



# EONIA SWAP INDEX

## Reasons & Opportunities

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# Agenda

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**1** Reasons for creating a derivative reference rate

**2** Opportunities & new products

**3** Spread observations

**4** Outlook



# Reasons for an EONIA SWAP Index

## EONIA SWAP Market

- New reference rate for the Euro
- Rising trading volumes
- Increasing importance for interest rate risk management and proprietary trading

## Need for a benchmark

- Completes the range of money market benchmarks Euribor (unsecured) and Eurepo (secured) from a derivative perspective
- Provides a spread definition to those markets

## Product development

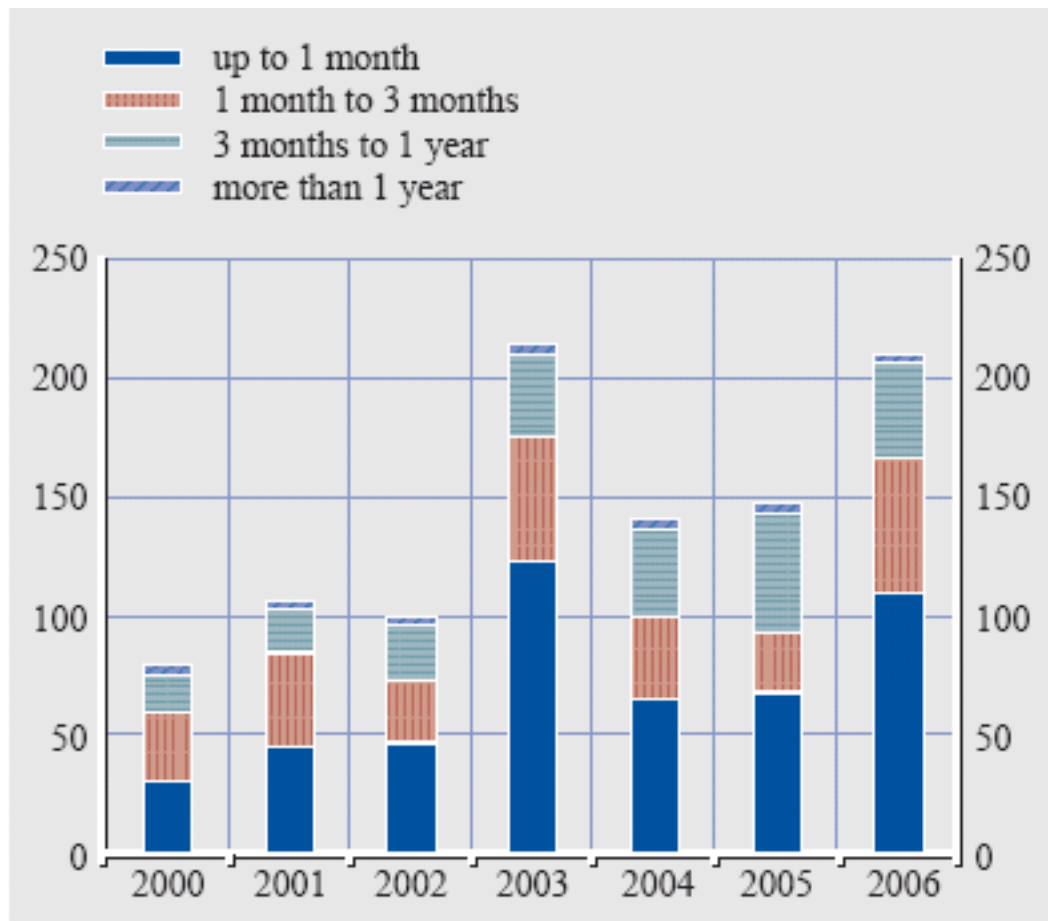
- Promotes the development of new products and market enhancements, such as Eonia FRA, EONIA Index OTC Option

## Official reference rate

- Can be used as a controlling tool and for market conformity checks



# Developments of EONIA Swaps



Source: ECB money market survey 2006

- OIS volume rose in 2006 back to the levels recorded in 2003
- The 2006 volume shows a shift to the shorter maturities (1week - 1month)

**Note :**

The volume for OIS in Q2 2002 is taken as the base =100.  
The panel comprised 85 banks in 2000 and 2001 and 114 banks from 2002 to 2006

