Graphical illustration: Covered Interest Arbitrage Parity (CIAP) Condition

CIAP \implies \text{Forward premium/discount} = \text{interest rate differential}

\[ \frac{(r_{\text{forward}} - r_{\text{spot}})}{r_{\text{spot}}} \times \frac{12}{\text{mos. Fwd}} \times 100\% = i_d - i_f \]

Parity implies no K-inflows or outflows