

**EMEA Treasury – FX Swaps**

**Jan 2015**

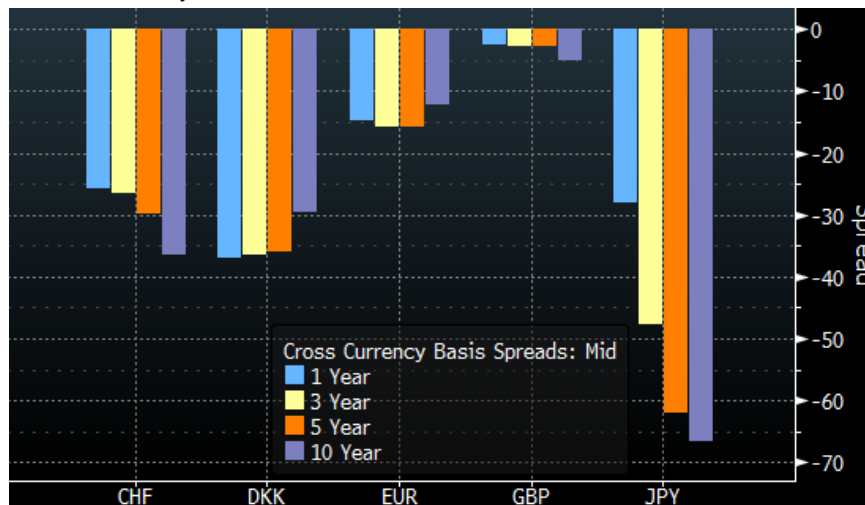
# EMEA Treasury – Currency Basis

## Cross Currency Dynamics

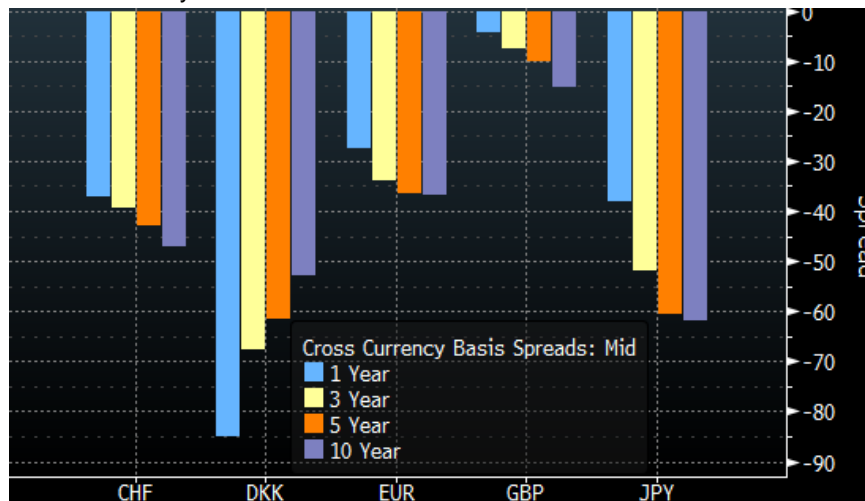
- Cross currency basis curves have continued their widening trend over the past 3 months.
- Unlike previous moves wider such as those seen during Lehmans crisis, Eurozone crisis, Japanese banking crisis, the recent move is not led by Banks.
- Rather it is a response to divergent central bank policies, with the Fed expected to begin normalizing USD rates shortly, vs. rate cuts, liquidity injections and quantitative easing in other currencies:
  - 18<sup>th</sup> Sep & 11<sup>th</sup> Dec : ECB TLTRO's inject €210bn
  - 15<sup>th</sup> Jan : SNB cuts 50bp and removes EURCHF floor
  - 22<sup>nd</sup> Jan : DKK cuts rates 15bp
  - 22<sup>nd</sup> Jan : ECB announces QE
  - March : QE purchases begin

EMEA TREASURY - CURRENCY BASIS

Cross Currency Basis Curves – 17<sup>th</sup> Dec 2014



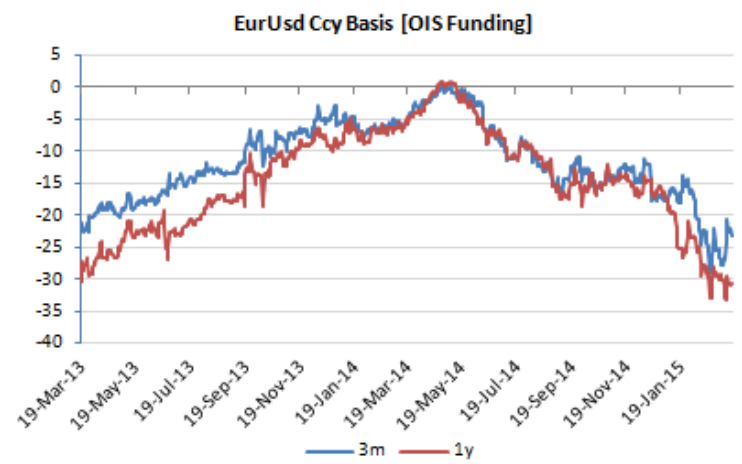
Cross Currency Basis Curves – 17<sup>th</sup> Mar 2015



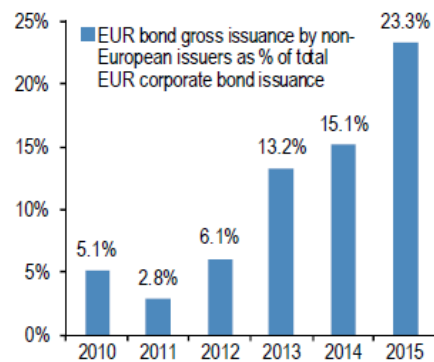
# EMEA Treasury – Currency Basis

## EUR Basis

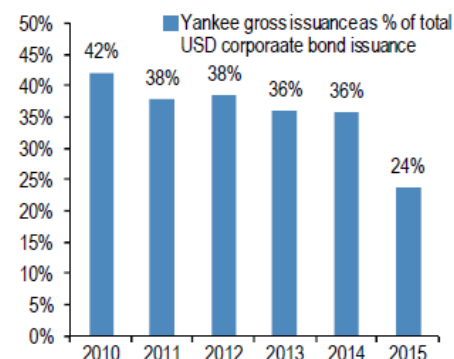
- EUR currency basis has been driven wider and flatter due to a number of factors :
  - Rates cuts [Jun-14 & Sep-14]
  - TLTRO liquidity injections
  - Quantitative Easing
  - Talk of Grexit
  - Widening EUR / USD interest differentials
  - Increased reverse yankee issuance vs. reduced yankee issuance, due to tighter credit spreads in eur than usd.
  
- These have pushed eur ccy basis to the widest since early 2013, though still far from the levels seen during Eurozone or Lehmans crises.
  
- Basis could be pushed lower and flatter as impact of bigger and open ended QE on Eurozone excess liquidity starts to take effect.



EMEA TREASURY - CURRENCY BASIS



Source: Dealogic, J.P. Morgan



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