



USD Funding Conditions & FX Swap markets

Money Market Contact Group

Bineet Shah

Treasury Funding and Investments

Barclays Bank

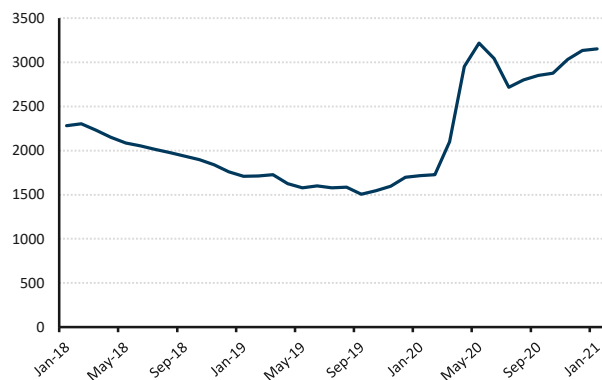
16 March 2021

Not For Further Distribution or Distribution To Retail Investors. For Discussion Purposes Only.

FED Intervention

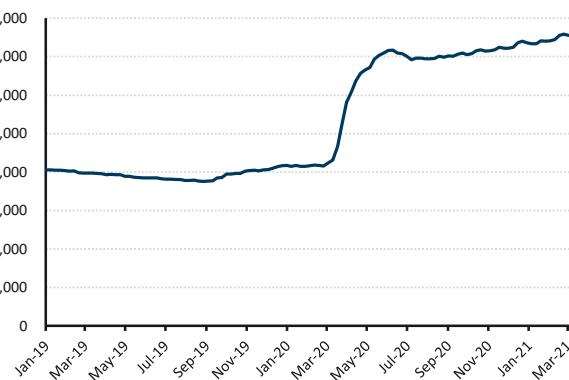
- The US Fed Reserve announced a variety of measures to inject liquidity to the funding markets through 2020 to tackle the Covid-19 driven crisis
- These include (but not limited to) Rate cuts, QE, RRP and USD swap facilities to central banks across the globe to provide access to USD liquidity and reduce funding stress (Chart 3)
- The above measures, along with other operations from the Fed, helped abate concerns on USD liquidity. As a result, USD excess reserves (\$3.2 trn) and the size of the Fed's balance sheet (\$7.5 trn) are now at historical highs (see Charts 1 & 2)
- In addition, the Fed has also provided strong forward guidance on interest rates remaining low for the foreseeable future until improvement in labour market and inflation targets are on track. This has led markets to price out any rate hikes until early 2023

Chart 1: Excess Reserves (\$bn)



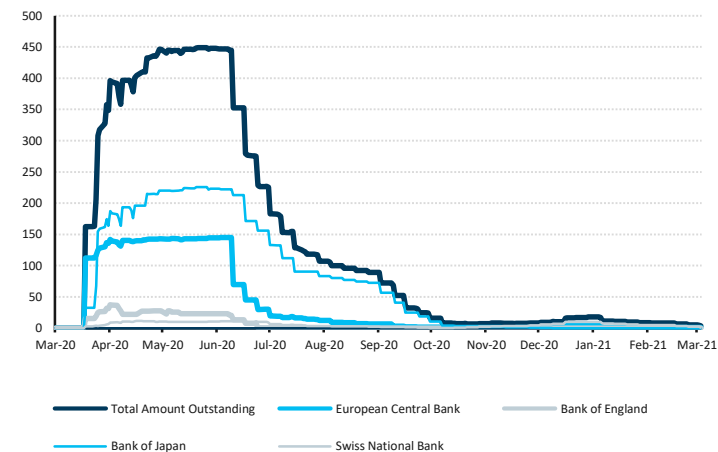
Source: Fed Reserve

Chart 2: Fed Balance Sheet (\$bn)



