Abstract

In investment area, market participants are always curious about what a shape of the yield curve is and how the yield curve will move in the future horizon. In Thailand, the studies of yield curve have been done in narrow areas, modeling and data extracting. Also, the researches of forecasting yield and interest rate were in the form of interest rate model. In this paper, the Nelson-Siegel with dynamic factors model proposed by Diebold & Li (2005) was studied. The original Nelson-Siegel yield curve was reinterpreted as a three factors dynamic model. The forecasting results are convincing, for 1-month horizon, the Nelson-Siegel with AR (1) (λ = 0.05978) outperforms all competitors models for all maturities and the Nelson-Siegel with VAR (1) (λ = 0.05978 and 0.03446) work well for the 6 and 12-month horizon. This study used spot rate data from the Thai Bond Market Association (ThaiBMA) from July 2001 to March 2007.