

# xCcy Basis Monitor

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**Lars Peter Lilleøre**  
 Chief Analyst, FI products  
 Global Strategy  
 +45 3333 3611  
[lars.peter.lilleore@nordea.com](mailto:lars.peter.lilleore@nordea.com)

EUR liquidity is turning cheaper on the heels of the ECB announcing both a stop to the SMP-sterilization and the new targeted LTRO. This TLTRO has as aim to address the faltering transmission mechanism, but as of now, the success of it is a huge wild card. Size wise, it will be of no more than roughly €400bn and it is not at all clear that the outline of the package is attractive enough for banks to play along that far. On the other hand, the stop of SMP-sterilization helps excess liquidity to the tune of about €120bn and the full allotment into late 2016 also limit the scarcity of EUR.

Given all this, it's not a surprise that EURUSD xCcy basis swap spreads have gone decidedly negative over the past 5-6 weeks: *But there's more potential in e.g. receiving 1y1y EURUSD xCcy basis which we loved at flat but still like now @-8.5.* Note that the now negative deposit rate means that banks are penalised on both the deposit account and on the excess reserves on the current account. While e.g. the Euribor fixing is also moving down, so that in a relative metric said deposits are not much worse off, consider EUR banks with US banking license: The Fed pays interest, and the ECB demands it. This should add to the demand of dollars, EURUSD basis has room to move further (note though that the break has increased over the last few days, cf. chart), in the short end to begin with, but in time also across the curve.

As the action has originated around EUR, EURSEK and EURNOK have increased dutifully over the past month. Swedish issuance in EUR is at pace with recent years, whereas Norwegian remains very subdued. On the NOK curve 10Y-2Y vs. EUR lies flat, but 1Y forward that spread is around -4bps. The issuance story over the past month is from Denmark in Euros with about €1bn issued since early May; EURDKK basis continues to support this flow.

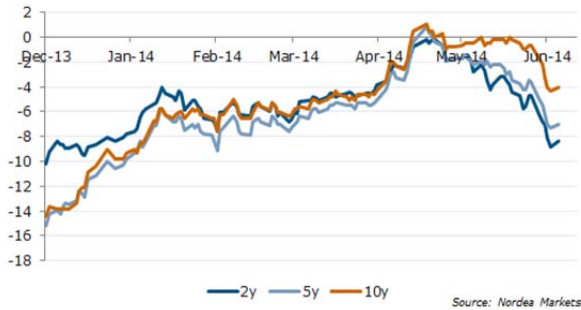
## 1. Chart of the month: Back to 'crisis' term structures – steeper curve

EURUSD 3M vs. 1Y and EURUSD 2Y vs. 10Y – Curve increasing again

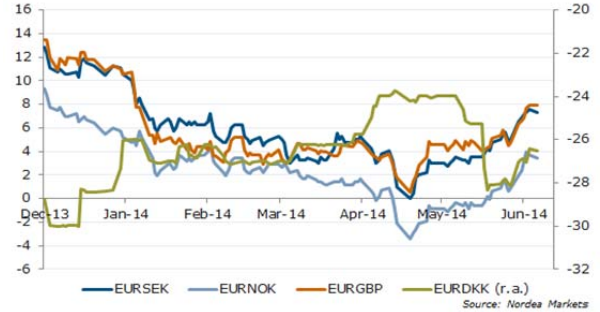


Source: Nordea Markets

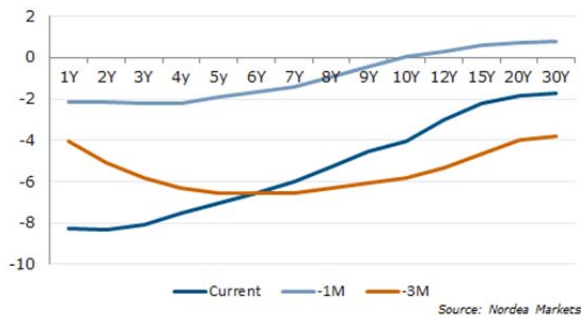
2. EURUSD basis over the past 6M (2Y,5Y,10Y)



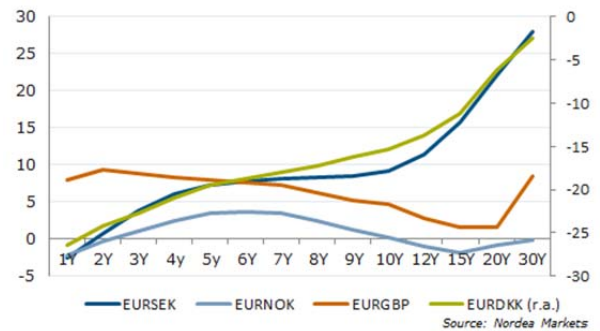
3. EUR-Scandi & EURGBP over the past 6M (5Y)



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



5. EUR-Scandi & EURGBP CCBS term structures



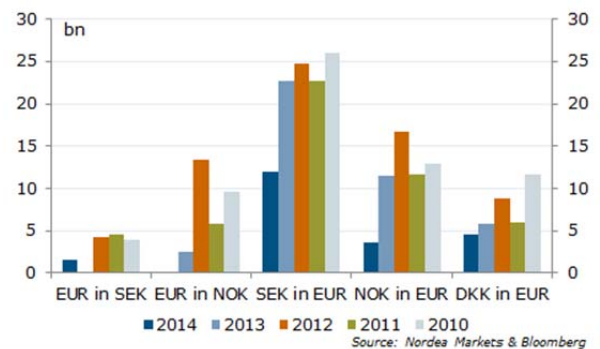
6. Funding Map

FUNDING PERSPECTIVE

|          |          | Basis spread to domestic xlbcr |     |     |     |     |
|----------|----------|--------------------------------|-----|-----|-----|-----|
|          |          | USD                            | EUR | GBP | SEK | NOK |
| Base ccy | 2y       | 23                             | 0   | 8   | -1  | 8   |
|          | 3M xlbcr | 0                              | 8   | -1  | 8   | 9   |
|          | USD      | 23                             | 0   | 8   | -1  | 8   |
|          | EUR      | 26                             | -8  | 0   | -9  | -1  |
|          | GBP      | 53                             | 1   | 9   | 0   | 9   |
|          | NOK      | 183                            | -9  | 0   | -10 | -1  |
| Base ccy | 5y       | 23                             | 0   | 7   | -1  | 0   |
|          | 3M xlbcr | 0                              | 7   | -1  | 0   | 4   |
|          | USD      | 23                             | 0   | 7   | -1  | 0   |
|          | EUR      | 26                             | -7  | 0   | -8  | -7  |
|          | GBP      | 53                             | 1   | 8   | 0   | 1   |
|          | NOK      | 183                            | -4  | 3   | -4  | 0   |
| Base ccy | 7y       | 23                             | 0   | 6   | -1  | -2  |
|          | 3M xlbcr | 0                              | 6   | -1  | -2  | 3   |
|          | USD      | 23                             | 0   | 6   | -1  | -2  |
|          | EUR      | 26                             | -6  | 0   | -7  | -8  |
|          | GBP      | 53                             | 1   | 7   | 0   | -1  |
|          | NOK      | 183                            | -3  | 3   | -4  | -5  |

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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