

xCcy Basis Monitor

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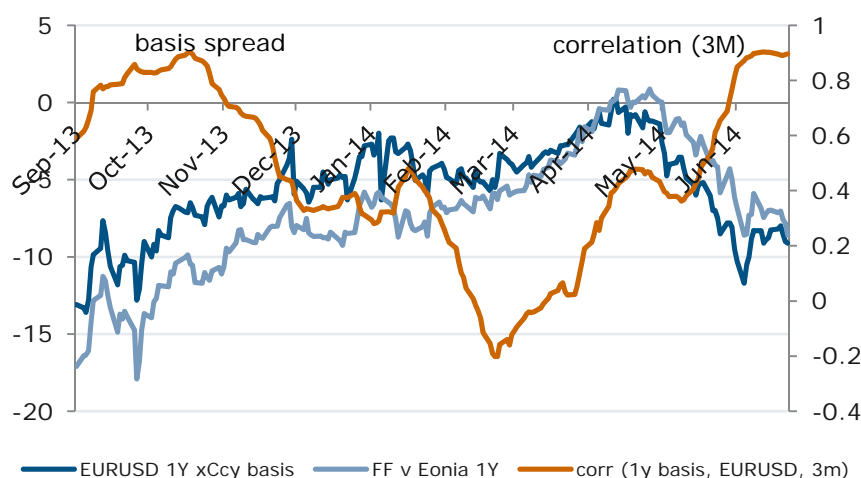
The EURUSD xCcy basis is parked around -10bps for the short end, having moved quickly from 0 after the ECB meeting in May. There are huge wild cards for the future direction, and we have recommended closing recent receiver positions with a profit. Wild card 1 is the Fed, its balance sheet and more generally its exit policy. Wild card 2 is the ECB and its new initiatives, in particular the TLTRO(s), details on which Draghi gave last Thursday. This is not the space for thorough detail, but do consider that (1) the ECB seems (overly perhaps) optimistic on the take-up on the operations and (2) the front 2 years are essentially unconditional. Both these tilts towards EUR liquidity turning cheaper over the next 6-12 months, but as stated initially, the first 10bps of the move has happened already. That this has been and still is a central bank game is supported by the recent correlation with the FX market, where (cf. chart below) we have seen a 90% realized correlation (on levels) between 1Y xCcy basis and EURUSD spot over the past 3 months.

The usual steady EURDKK basis has been unsteady over the past month, with 5y widening about 5bps since early June. This is strongly connected with the FX market (Krone depreciation) and a general widening movement in the pricing of Danish risk. Though it rolls negatively, paying 1y5y at -21bps is worth considering, and the spot levels look attractive for paying.

NOK issuance remains subdued for 2014, whereas SEK and DKK is respectively on pace and close to its 2013 total, the latter conceivably aiding the EURDKK widening. 5Y EURSEK and EURNOK have rebounded since May but curves remain very flat, with e.g. EURSEK 5Y-2Y at below 6bps. Also note that e.g. 1Y EURSEK has rebounded 7bps since May.

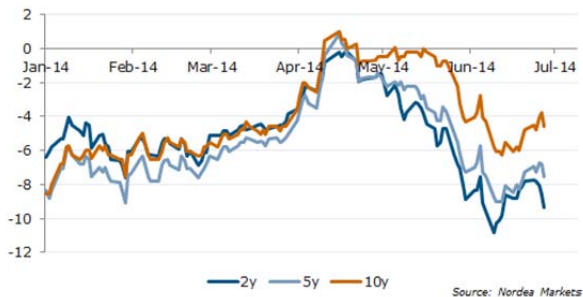
1. Chart of the month: EURUSD xCcy basis again a central bank game