Source: Fed Reserve

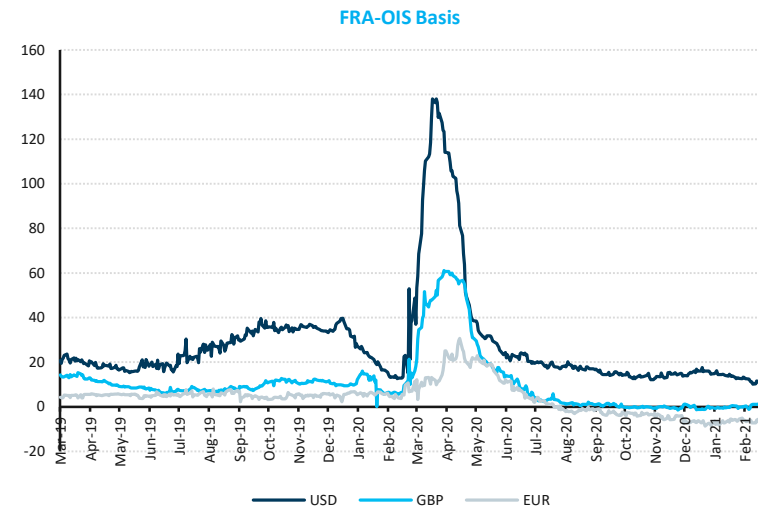
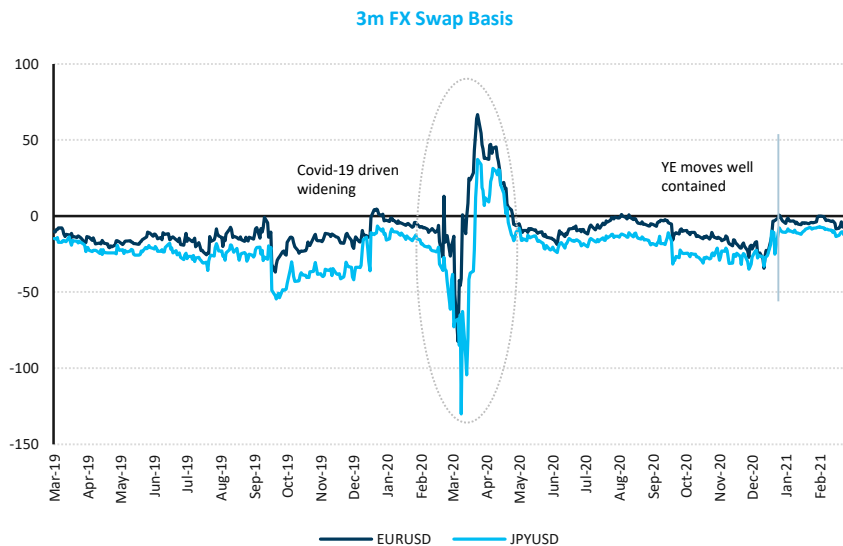
Chart 3: CB Swap Lines usage (\$bn)



