

Comparison of Important Factors by Dr.Chavalit Kitjakarnlertudom

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CHAVALIT KITJAKARNLERTUDOM : COMPARISON OF IMPORTANT
FACTORS WHICH EXPLAIN CREDIT DEFAULT SWAP PREMIUM
VARIATIONS – A FORWARD-LOOKING PERSPECTIVE.

ADVISOR : SIRA SUCHINTABANDID,Ph.D. , 300 pp.

In modern financial markets, the credit default swap (CDS) market has supplanted the bond market as the industry gauge for a borrower's credit quality. Therefore, it is very important to understand factors which explain CDS premium variations. That is because if we understand important factors which explain CDS premium variations, we can focus on the important factors to develop better CDS pricing models. There have been a lot of approaches to value CDS contracts. Each approach assumes some factor(s) which explain CDS premium variations such as related security prices, time trend and correlation between probability of default and recovery rate, etc. To the best of our knowledge there have been no studies comparing the contribution to explaining CDS premium variations of these factors during the credit crisis in the US in 2008-2009. That is partly because when doing so we need a model which can handle all of the factors at the same time. Most of the CDS valuation models cannot incorporate many different features simultaneously. We improve Das and Hanouna (2009)'s jump-to-default model in which many different features can be handled simultaneously. In the study, we found that the time trend is the most powerful feature to explain the CDS premium variations. We also compare market CDS premiums with the fitted premiums from our model in which we include all of the features in our study to check how well our model performs. It can be observed from the results that our model can be used to forecast the CDS spreads very well in all time to maturity CDS contracts except when the CDS market is very volatile and there is a big jump in CDS premiums.

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