1Y xCcy basis (xlbor based and O/N based) + sample correlation to FX

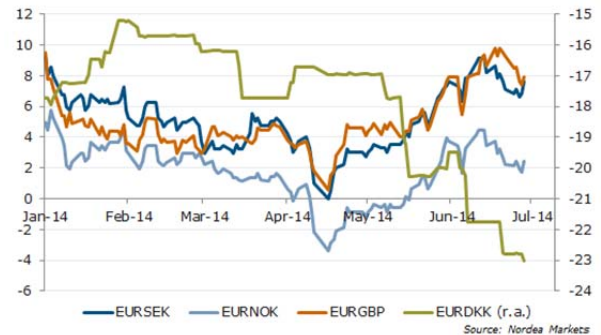


Source: Bloomberg

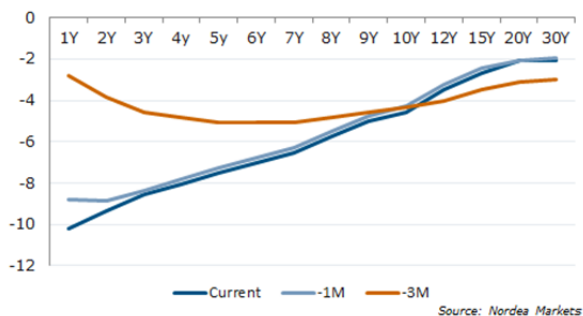
2. EURUSD basis over the past 6M (2Y,5Y,10Y)



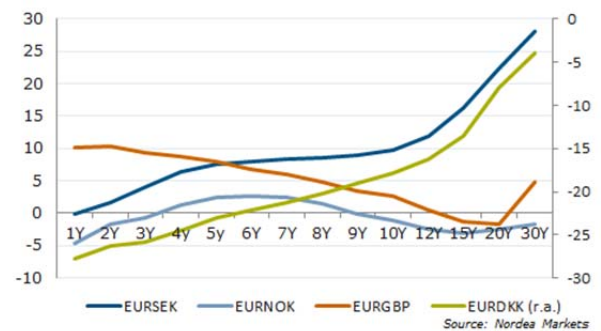
3. EUR-Scandi & EURGBP over the past 6M (5Y)



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



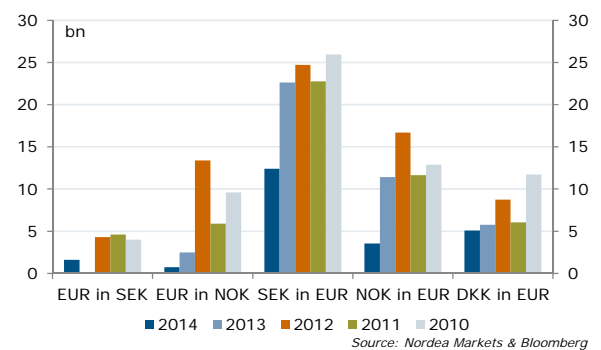
5. EUR-Scandi & EURGBP CCBS term structures



6. Funding Map

FUNDING PERSPECTIVE							
Base ccy	Domestic		Basis spread to domestic xlbior				
	2y	3M xlbior	USD	EUR	GBP	SEK	NOK
	USD	23	0	9	-1	8	11
	EUR	20	-9	0	-10	-2	2
	GBP	56	1	10	0	9	12
	SEK	49	-8	2	-9	0	3
	NOK	172	-11	-2	-12	-3	0
Base ccy	5y	3M xlbior	USD	EUR	GBP	SEK	NOK
	USD	23	0	8	0	0	5
	EUR	20	-8	0	-8	-8	-2
	GBP	56	0	8	0	0	5
	SEK	49	0	8	0	0	5
	NOK	172	-5	2	-5	-5	0
Base ccy	7y	3M xlbior	USD	EUR	GBP	SEK	NOK
	USD	23	0	7	1	-2	4
	EUR	20	-7	0	-6	-8	-2
	GBP	56	-1	6	0	-2	4
	SEK	49	2	8	2	0	6
	NOK	172	-4	2	-4	-6	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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