Source: Fed Reserve

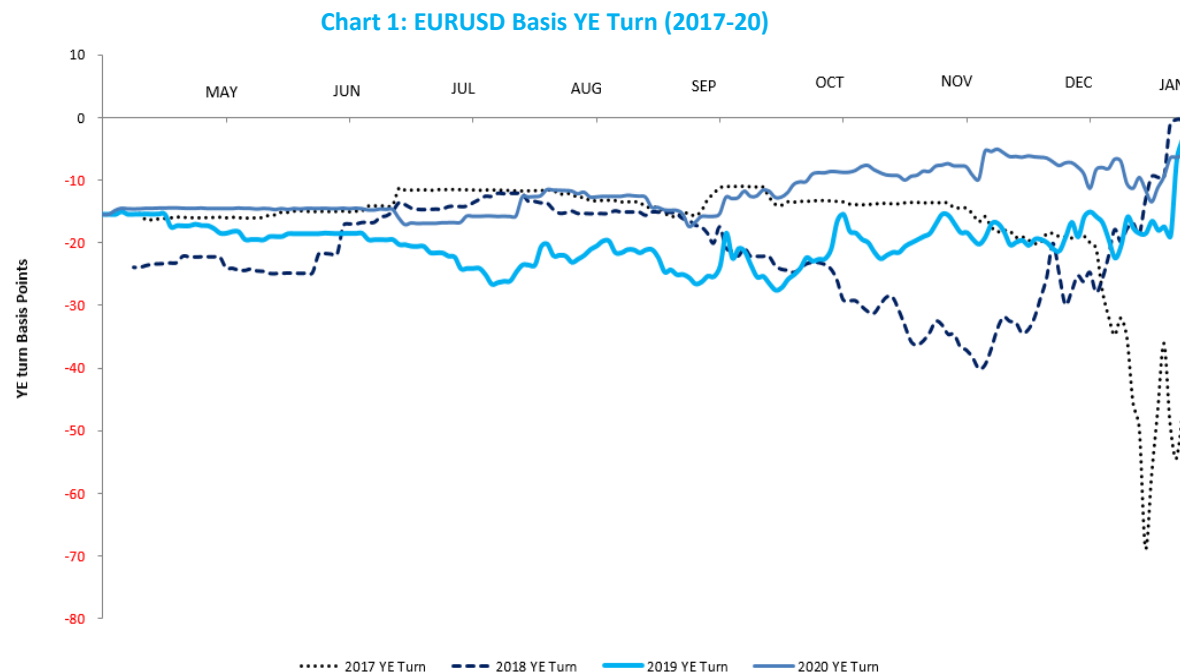
FX Basis

- As Covid-19 hit the markets in Mar/Apr-20, FX basis vs. USD moved significantly wider with the funding/liquidity stress also evident in the LIBOR-OIS basis moving materially wider
- However, following the Fed's intervention (as noted in prev slides), the liquidity stress started to abate with both FX basis and LIBOR-OIS basis tightening materially with the LIBOR-OIS basis now trading at levels tighter than pre-Covid-19
- FX Swap markets particularly benefited from the Fed Swap lines as this capped the cost of USD liquidity globally and helped contain large widening moves in the FX market through 2020



Different story over year end

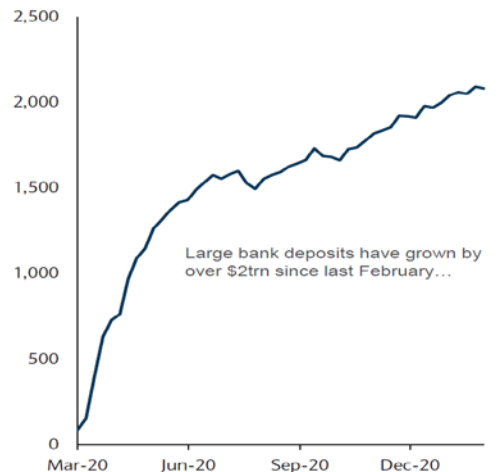
- 2020 year end saw a slightly different compared to previous years
- As seen below for EURUSD, the YE turn effect was quite contained, which is again a function of ample USD liquidity available in the market. The moves were also similar for other CCYs such as JPY and CHF indicating lower funding stress vs. USD
- However, a notable aspect in 2020 was the sudden widening in the YE turn towards latter half of Dec-20 with the basis ending the year wider and not at par as it did in prior years as seen in graph below
- One of the main cited reasons for this move was around the timing of the YE flows - with excess USD liquidity, a lot of the flows for YE that would normally come in early Q4 did not arrive until Dec in anticipation of better execution levels on basis. And when the flows finally arrived closer to YE, dealers and banks struggled to take the other side given GSIB and Balance Sheet constraints resulting in basis ending up wider for 2020 YE