# Specification EONIA SWAP INDEX

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- **Mid Market Rate of EONIA SWAP quotations from prime banks**
- **Fixed daily at 16.30 CET (clear time gap to EURIBOR + EUREPO)**
- **Index is quoted for spot value (T+2) on an act/360 day count convention and is displayed on 3 decimal place**
- **Implemented maturities are 1, 2 and 3 weeks as well as 1 to 12 months (since June 2005) and 15, 18, 21, 24 months (since May 2007)**
- **Named “INDEX” rather than “fixing”**
- **Procedures are in line with the existing fixings for EURIBOR & EUREPO**

# Opportunities & New Products

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## Reference rate for long term swaps

- OIS market is the main trading instrument for managing short-term interest rate risk exposure
- Reduces costs trading long term OIS

## Eonia FRA

- Forward Rate Agreement fixing against the EONIA SWAP Index
- Cash settled at the fixing date
- Smart enhancement of Forward EONIA Swaps for proprietary traders to avoid daily O/N fixing risk
- Shorter expiry of counterparty risk
- Lower Back Office costs

# Opportunities & New Products

## Creating and adding volume to basis swap markets

- Long term basis swap market already active in 1m / 3m / 6-month basis swaps
- Basis swap market Eonia vs. 1- / 3- or 6-month only active up to 2 years currently
- Expansion of basis swap market with rising volumes in long term IRS vs. EONIA Swap Index highly likely

## Eonia Index OTC Option

- Development of OTC option market vs. EONIA SWAP INDEX thinkable
- Ideal reference to position for potential changes in ECB rates (e.g. 1M EONIA Swap Index at the ECB-meeting date)
- Development of current short term OTC option market versus EONIA was lagging because of missing reference rate

# Opportunities & New Products

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## Controlling tool for EONIA Swaps

- Creating an official revaluation curve for EONIA Swaps
- Requirement for certain client groups to trade a product

## Benchmark for derivative markets

- Fixes a recognized rate for a key product in short term markets
- Sets an official reference to trade a product actively over all client segments
- Supports new product approval processes ideally

## Creating spread definitions vs. EURIBOR and EUREPO indices

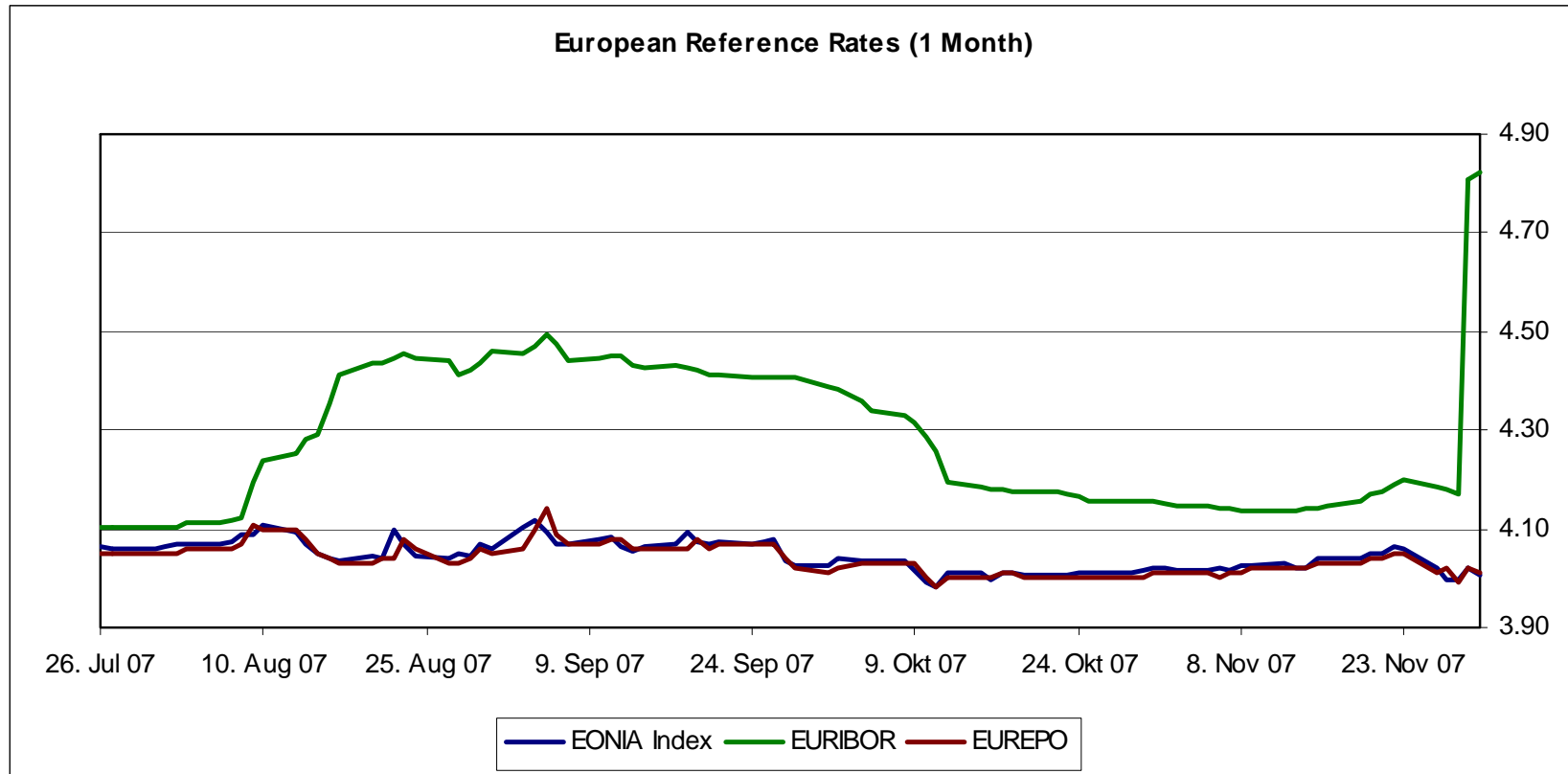
- Provides basis for short term market analysis





