ABSTRACT

The yield curve is the benchmark for investors. Change in yield curve will affect to the other market index. The primary focus of this paper is forecasting the yield curve in Thailand. There are many ways to predict the yield curve. One of the famous paper which outperformed many models is Diebold and Li (2006). They suggested using fixed lambda parameter in Nelson-Sigel (1987) for out-of-sample forecasting. In this paper, I compare fixed lambda parameter method and time-varying method. Moreover, this independent study is adopted fixed lambda method into Svensson (1994) model which is the extension model of Nelson-Siegel. The results show that fixed lambda method can apply to Svensson model. It improves out-of-sample forecasting of the yield curve at 5-10 years to maturities. Finally, I added inflation variable to improve forecasting model. Inflation can increase the accuracy of predicting model that have time to maturities more than five years.

Keywords: Yield Curve, Forecasting, Nelson-Siegel model, Svensson model