SLR Relief

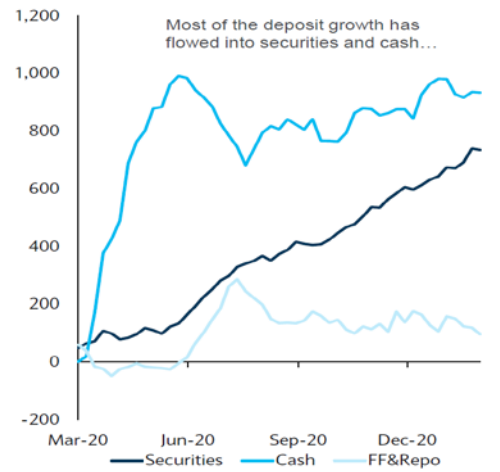
- One of the key announcements that the Fed delivered during the pandemic was around the temporary exclusion of USTs and deposits with the Fed from the calculation of SLR (Supplementary Leverage Ratio)
- Since the pandemic began, bank deposits have grown significantly (see Chart 1) . But given low demand for loans, banks end up having a large balance sheet (see Chart 3)
- With the above SLR relief, banks now have the ability to use these deposits to buy Securities (USTs/MBS) or deposit with the Fed without having any impact on capital(see Chart 2)
- The SLR relief is due to expire on 31st March 2021 but given the constraints around Bank Balance Sheet and Fed’s QE program set to continue, the wider market expectation is for the relief to be extended
- In addition, the TGA (Treasury General Account) balance which is currently sitting at record high levels of \$1.6trn is expected to be drawn down by \$800bn by end of Mar-21 and a further \$300bn by June-21. With this additional USD liquidity due to hit the markets, it is more than likely that the SLR exemption will be extended beyond Mar-21

Chart 1: Bank Deposits (\$bn)



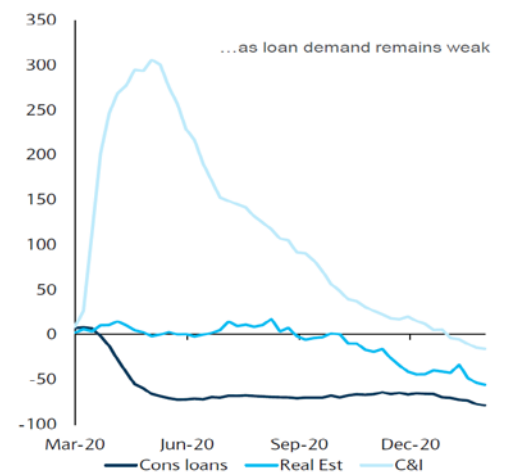
Note: Excluding time deposits. Cumulative growth since February 2020. Source: Federal Reserve, Barclays Research

Chart 2: Bank Securities (\$bn)



Note: Cumulative growth since February 2020. Source: Federal Reserve, Barclays Research

Chart 3: Bank Loans (\$bn)



Note: Cumulative growth since February 2020. Source: Federal Reserve, Barclays Research

Issuance Overview

- The ample USD liquidity has resulted in term XCCY basis also getting tighter
- Table 1 below shows the split of issuers across the globe and the 'Cheapest To Deliver CCY' for issuance. Given the ample USD liquidity and lower term rates, it is becoming increasingly cheaper for non-USD Issuers to issue in USD and swap this back to natural CCY of their balance sheet where required
- Chart 1 highlights this for a sample of Financials where it is cheaper to issue in USD vs. EUR including XCCY basis across most tenors
- This is further evident from Table 2 where USD issuance by European Financials/Agencies in Q1 in 2021 is much higher compared to Q1 issuances in previous years.

Chart 1: Sample Financials Issuance Levels - USD vs. EUR (with XCCY)