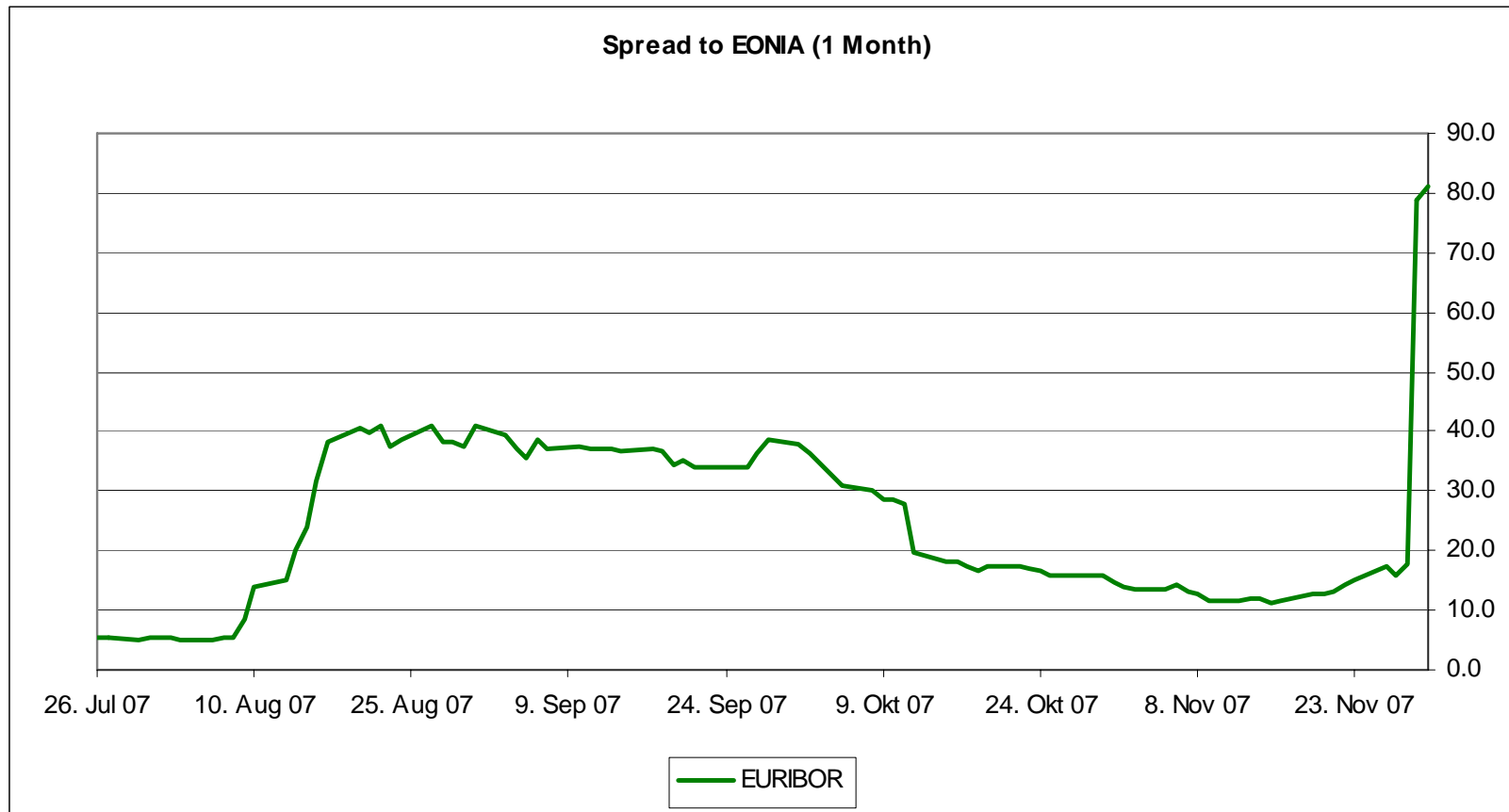
# Spread Chart Reference Rates

## Comparison (1 