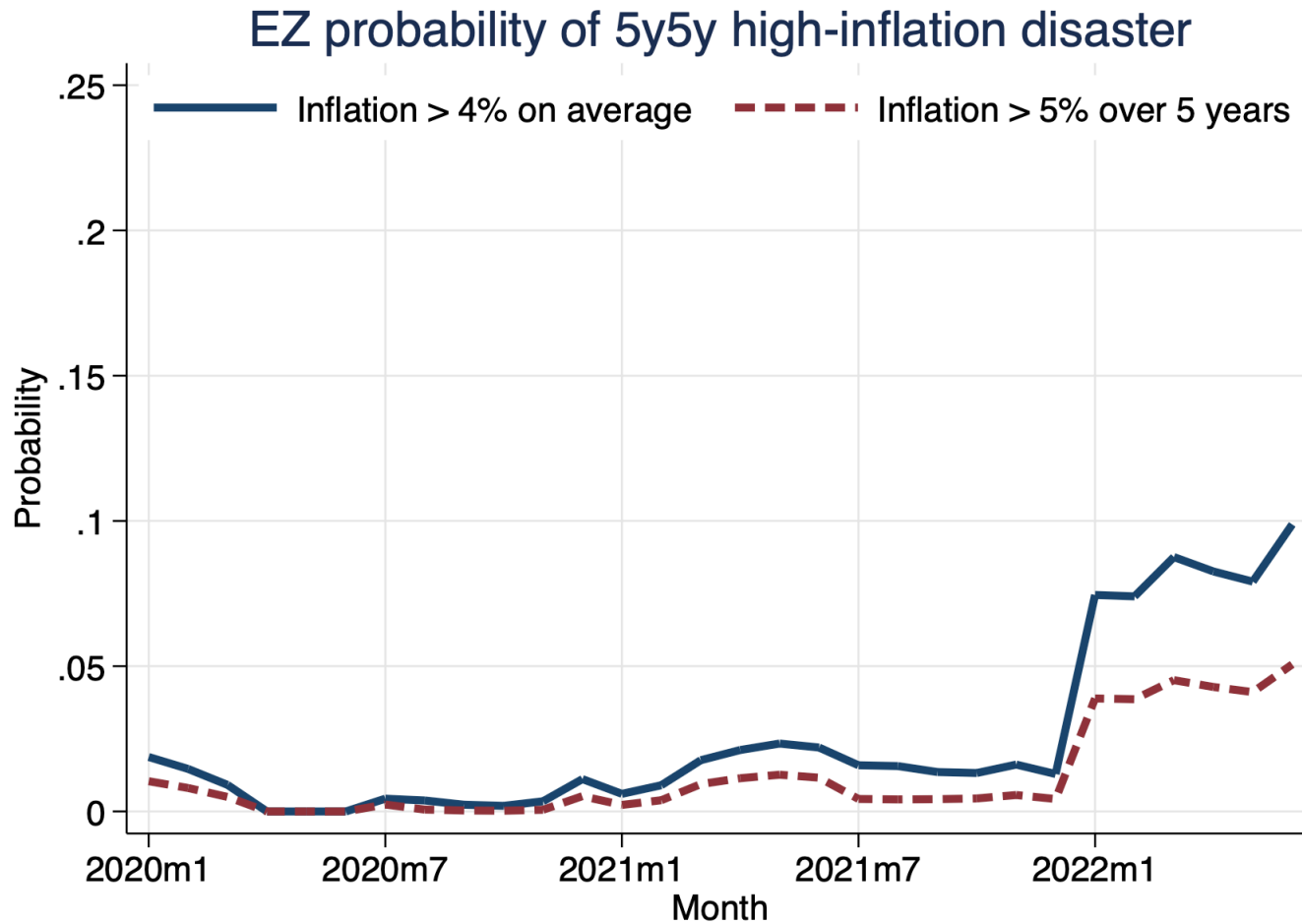
This is a really strong, timely and relevant paper:

