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# The Eurozone (Expected) Inflation: An Option's Eyes View

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## Abstract

We estimate inflation risk-neutral densities (RNDs) in the euro area, using inflation swaps and caps/floors options, and introduce a parsimonious approach to jointly estimate the RNDs across horizons. Thus, we obtain daily implicit RNDs for forward measures, such as the 5-year-on-5-year inflation rate, which, although not directly traded in the market, is a key reference for monetary policy. Then, we discuss several indicators derived from the information content of those historical RNDs that are relevant for policy makers, and compare them in light of the ECB's decisions and communication since 2009. Specifically, we study the evolution of tail risks (associated with deflation and high inflation), the balance of inflation risks, risk aversion, and how forward inflation rates react to the ECB's non-conventional monetary policies (Longer Term Refinancing Operations, LTRO; Securities Market

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