

xCcy Basis Monitor

Global FI Strategy, 07 May 2014

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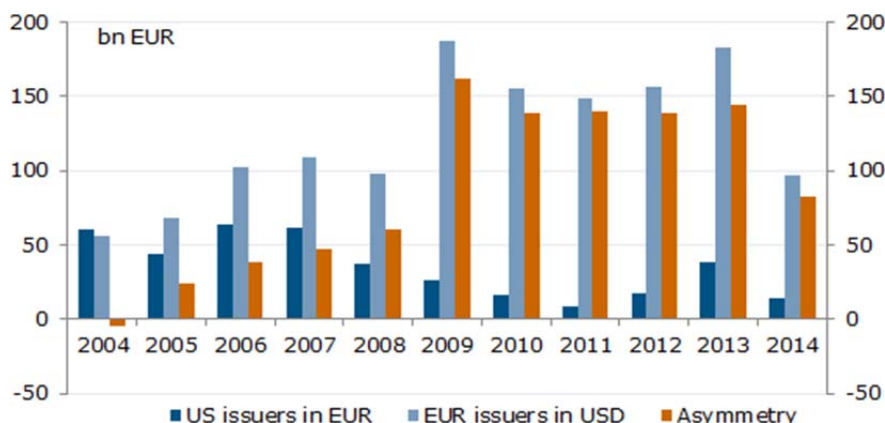
With the mammoth Numericable/Altice deals in fresh memory - €12.05bn in total, with 4 USD tranches totalling \$10.675bn, the chart of the month looks at (potential) traffic in the EURUSD xCcy basis historically. The USD tranches cited above spanned the 5Y-10Y segment and aided in turning e.g. 5Y EURUSD positive for the first time since 2007. The asymmetry between USD-issuance and EUR-issuance has over the past 5 years been very large, and we're now on pace for the highest ever, only unlike 2009, there's no boost from the xCcy basis market. For instance, the 5Y EURUSD xCcy basis spread was in -60bp in February 2009 vs. +1bp in late April 2014.

EURUSD xCcy basis has been pushed up by somewhat of a perfect storm: Asymmetrical issuances, waning Eurozone excess liquidity (which has forced Eonia rates up), and by a strong Fx spot as well. With the latter helped by real rates being supported by very low Eurozone inflation, recent prints have aided in forcing EURUSD xCcy basis positive as well. If one or more of these is primed to reverse, then receiving the EURUSD xCcy basis looks very interesting at the current levels. *We prefer the short end here as that should be the most receptive point on the curve, for instance receiving 6m2y @ -1bps which also has a slightly positive roll.*

The issuance traffic is close to one-way for scandies, with SEK 2014 EUR issuance nearing 10bn EUR on the year, roughly on pace with recent years. NOK issuance remains subdued, *and given this and internalising the basis-cheapness (5Y in -1bp now) and a potential move in the EURUSD basis, we like paying 6M5Y flat, i.e. with a marginal negative roll of 1bp.* The EURDKK 1Y xCcy spread got as tight as -22bps in the aftermath of Nationalbankens hike on April 24th, the highest value since 2012, but some of this is being reversed in recent sessions (cf. chart 3).

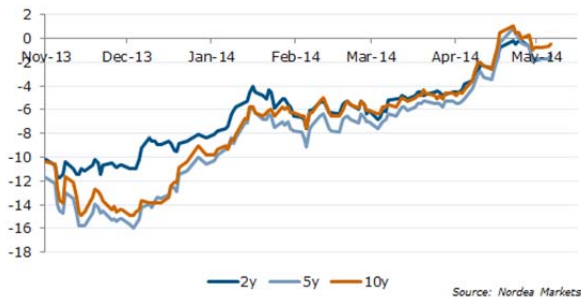
1. Chart of the month: Issuance flow through the big one

US issuers in EUR vs. Eurozone issuers in USD (in bn EUR per year)

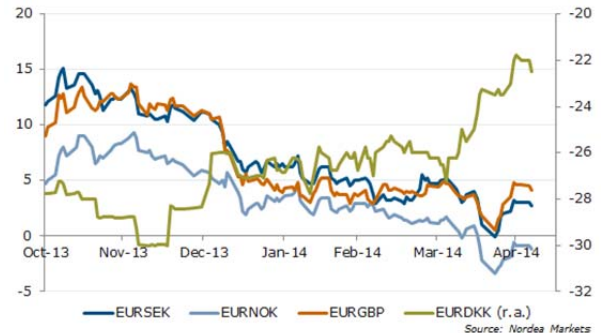


Source: Bloomberg, BondRadar, Nordea Markets

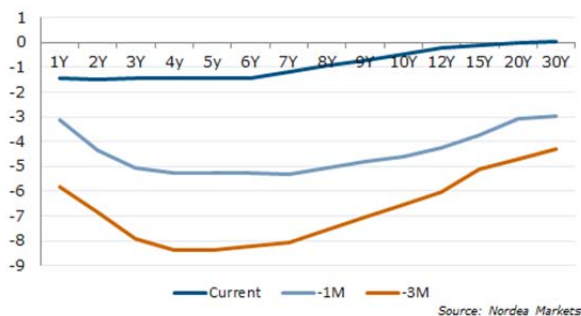
2. EURUSD basis over the past 6M (2Y,5Y,10Y)