month)



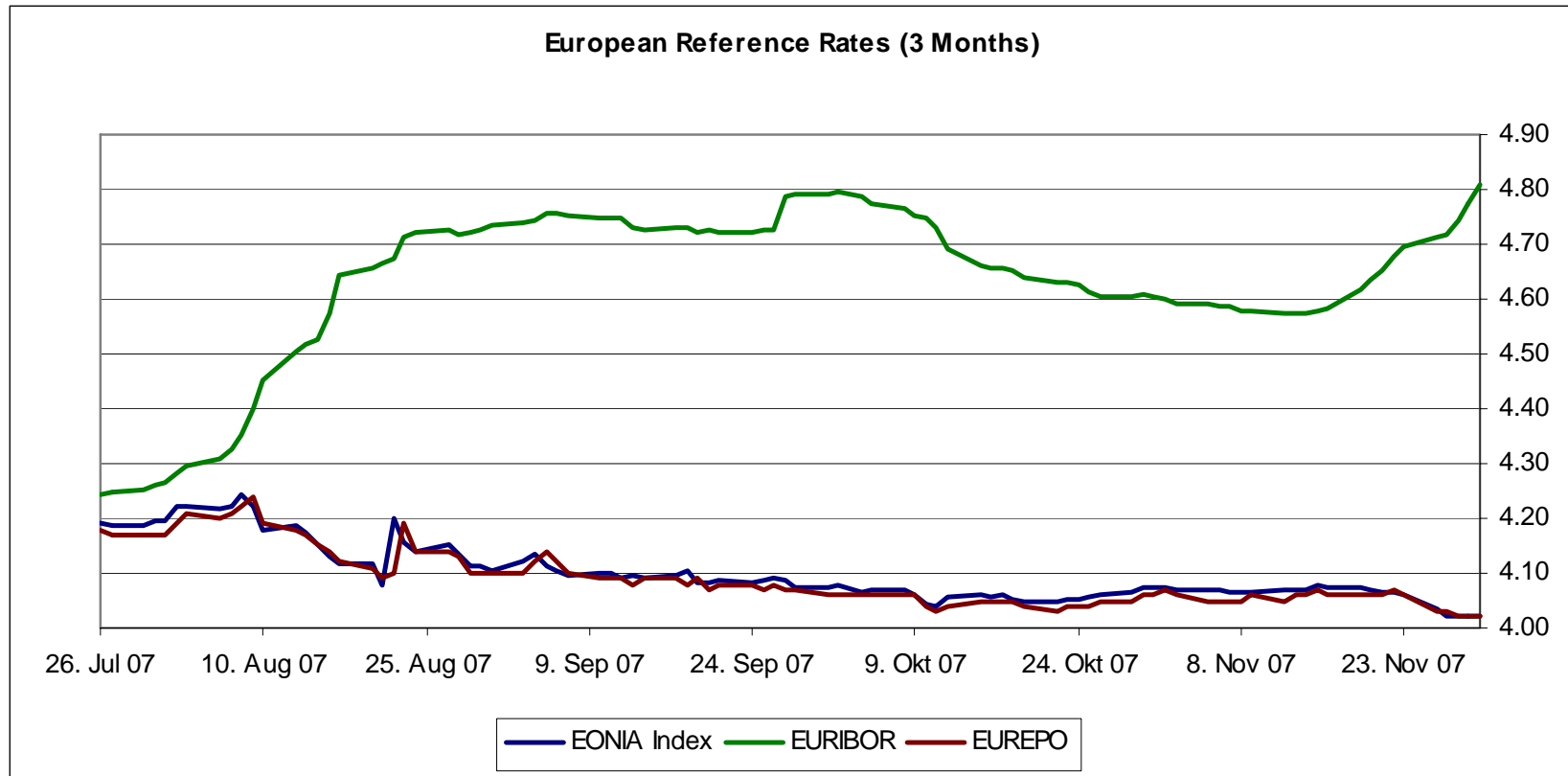
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