ECB MMCG Meeting: CCY Basis – Executive Summary & Call for Discussions

Frankfurt, 26.09.2017, Oliver Deutscher
Cross – Currency Basis:
A short summary of DZ BANK’s two research publication findings

Interest Rate Derivatives
A Research Publication by DZ BANK AG

Cross-currency basis – the new monetary policy barometer

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BONDS

Foreign Exchange Markets
A Research Publication by DZ BANK AG

The cross-currency basis: a market analysis

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Source: DZ Bank research papers, dated June 21st and July 7th, 2017,
Cross – Currency Basis:
Indicator and/ or barometer of FX markets & liquidity?

Summary of findings to DZ BANK research publication:

- A negative basis implies a relative shortage of USD in FX derivatives
- Cross – currency basis has significant impact on cost of cross-ccy-funding substantially for non US markets participants
- Missing direct access to USD funding for borrowers increases exposure to FX swap markets liquidity & market depth
- Since 2007/2008 central bank monetary policies and financial markets regulations have added to the importance of ccy basis as an sensitive indicator for FX markets participants
- Further more, economic policies and necessary banks balance sheet management have added to the volatility of ccy basis (e.g.: reform of the US money market fund sector 2016).

Source: DZ Bank research papers, dated June 21st and July 7th, 2017,
Cross – Currency Basis: Indicator and/or barometer of FX markets & liquidity?

- Negative values reflect structural shortage of USD in FX derivatives and shifting away from theoretical equilibriums.

Cross – Currency Basis:
Indicator and/or barometer of FX markets & liquidity?

- Focus stays on central banks monetary policies and financial markets participants exposure to basis volatilities
- Narrowing of the basis rather unlikely looking at EoY but market should be better prepared than 4.Q.2016

Source: DZ Bank research, dated June 21st and July 7th, 2017,
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Near term and future implications?

➢ How does upcoming tightening of monetary policies impact ccy markets?

➢ How does FED’s decision on reduction of its balance sheet impact USD liquidity?

➢ Who will be impacted most?

➢ Will seasonal effects (e.g.: Quarterly & EOY activities) again propell effects in 2017 vs. EOY 2016?

➢ What effects will be seen in EURUSD FX rate?

Source: DZ Bank research, dated June 21st and July 7th, 2017,
Thank you