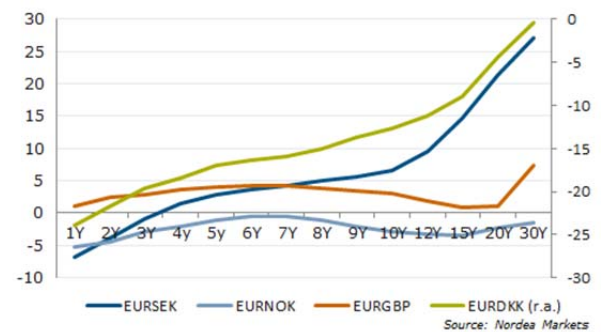
3. EUR-Scandi & EURGBP over the past 6M (5Y)



4. EURUSD CCBS term structure (now, -1M, -3M)



5. EUR-Scandi & EURGBP CCBS term structures

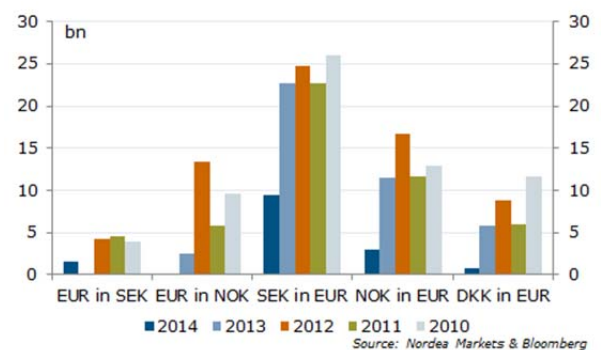


6. Funding Map

FUNDING PERSPECTIVE								
Base ccy	Domestic		Basis spread to domestic xlbcr					
	2y	3M xlbcr	USD	EUR	GBP	SEK	NOK	
	USD	22	0	1	-1	5	6	
	EUR	34	-1	0	-3	4	4	
	GBP	52	1	3	0	6	7	
	SEK	91	-5	-4	-6	0	1	
	NOK	180	-6	-4	-7	-1	0	
Base ccy	5y		3M xlbcr	USD	EUR	GBP	SEK	NOK
	USD	22	0	1	-3	-1	3	
	EUR	34	-1	0	-4	-3	1	
	GBP	52	3	4	0	1	5	
	SEK	91	1	3	-1	0	4	
	NOK	180	-3	-1	-5	-4	0	
	Base ccy	7y		3M xlbcr	USD	EUR	GBP	SEK
USD		22	0	1	-3	-3	2	
EUR		34	-1	0	-4	-4	1	
GBP		52	3	4	0	0	5	
SEK		91	3	4	0	0	5	
NOK		180	-2	-1	-5	-5	0	

Levels based on 3M fixings assuming no credit spreads to market quotes. Dark blue mark negative basis spreads, lowering funding rate by issuing in column currency, disregarding potential credit premium difference.

7. Issuances



(Potential) traffic through the basis. EUR in SEK denotes the issuance from EUR denominated corporates/financials in SEK. Vice versa for SEK in EUR.

Appendix: Details

General

All data in this publication is courtesy of Nordea Markets, unless otherwise indicated. All quotes are given as is market standard, i.e. all spreads are quoted opposite the Euribor leg, unless the other currency is USD. For example, the EURSEK basis entails the swap of Euribor 3M vs. Stibor 3M + spread.

Quotes given in the publication are mid indications and sampled at close of the preceding trading date.

Charts

Chart 2 gives xCcy basis spot spreads for 2Y, 5Y and 10Y EURUSD basis, i.e. swaps of USD Libor 3M vs. Euribor 3M + spread.

Similarly chart 3 gives 5Y spot spreads for EURGBP, EURSEK, EURNOK and EURDKK.

Charts 4 & 5 give the current spot basis curve for the respective crosses along with some historical structures.

Chart 6 gives an overview of the funding situation. For the maturities of 2Y, 5Y and 7Y, the clean xCcy basis pickup is shown. The 3M fixing is also given. These levels assume no credit spreads to market quotes. Very low values indicate that issuers have to pay a premium through the basis market to issue non-domestically. The prospective spread to swap, market liquidity etc. which influence issuance decisions are not incorporated.

Chart 7 gives a historical overview of the flow in and out of Scandi currencies. "EUR in SEK" means EUR denominated issuers issuing in SEK, and vice versa for "SEK in EUR". Note that covered issuances are of particular interest as these have to be swapped back, i.e. the flow is not only potential.

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