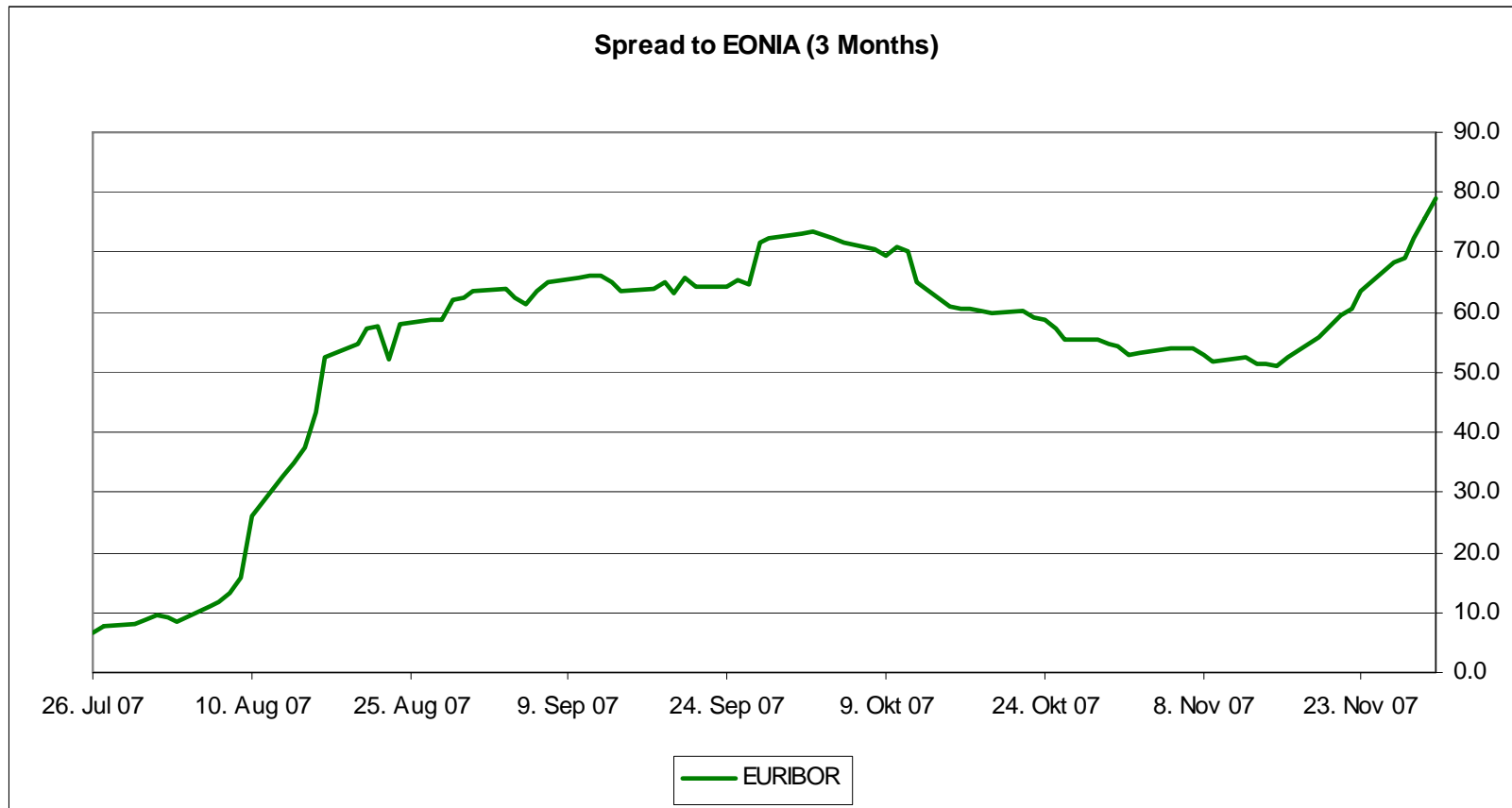
# Spread Chart Reference Rates

