

PREFACE

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One hopes that my writing has progressed since the first edition of this book was published in 1999. Certainly the markets themselves have moved on, as the constant dynamic that is the world's fixed income markets results in new products and processes on an almost daily basis. It is a task in itself merely to keep up with new developments in bonds and financial engineering, let alone to write about them in a way that is of value to market practitioners. Still, as the character played by Keifer Sutherland in the 1988 movie *Young Guns* said, "Let's finish out the game!" We began the journey with the first edition, so let us complete it now with this much revised and (we hope!) improved third edition.

The third edition of this book builds on the format established with the first edition, a succinct, accessible description of fixed-income instruments and their analysis. We include related derivative instruments such as interest-rate swaps and futures. We have removed the chapter on repo, as that is a specialized topic worthy of its own book, and replaced it with a general chapter on money markets that includes repo. Other changes are detailed below.

The market in bond market securities, also known as the fixed-income market, is incredibly large and diverse, and one that plays an irreplaceable part in global economic development. The vast majority of securities in the world today are debt instruments, with outstanding volume estimated at over \$13 trillion. In this book we provide a concise and accessible description of the main elements of the markets, concentrating on the instruments used and their applications. As it has been designed to be both succinct and concise, the major issues are introduced and described, and where appropriate certain applications are also analysed. There is little or no description of specific markets, exchanges or trading conventions; such topics would result in a very large book and is abundantly

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covered in existing literature. A very detailed treatment is therefore left out, as required in a book of this size, but interested readers can access the references listed in the Bibliography at the end of most chapters. Where possible, these references are indicated for their level of analysis and technical treatment. All items listed have been read by the author, which serves to make bibliographies relevant and not over-long.

Given the size of the global bond markets, it would never be possible to cover every single instrument and application in a single book. Our intention is to cover the areas most important for beginners. This book is aimed at those with little or no previous understanding of or exposure to the bond markets; however, it also investigates the markets to sufficient depth to be of use to the more experienced practitioner. It is primarily aimed at front-office, middle-office and back-office banking and fund management staff who are involved to some extent with fixed-income securities. Others including corporate and local authority treasurers, bank auditors and consultants, risk managers and legal department staff may also find the contents useful.

The great stride forward in capital markets has been in the synthetic credit markets – namely, structured credit products and credit derivatives. When I was working on the manuscript for the first edition of this book during 1998, the credit derivatives markets were, if not in their infancy, at least still being developed. Now, I would suggest that they represent as liquid and transparent a market for credit as futures and swaps do for interest rates. So, while 8 years ago credit derivatives might be considered to be an arcane, specialist field only worthy of discussion in a specialist book (and still should be, I hasten to add), today one could not think of writing a book on bond markets without discussing credit derivatives. So, this edition includes a chapter on these exciting products.

We continue to emphasise further practical demonstration of main analytical techniques, so, for example, we now make use of Bloomberg screens to demonstrate relative value analysis, asset swap spreads and other yield spreads. We also add a brief word on credit analysis, as the current vogue on ever great risk/return profiles means investors look to ever more credit-risky assets.

Other additions and updates include:

- a revised chapter on approaches to trading reproduced from a book first published in 2002 and edited by Professor Frank Fabozzi;
- a chapter on convertible bonds and warrants;
- a more detailed chapter on Eurobonds;
- a new chapter on securitised products such as asset-backed securities;
- a chapter on index-linked bonds.

We have removed the chapter on the UK gilt market, as my book *The Gilt-Edged Market* (Elsevier 2003), co-written with Graham 'Harry' Cross and James Harrison, is a much better introduction to that subject. Also removed for this edition is the overview chapter on government markets; the original chapter was never really anything more than a random sample of country markets and did not do any of these markets any justice!

A reader emailed me once with his thanks and appreciation, because apparently my books were the first in finance that incorporated Bloomberg, Reuters and other screens as exhibits in the text. I am not so sure myself, I remember seeing a Paul Wilmott book that also had such screens around about the same time as my books were coming out, but irrespective of which authors were the first to adopt this particular idea, I am happy to have been of some small service to people such as he, students and practitioners alike. The global debt markets are far too important, and pivotal in global economic development and progress, for knowledge transfer and dissemination not to be a top priority of everyone that has an interest in them.

As the legendary Professor Emanuel Derman said in the August 2004 issue of *RISK*, "the world is a richer place, in both senses of the word, for the sharing of information."

Amen to that!

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Finally, some thanks.

The first edition of this book arose from material put together for the bond markets' course run by the Securities Institute (now the Securities and Investment Institute) in London. My thanks to Zena Deane for giving me the opportunity to teach this course back in 1999.

Big thanks to Anuk Teasdale for assistance with graphics used in the first edition.

And, finally, with only very few exceptions, thanks to everyone I have worked with in the City of London since I first started out there in August 1989 ... yes, this includes you! Whatever we are doing, we are always learning. Good luck, and my best wishes to you all.



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March 2006