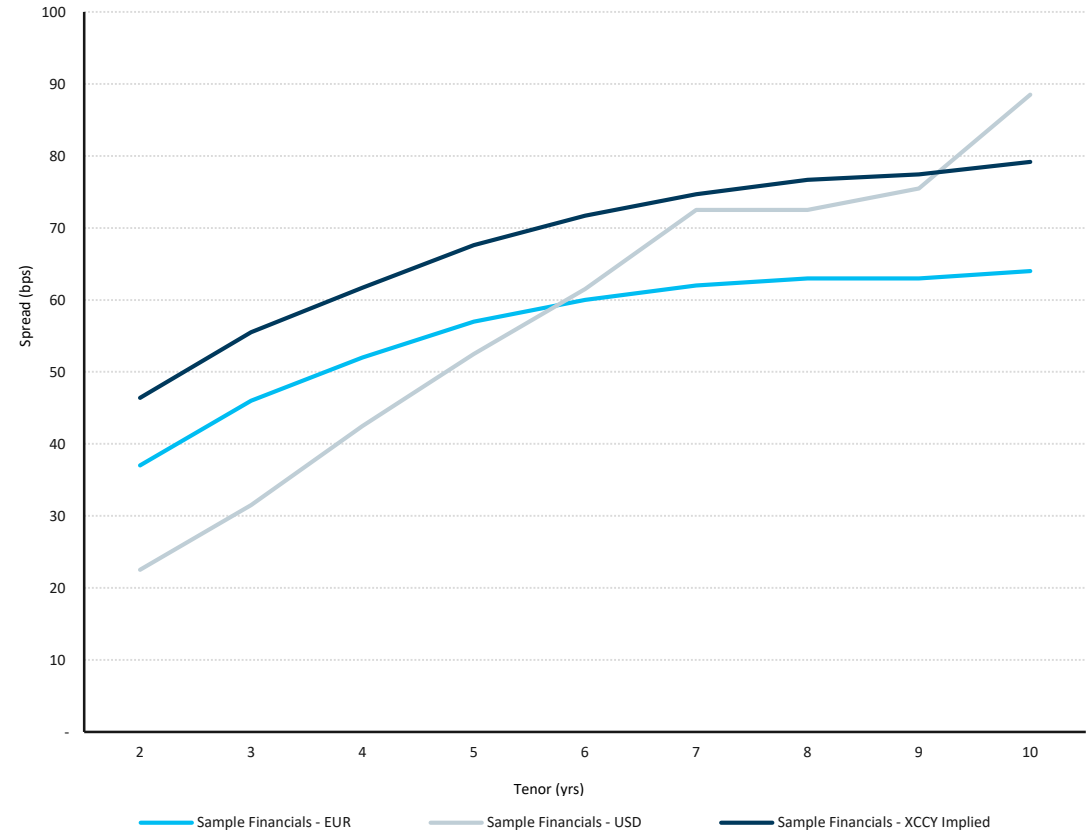


Table 1: CTD CCY Issuance Grid (Region/Tenor)

COUNTRY / REGION	USD												EUR				GBP			AUD		JPY				CAD			CTD CCY Issuance			Balance Sheet CCY
	2Y		5Y		10Y		15Y		2Y		5Y		10Y		15Y		2Y		5Y		10Y		15Y		2Y		5Y		10Y			
	2Y	5Y	10Y	15Y	2Y	5Y	10Y	15Y	2Y	5Y	10Y	15Y	2Y	5Y	10Y	15Y	2Y	5Y	10Y	15Y	2Y	5Y	10Y	15Y	2Y	5Y	10Y					
Europe	0.42	0.84	1.71	1.67	0.69	0.90	1.03		0.74	0.80	1.22						0.92	1.14													EUR	
Canada	0.27	0.55			0.66	0.70															0.42	0.55									CAD	
UK	0.26	0.87	1.29	1.44	0.71	0.79			0.43	1.12	1.33						0.94	1.58			0.44										GBP	
AUSTRALIA	0.15	0.44	1.43	1.47	0.51	0.62	0.51										0.86				0.48	0.76									AUD	
US	0.40	0.92	0.79	1.10	0.81	0.89	0.88		0.63	0.79	1.09																				USD	
JAPAN	0.28	0.63	0.89	1.15	0.78	0.76	0.91																								JPY	

Table 2: Historical Q1 Issuances by European Issuers (CCY bn)

Issuer	B/S CCY	Issuance CCY	2016	2017	2018	2019	2020	2021
SSAs	EUR	USD	33.9	34.6	42.0	28.9	14.6	35.4
		EUR	39.1	44.6	28.2	41.6	43.5	29.8
Financials	EUR	USD	11.9	23.2	21.1	18.2	11.3	18.0
		EUR	79.1	66.3	70.6	90.4	71.8	40.8

Disclaimer

BARCLAYS

This communication has been prepared by Barclays.