Comparison (3 months)



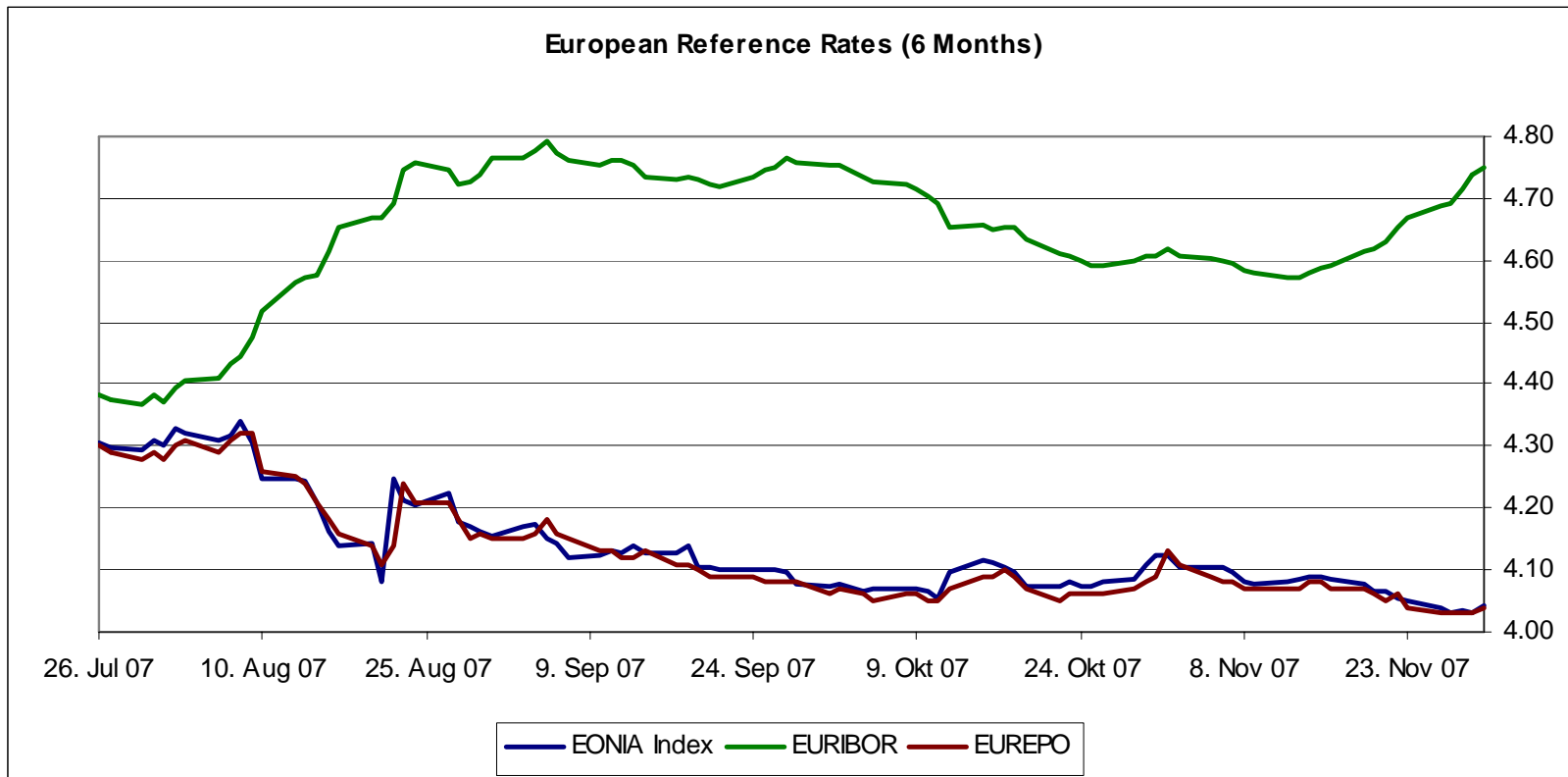
# Spread Chart Reference Rates

Comparison (3 months)