INFLATION RATES

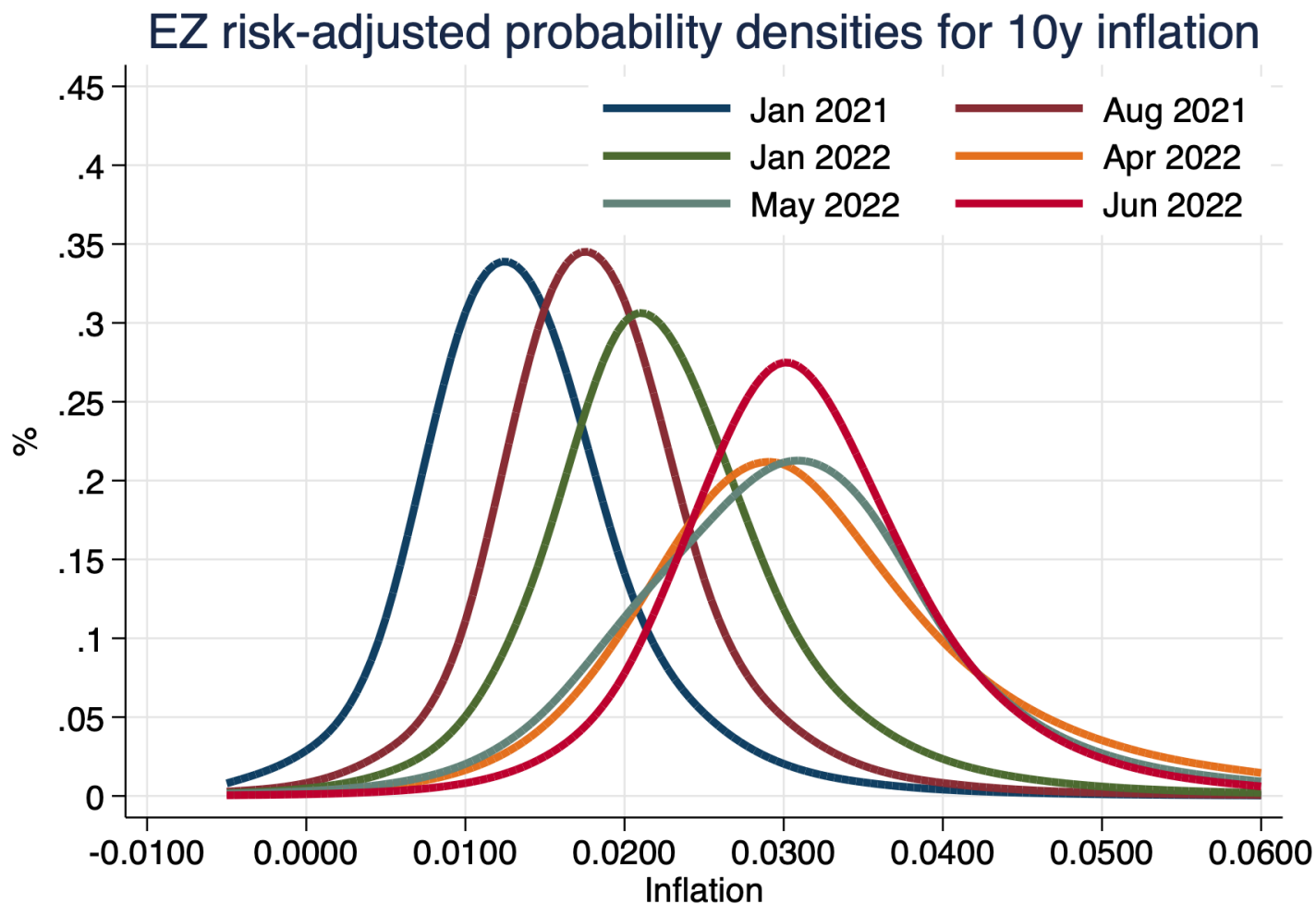
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