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# INVESTING IN INFLATION: THE DEFINITIVE GLOBAL GUIDE TO INFLATION-LINKED SECURITIES

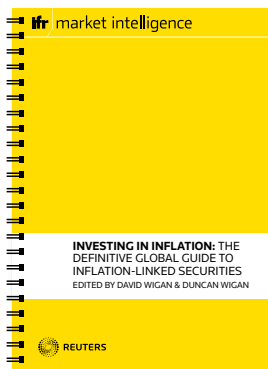
EDITED BY DAVID WIGAN & DUNCAN WIGAN

Uncertainty over the outlook for inflation has reached unprecedented levels. After many years of almost uninterrupted growth, the global economy is in contraction for the first time since the 1940s.

Deflation is the immediate concern, but, crucially, even in the face of severe global recession, the seeds of the next inflationary bubble are beginning to take root. The same conditions that drive deflationary fears are giving rise to a sense of certainty regarding its return. While the inflation spectre may have receded in the short term, inflation prospects over the medium and longer term are far more uncertain. The requirement to inject stimulus into a stagnant world economy is likely to translate into substantial inflationary pressures. On the macroeconomic level, latent demand-side pressures will coalesce with supply-side interventions to render investing in inflation a financial imperative. Investors ignore inflation risk at their peril.

**Investing in Inflation: The definitive global guide to inflation-linked securities** is the product of the best minds and most expert operators in the inflation markets. It constitutes a comprehensive and unique state-of-the-art guide on how best to incorporate inflation into future investment and funding strategies.

The tools with which to take such decisions are already in place. Issuance of inflation-linked securities has burgeoned across the world. Further, the explosion of derivatives seen over the past decade has been applied to inflation as well as to more conventional asset classes. Now there is an array of complex products designed to satisfy the most idiosyncratic demands for inflation investing and hedging. Whether you focus on plain vanilla linkers, structured products, commodities, swaps or other derivatives and indices, this report will ensure you understand the markets, the products and the optimal strategies in an unprecedentedly uncertain environment.



## BENEFIT FROM THE BEST MINDS IN THE INFLATION MARKETS, INCLUDING:

- **Michael Saunders**, Managing Director, Head of European Economics, Citigroup
- **Francisco Blanch**, Head of Global Commodities Research, and **Gustavo Soares**, Commodity Strategist, Banc of America Securities – Merrill Lynch
- **George Goncalves**, Chief Treasury & TIPS Strategist, Morgan Stanley
- **Jim Caron**, Head of Global Rates Strategy, Morgan Stanley
- **Kevin Mountain**, Executive Director, Derivatives Trading, JP Morgan
- **Adam Baker**, Vice President, Inflation Structuring, JP Morgan
- **Stephane Salas**, Global Head of Inflation Derivatives, Société Générale
- **Daragh McDevitt**, Head of Inflation Structuring, Deutsche Bank
- **Sandrine Ungari**, Senior Strategist in the Quantitative Strategy Group, Société Générale
- **Catherine Mactaggart**, Emerging Markets Product Specialist, Barclays Capital
- **Eduardo Levy-Yeyati**, Head of Emerging Market Strategy, Barclays Capital
- **Ed Piombini**, Director, Risk Solutions Group, Barclays Capital
- **Dariusz Mirfendereski**, Managing Director, Head of Inflation Linked Trading, UBS Investment Bank
- **Guillaume Tresca**, Inflation Linker Strategist, Calyon

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# INVESTING IN INFLATION: THE DEFINITIVE GLOBAL GUIDE TO INFLATION-LINKED SECURITIES

EDITED BY DAVID WIGAN & DUNCAN WIGAN

WITH A MAJOR GLOBAL RECESSION, FINANCIAL CRISIS, CREDIT CRUNCH AND SOARING UNEMPLOYMENT, SHORT-TERM INFLATION RISKS ARE SMALL. THE MAIN FOCUS OF CENTRAL BANKS IS TO AVERT SUSTAINED DEFLATION.

However, the extreme and aggressive policy measures aimed at preventing sustained deflation – ultra-low rates, quantitative easing, ballooning fiscal deficits, bank guarantees, recapitalisation, etc. – themselves will sow the seeds of a future upsurge in inflation. While the policy makers may be publicly circumscribed in how they explain this avalanche of stimulus, it seems that one unspoken and probable outcome is an upturn in inflation. It would be erroneous now to slide between short-term deflation worries and a view that inflation will stay low in the medium and longer term, particularly since historically, in these circumstances, governments have attempted to inflate their debts down the river.

The sum of these forces of deflation and inflation, and growth and recession, is that the outlook for producer and consumer price growth is extremely muddled. Those wishing to protect themselves against a probable inflation rebound, or take a view, face some difficult and complex decisions. The worst option is to wait and see. Whether your view is agnostic or you come down on one side of the inflation/deflation debate, uncertainty acts as an anchor on the prospects and strategies of financial and non-financial firms.

