

# xCcy Basis Monitor

Global FI Strategy, 18 November 2014

**Lars Peter Lilleøre**

Chief Analyst, FI products

Global Strategy

+45 3333 3611

[lars.peter.lilleore@nordea.com](mailto:lars.peter.lilleore@nordea.com)

Liquidity expectations are implied by a firm ECB balance sheet target and the growing consensus expectation of govie QE. The very short end of the curve is held up a bit by falling EUR MM rates so much of the liquidity excess is priced quite firmly into forwards with 1y1y in about -17.5bps.

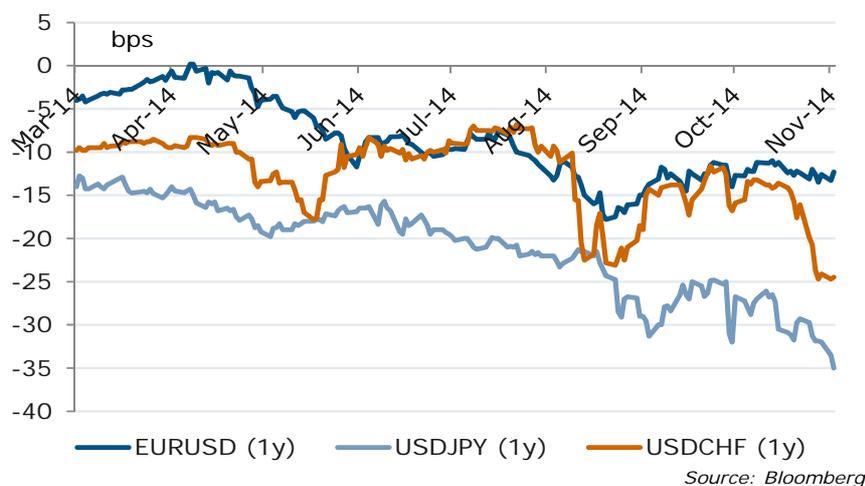
Whilst a tad boring, we think the front of the EURUSD curve is fair – levels have decreased and forwards imply more (1y1y is almost 6bps lower than 1y spot). While there's more room should the ECB not only do QE, but also do it aggressively and swiftly, we think QE trades have better risk/reward elsewhere. For euro then, most of the moves are in forwards.

Elsewhere, as evidence for what acute expectations can cause, we have seen freefalls in both JPY and CHF basis spreads. For Japan, the move looks particularly severe. The joint-impact of the Oct 31 expansion to QE and the recent recessionary data prices in even more stimulus and have caused a drop on the entire USDJPY curve also the long end where 20Y now is at an all-time low; consider paying USDJPY 1y10y at around -76bps (or 1y1y at around -55bps). For CHF, the fear is for a negative depo rate and a capital outflow/ weaker CHF.

Scandies vs. Euro have widened on a whole, in particular for SEK and NOK. This happens as e.g. USDNOK has lied largely stable and the EURUSD widening then translates to higher spreads for EURNOK. On NOK especially the belly of the curve looks high, and even more so in forward terms. 1y4y is at 9bps, with a roll of 4bps and looks attractive for receiving. Similarly 1y4y EURSEK is around 15bps, and with EUR-issuance tailing off for the year, immediate payer pressure from that front seems limited.

## 1. Chart of the month: Much widening against the dollar

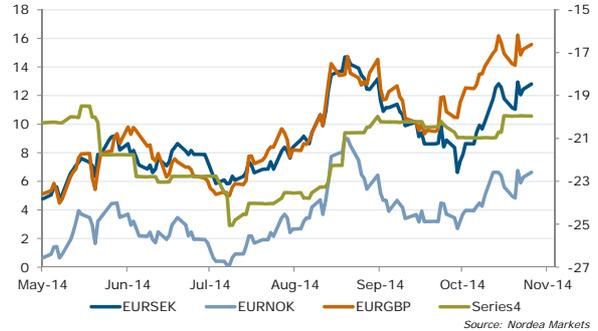
1Y xCcy basis swap spreads: EURUSD, USDJPY, USDCHF



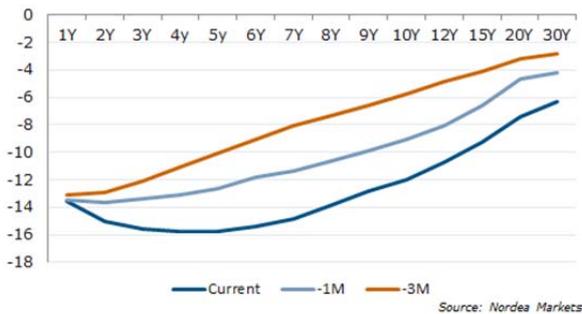
### 2. EURUSD basis over the past 6M (2Y,5Y,10Y)



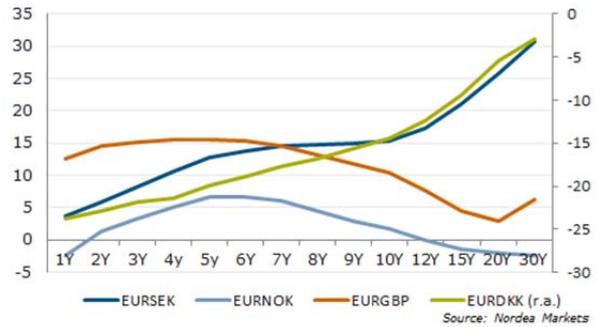
### 3. EUR-Scandi & EURGBP over the past 6M (5Y)



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



### 5. EUR-Scandi & EURGBP CCBS term structures

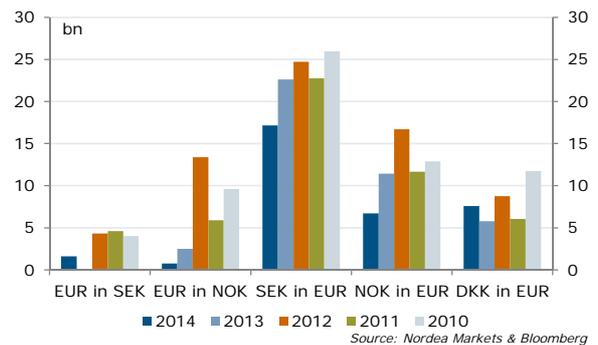


### 6. Funding Map

FUNDING PERSPECTIVE								
	Domestic		Basis spread to domestic xlbcr					
	2y	3M xlbcr	USD	EUR	GBP	SEK	NOK	
Base ccy	USD	23	0	15	1	9	14	
	EUR	8	-15	0	-15	-6	-1	
	GBP	56	-1	15	0	9	13	
	SEK	27	-9	6	-9	0	4	
	NOK	170	-14	1	-13	-4	0	
Base ccy	5y		3M xlbcr	USD	EUR	GBP	SEK	NOK
	USD	23	0	16	0	3	9	
	EUR	8	-16	0	-16	-13	-7	
	GBP	56	0	16	0	3	9	
	SEK	27	-3	13	-3	0	6	
Base ccy	7y		3M xlbcr	USD	EUR	GBP	SEK	NOK
	USD	23	0	15	0	0	9	
	EUR	8	-15	0	-15	-14	-6	
	GBP	56	0	15	0	0	9	
	SEK	27	0	14	0	0	8	
NOK	170	-9	6	-9	-8	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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