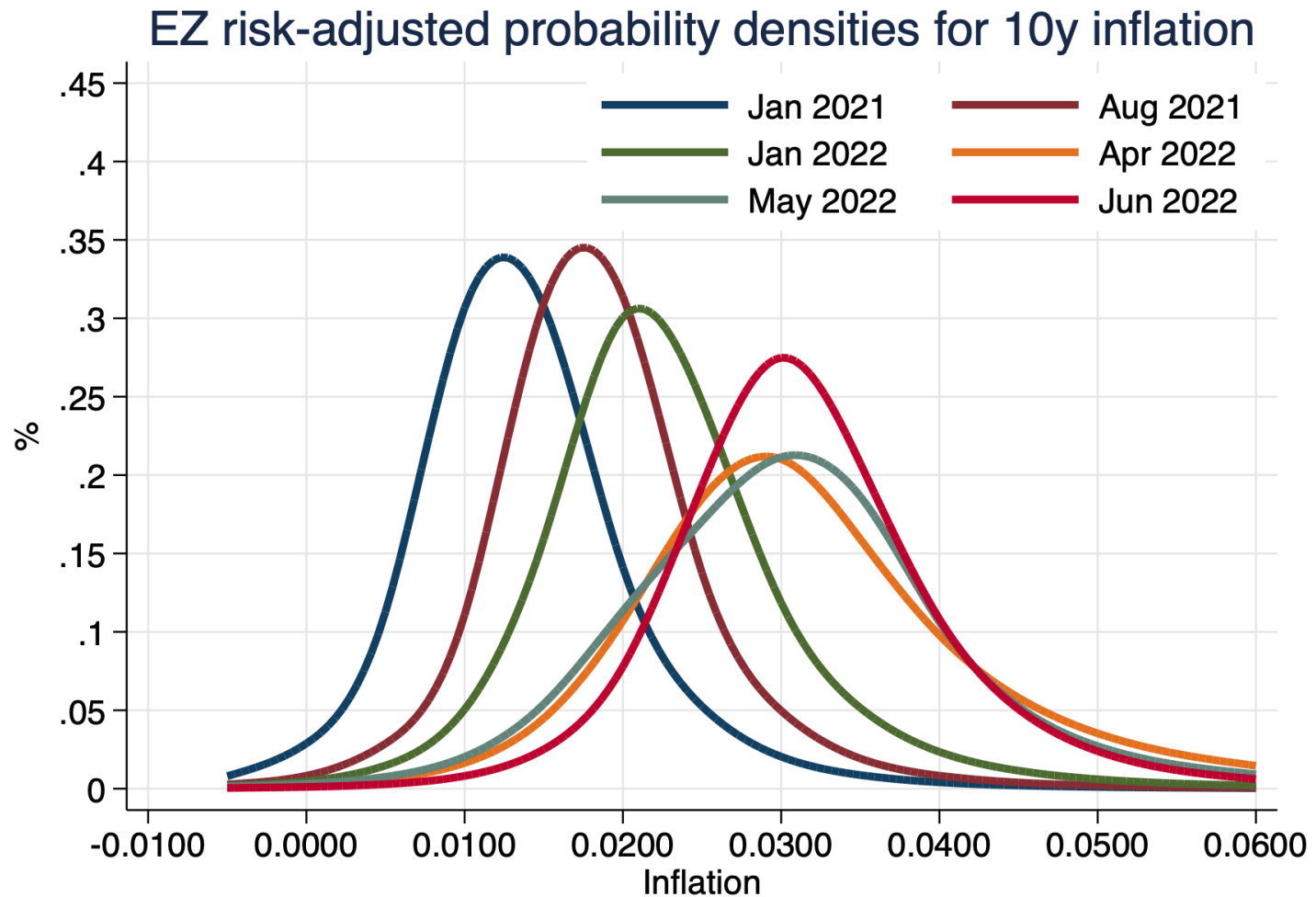
With three great contributions: **Forward Distributions**



