

xCcy Basis Monitor

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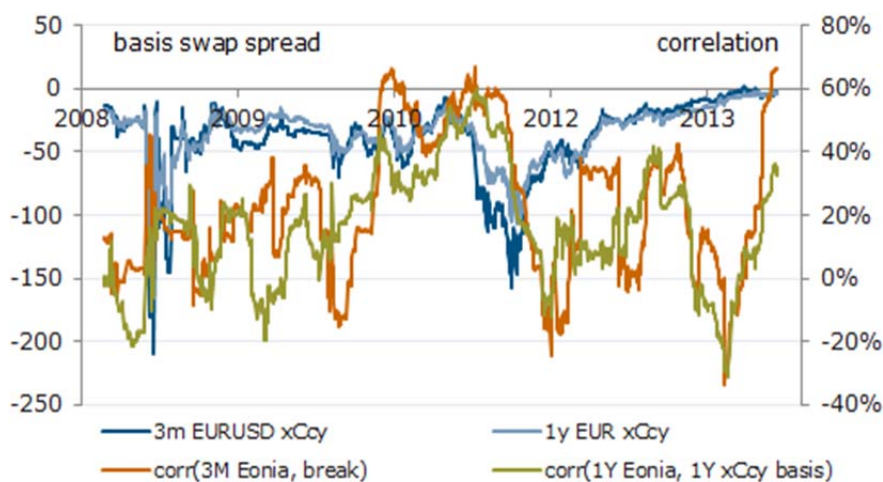
The EURUSD xCcy basis swap structure continues to trade with a modern tightness. Unlike the start of the year, spreads have steadily been positive displaying quite little volatility. With tapering implemented in the US and an ECB easing-biased, the contrast is quite startling. Most recently, we have seen ECB members yesterday telling everyone with a recorder about the potential tools left and the deflationary ghost said tools can defeat.

This is interesting as more ECB liquidity would put widening pressure on the basis. However, as long as short end rates increase with excess liquidity falling, the effect is a strong correlation between Eonia swaps and EURUSD xCcy basis swaps: The data confirms this. Consider the 90day running correlations given below which shows the correlation between Eonia 3M and the 3M xCcy break to be at an all-time high, around 66%. *We still see the basis too close, and like receiving 3m1y/3m2y at -4bp/-4.5bp*, positions that also should tail-hedge an escalation of the geopolitical crisis in the Ukraine.

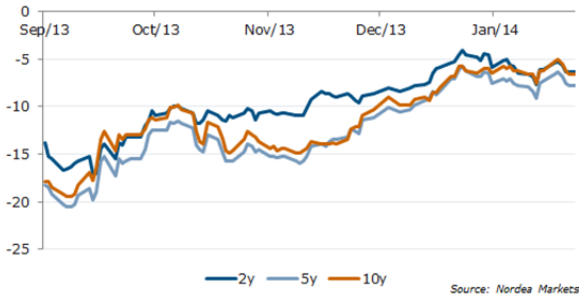
On the scandi's, the EURSEK xCcy basis curve lies the lowest since before Lehman, or did before Monday's EUR 1.25bn covered issue helped lift the spreads around 3bps. EURDKK, traditionally the least variable of the Nordic crosses have seen some widening pressure lately, in particular in the 5Y-10Y segment. *The best trade in scandi space is however paying EURNOK, either 6m10y at 0.5bp or 6m5y around 2bps*. Whereas SEK issues in EUR lies almost at pace with previous years now (chart 7), this is not the case of NOK. Payer positions such those given are positioned well for such flow and will also benefit from a potential loosening of monetary policy from the ECB.

1. Chart of the month: Basis spread & EUR rates: Correlation soaring

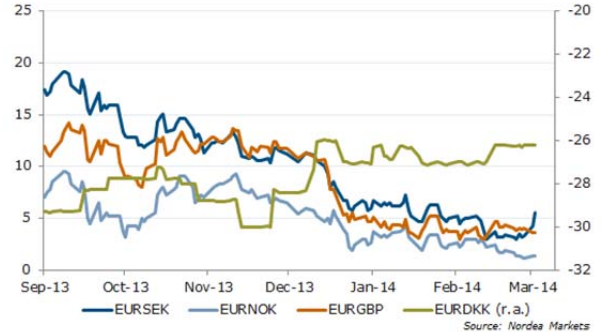
EURUSD 3M&1Y basis & correlations (on diffs) with Eonia swap rates



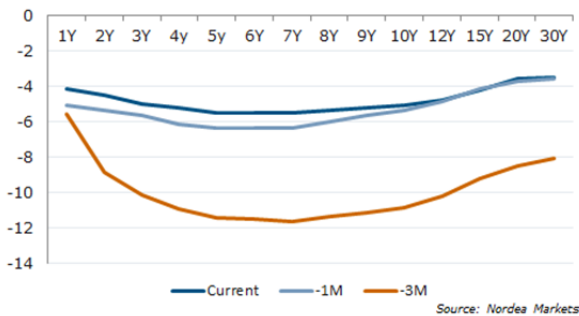
2. EURUSD basis over the past 6M (2Y,5Y,10Y)



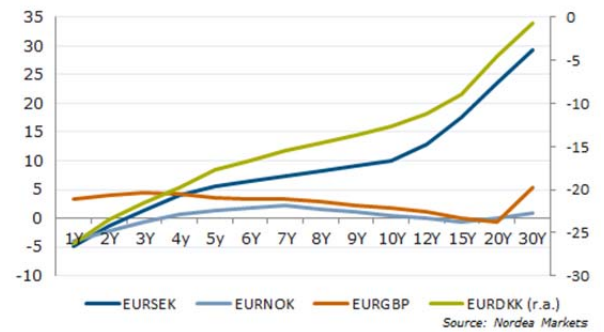
3. EUR-Scandi & EURGBP over the past 6M (5Y)



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



5. EUR-Scandi & EURGBP CCBS term structures



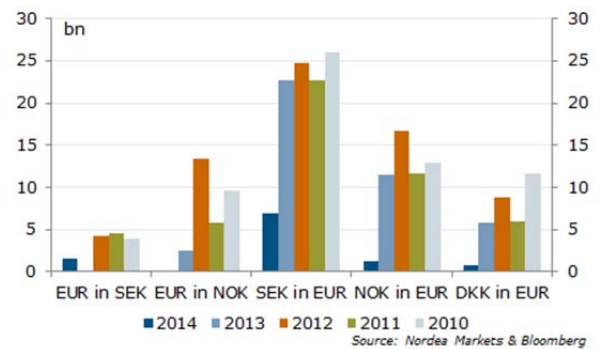
6. Funding Map

FUNDING PERSPECTIVE

		Basis spread to domestic xlibor					
Base ccy	Domestic	USD	EUR	GBP	SEK	NOK	
		2y 3M xlibor					
Base ccy	USD	23	0	4	1	6	7
	EUR	32	-4	0	-4	1	2
	GBP	52	-1	4	0	5	6
	SEK	93	-6	-1	-5	0	1
	NOK	170	-7	-2	-6	-1	0
	5y 3M xlibor						
Base ccy	USD	23	0	5	2	0	4
	EUR	32	-5	0	-4	-6	-1
	GBP	52	-2	4	0	-2	2
	SEK	93	0	6	2	0	4
	NOK	170	-4	1	-2	-4	0
	7y 3M xlibor						
Base ccy	USD	23	0	6	2	-2	3
	EUR	32	-6	0	-3	-7	-2
	GBP	52	-2	3	0	-4	1
	SEK	93	2	7	4	0	5
	NOK	170	-3	2	-1	-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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