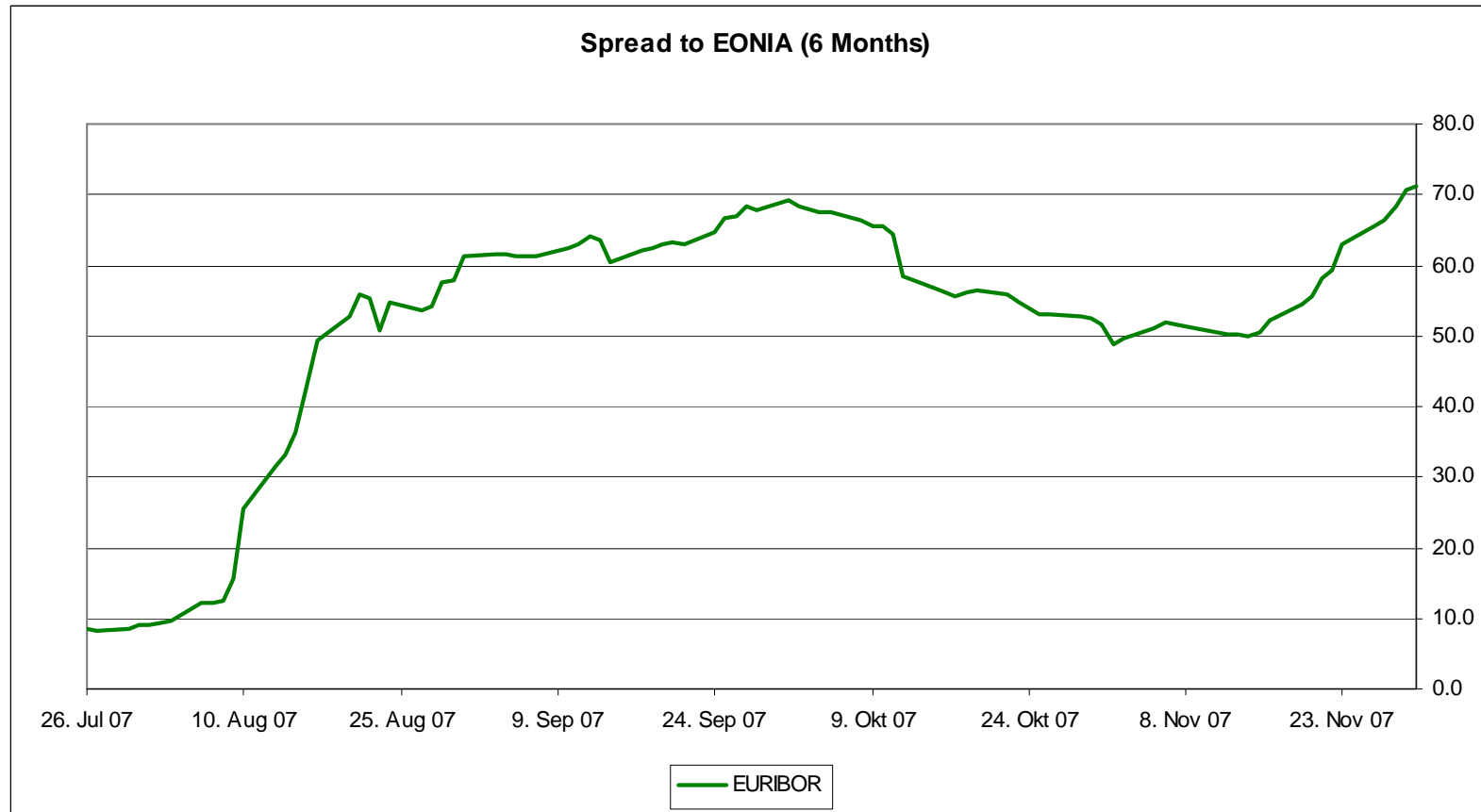
# Spread Chart Reference Rates

Comparison (6 months)