With three great contributions: **Risk-adjusted**



With three great contributions: **Non-parametric distributions**



The devils are in the details (or in the footnotes and annexes)

⁵Gimeno and Ibanez (2018) is closer to us in goal but imposes very restrictive assumptions in its methods.



Don't be shy!

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✓ Forward Distributions

✗ Risk-adjusted

✗ Non-parametric



**Great argument
for a top journal!**

Some checks for helping the sheling points:

✓ **Forward Distributions**

- **Compare the mean of your forward distributions with the forward Inflation Linked Swaps**

✓ **Risk-adjusted**

- **Compare the adjusted distributions with the probabilities of the Survey of Professional Forecasters**

✓ **Non-parametric**

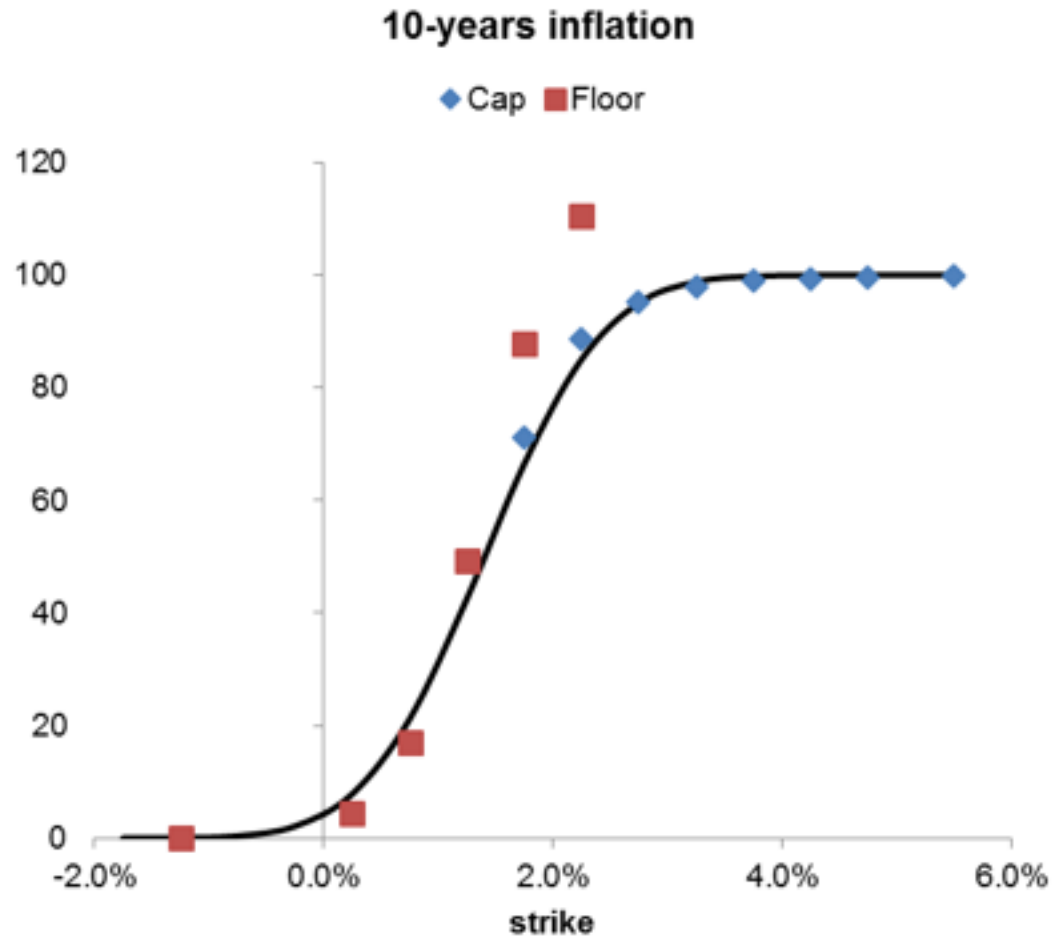
- **Show the third and fourth moments. It is in the name of your paper!**

A.1 Data pre-cleaning

Before starting the construction of the inflation distributions, we pre-process the data. The raw data includes both data errors as well as data points that are based on trades at different times of the day. This lack of simultaneity means that option prices may not pass some basic screens. We only use data if it passes the following requirements: (1) cap and floor premia are monotonic in the strike price, (2) cap and floor premia increase monotonically with maturity, (3) butterfly spreads, which represent one way of constructing nominal Arrow-Debreu security payoffs, have positive prices, and (4) the put-call parity implied real rates are consistent across strike prices. As an additional check we have also compared the put-call-parity implied real rates to the inflation swap real rates. Differences are very small, implying across market consistency of pricing.

March 2022

M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			



THANK YOU FOR YOUR TIME