Decisions as to the optimal positioning in the face of this environment cannot be safely avoided: **Investing in Inflation: The definitive global guide to inflation-linked securities** provides market analysis and strategies from the best in the business for investors wishing to invest in assets that benefit from inflation highs and lows, or to hedge against inflation risks.

## KEY EXPERT VIEWS

**Michael Saunders, Managing Director, Head of European Economics, Citigroup** untangles the array of global policy responses to the economic slowdown and banking crises. Through a highly granulated perspective on the policy environment, he foregrounds the subsequent analyses of how precisely inflation can be managed.

**Francisco Blanch, Head of Global Commodities Research, and Gustavo Soares, Commodity Strategist, Banc of America Securities – Merrill Lynch** propose a framework for asset allocation incorporating commodities. They suggest that commodities are the best hedge against inflation over the long run and should constitute a part of an optimal inflation-sensitised portfolio.

**George Goncalves, Chief Treasury & TIPS Strategist, and Jim Caron, Head of Global Rates Strategy, Morgan Stanley** discuss the future of the market for US TIPS, dissecting the outlook for supply and examining the performance parameters that are likely to dictate investor demand going forward.

**Kevin Mountain, Executive Director, Derivatives Trading, and Adam Baker, Vice President, Inflation Structuring, JP Morgan** provide a detailed analysis of the drivers and evolution of the UK market and suggest a series of mechanisms with which to optimally utilise and navigate the UK's idiosyncrasies through both inflation-linked bonds and swaps.

**Guillame Tresca, Inflation Linker Strategist, Calyon** explores how a sophisticated approach to inflation investment can be realised through a variety of strategic models. He sets out the technical outlook for inflation management, taking in break-even trading, real asset swaps, and inflation arbitrage.

**Adam Baker, Vice President, Inflation Structuring, JP Morgan** contributes a compelling analysis of the structured inflation market. He proposes a clear rationale for the still under-utilised real return framework and identifies the factors that explain the market's recent exponential growth.

**Catherine Mactaggart, Emerging Markets Product Specialist and Eduardo Levy-Yeyati, Head of Emerging Market Strategy, Barclays Capital** provide a broad overview of EM linker instruments and indices and explain in detail how the different markets operate. They examine what the future holds and discuss how the market may develop going forward.

**Stephane Salas, Global Head of Inflation Derivatives, and Sandrine Ungari, Senior Strategist in the Quantitative Strategy Group, Société Générale** look at the accelerating growth and role of the euro region inflation market, examining inflation convergence in the eurozone and the impact of deflationary risk on linker prices and the derivatives market.

**Ed Piombini, Director Risk Solutions Group, Barclays Capital** explores the market for 'inflation sellers' in the UK. Showing precisely how inflation strategies can reduce cost of funding and ameliorate balance sheet volatility, he identifies the forces behind the supply of inflation and the mechanisms through which it is generated.

**Dariush Mirfendereski, Managing Director, Head of Inflation Linked Trading, UBS Investment Bank** provides a comprehensive and innovative insight into the specificities of capturing inflation via derivatives. This expert perspective provides a clear understanding of the market's role, construction, and peculiarities with the effect of communicating precisely how to analyse and utilise it.

**Daragh McDevitt, Head of Inflation Structuring, Deutsche Bank** looks at some of the difficulties investors face in building inflation protection into portfolios. He shows how indices can be combined to reflect complex points of view and algorithms developed to enable systematic exploitation of inflation market anomalies.

**Order your copy of this authoritative report TODAY – see the order form on the back page for details.**

## ABOUT THE EDITORS



**David Wigan** is a writer and consultant who has for the past decade focused on capital markets and financial derivatives. In 2007 he left Reuters in London to set up public relations consultancy Perceptive Communications. He previously worked for Bloomberg News and for newspapers in the UK and Asia. He attended the University of Durham and Columbia University in New York and is a qualified solicitor.



**Duncan Wigan** received his doctorate from the University of Sussex in 2008. He lectures at various universities and publishes in the fields of finance and international political economy.

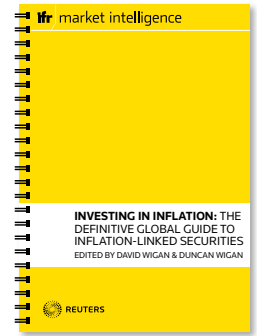
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BY DAVID WIGAN AND DUNCAN WIGAN, EDITORS

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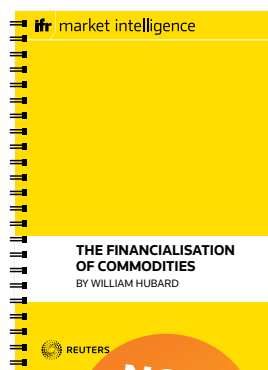
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