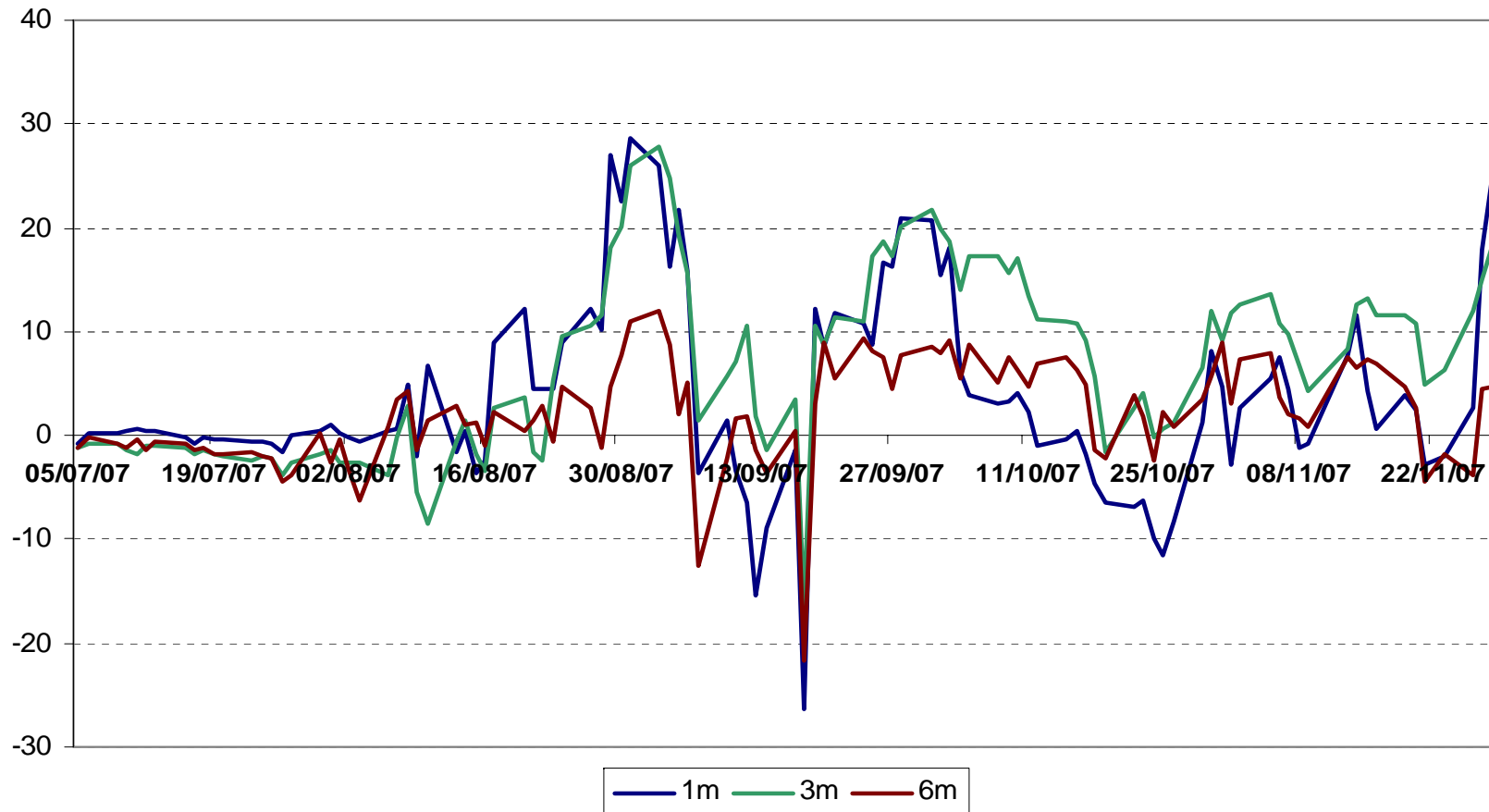


# Spread Chart Reference Rates

## Comparison (6 months)



# USD rates - Libor through FX-Fwds



# Market Outlook

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- **Market spreads may stay higher than historically for a longer period of time**
- **Derivative markets may consider using EONIA SWAP INDEX more actively as reference rate**
- **Euribor / Libor definitions might be reviewed**
- **Basis Swaps will gain importance**
- **Liquidity planning and management will be at higher importance within the banks**
- **EONIA FRA product launch scheduled for 1 Feb 2008**