

EMEA Treasury – FX Swaps

Jan 2015

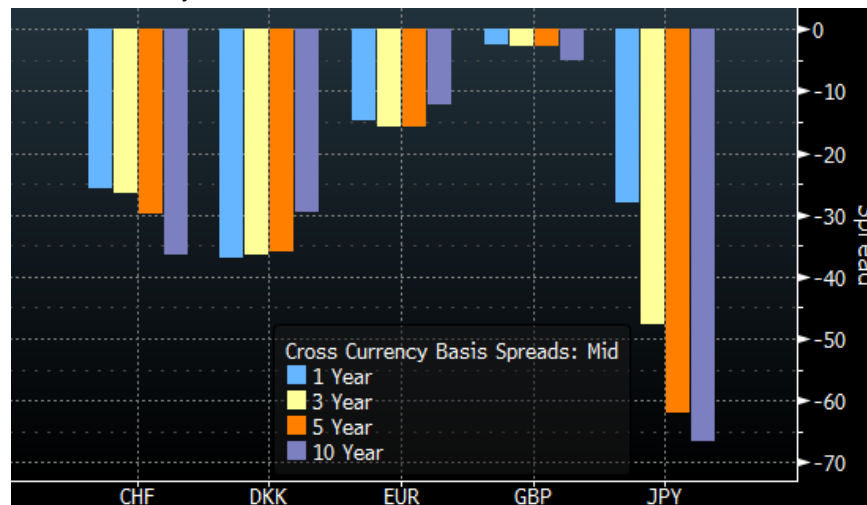
EMEA Treasury – Currency Basis

Cross Currency Dynamics

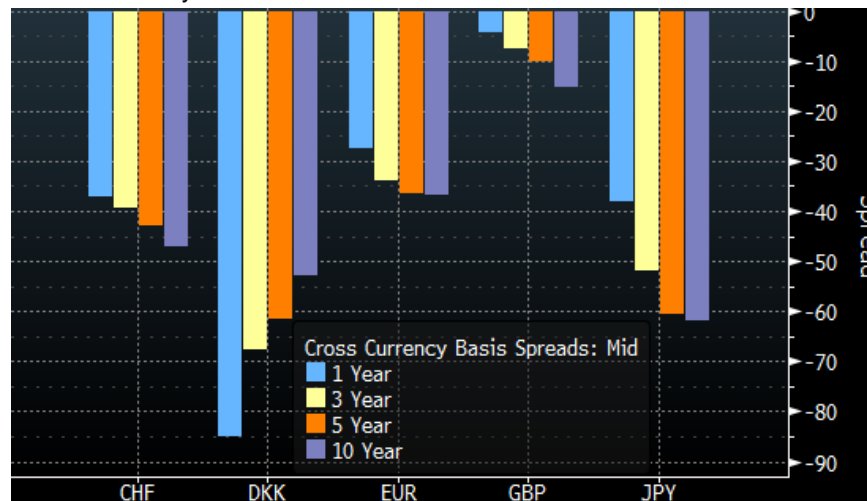
- Cross currency basis curves have continued their widening trend over the past 3 months.
- Unlike previous moves wider such as those seen during Lehmans crisis, Eurozone crisis, Japanese banking crisis, the recent move is not led by Banks.
- Rather it is a response to divergent central bank policies, 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

EMEA TREASURY - CURRENCY BASIS

Cross Currency Basis Curves – 17th Dec 2014



Cross Currency Basis Curves – 17th Mar 2015



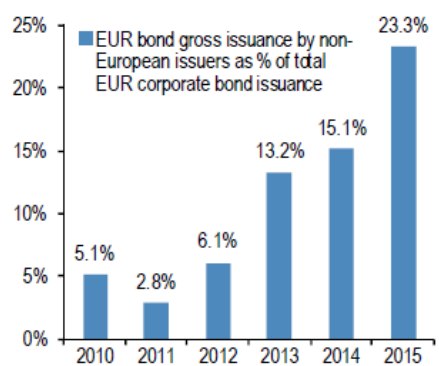
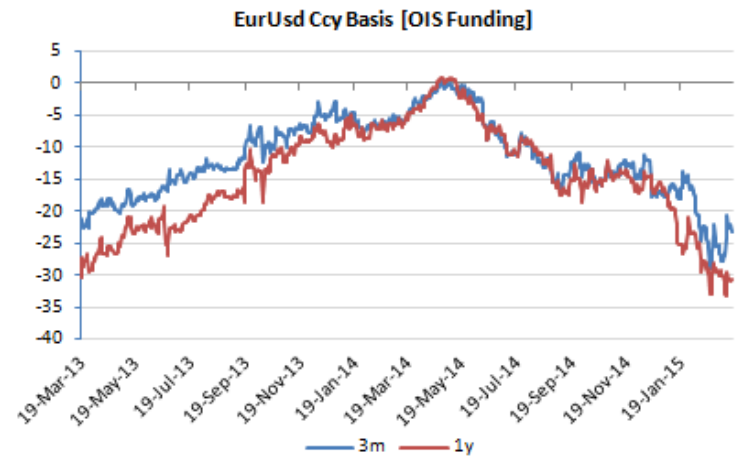
EMEA Treasury – Currency Basis

EUR Basis

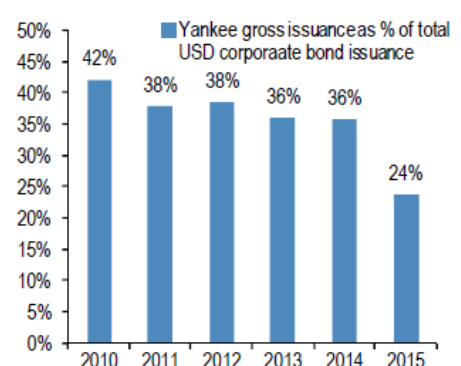
- EUR currency basis has been driven wider and flatter due to a number of factors :
 - Rates cuts [Jun-14 & Sep-14]
 - TLTRO liquidity injections
 - Quantitative Easing
 - Talk of Grexit
 - Widening EUR / USD interest differentials
 - Increased reverse yankee issuance vs. reduced yankee issuance, due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

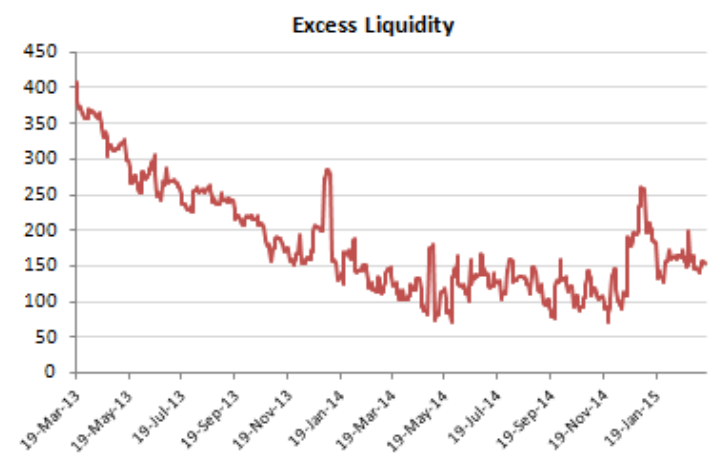
- Basis could be pushed lower and flatter as impact of bigger and open ended QE on Eurozone excess liquidity starts to take effect.



Source: Dealogic, J.P. Morgan



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EMEA TREASURY - CURRENCY BASIS