EMEA Treasury – FX Swaps

Jan 2015
Cross Currency Dynamics

- Cross currency basis curves have continued their widening trend over the past 3 months.

- Unlike previous moves wider such as those seen during Lehman crisis, EuroZone crisis, Japanese banking crisis, the recent move is not led by Banks.

- Rather it is a response to divergent central bank policies, with the Fed expected to begin normalizing USD rates shortly, vs. rate cuts, liquidity injections and quantitative easing in other currencies:
  
  - 18th Sep & 11th Dec: ECB TLTRO’s inject €210bn
  - 15th Jan: SNB cuts 50bp and removes EURCHF floor
  - 22nd Jan: DKK cuts rates 15bp
  - 22nd Jan: ECB announces QE
  - March: QE purchases begin
EUR Basis

- EUR currency basis has been driven wider and flatter due to a number of factors:
  - Rates cuts [Jun-14 & Sep-14]
  - TLTRO liquidity injections
  - Quantitative Easing
  - Talk of Grexit
  - Widening EUR / USD interest differentials
  - Increased reverse yankee issuance vs. reduced yankee issuance, due to tighter credit spreads in eur than usd.

- These have pushed eur ccy basis to the widest since early 2013, though still far from the levels seen during Eurozone or Lehmans crises.
- Basis could be pushed lower and flatter as impact of bigger and open ended QE on Eurozone excess liquidity starts to take effect.

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EurUsd Ccy Basis [OIS Funding]

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Excess Liquidity