“Barclays” means any entity within the Barclays Group of companies, where “Barclays Group” means Barclays Bank PLC, Barclays PLC and any of their subsidiaries, affiliates, ultimate holding company and any subsidiaries or affiliates of such holding company.

CONFLICTS OF INTEREST

BARCLAYS IS A FULL SERVICE INVESTMENT BANK. In the normal course of offering investment banking products and services to clients, Barclays may act in several capacities (including issuer, market maker and/or liquidity provider, underwriter, distributor, index sponsor, swap counterparty and calculation agent) simultaneously with respect to a product, giving rise to potential conflicts of interest which may impact the performance of a product.

NOT RESEARCH

This document is from a Barclays Trading and/or Distribution desk and is not a product of the Barclays Research department. Any views expressed may differ from those of Barclays Research.

BARCLAYS POSITIONS

Barclays may at any time acquire, hold or dispose of long or short positions (including hedging and trading positions) and trade or otherwise effect transactions for their own account or the account of their customers in the products referred to herein which may impact the performance of a product.

FOR INFORMATION ONLY

THIS COMMUNICATION IS PROVIDED FOR INFORMATION PURPOSES ONLY AND IT IS SUBJECT TO CHANGE. IT IS INDICATIVE ONLY AND IS NOT BINDING.

NO OFFER

Barclays is not offering to sell or seeking offers to buy any product or enter into any transaction. Any offer or entry into any transaction requires Barclays’ subsequent formal agreement which will be subject to internal approvals and execution of binding transaction documents.

NO LIABILITY

Neither Barclays nor any of its directors, officers, employees, representatives or agents, accepts any liability whatsoever for any direct, indirect or consequential losses (in contract, tort or otherwise) arising from the use of this communication or its contents or reliance on the information contained herein, except to the extent this would be prohibited by law or regulation.

NO ADVICE

Barclays is acting solely as principal and not as fiduciary. Barclays does not provide, and has not provided, any investment advice or personal recommendation to you in relation to the transaction and/or any related securities described herein and is not responsible for providing or arranging for the provision of any general financial, strategic or specialist advice, including legal, regulatory, accounting, model auditing or taxation advice or services or any other services in relation to the transaction and/or any related securities described herein. Accordingly Barclays is under no obligation to, and shall not, determine the suitability for you of the transaction described herein. You must determine, on your own behalf or through independent professional advice, the merits, terms, conditions and risks of the transaction described herein.

Disclaimer

THIRD PARTY INFORMATION	Barclays is not responsible for information stated to be obtained or derived from third party sources or statistical services.
PAST & SIMULATED PAST PERFORMANCE	<p>Any past or simulated past performance including back-testing, modelling or scenario analysis contained herein is no indication as to future performance.</p> <p>No representation is made as to the accuracy of the assumptions made within, or completeness of, any modelling, scenario analysis or back-testing.</p>
OPINIONS SUBJECT TO CHANGE	All opinions and estimates are given as of the date hereof and are subject to change. The value of any investment may also fluctuate as a result of market changes. Barclays is not obliged to inform the recipients of this communication of any change to such opinions or estimates.
NOT FOR RETAIL	This document is being directed at persons who are professionals and is not intended for retail customer use.
IMPORTANT DISCLOSURES	For important regional disclosures you must read, visit the link relevant to your region. Please contact your Barclays representative if you are unable to access.
EMEA	https://www.home.barclays/disclosures/important-emea-disclosures.html .
APAC	https://www.home.barclays/disclosures/important-apac-disclosures.html .
U.S.	https://www.home.barclays/disclosures/important-us-disclosures.html .
CONFIDENTIAL	This communication is confidential and is for the benefit and internal use of the recipient for the purpose of considering the securities/transaction described herein, and no part of it may be reproduced, distributed or transmitted without the prior written permission of Barclays.
ABOUT BARCLAYS	Barclays offers premier investment banking products and services to its clients through Barclays Bank PLC. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. Barclays Bank PLC is registered in England No. 1026167 with its registered office at 1 Churchill Place, London E14 5HP.
COPYRIGHT	© Copyright Barclays 2021 (all rights reserved).