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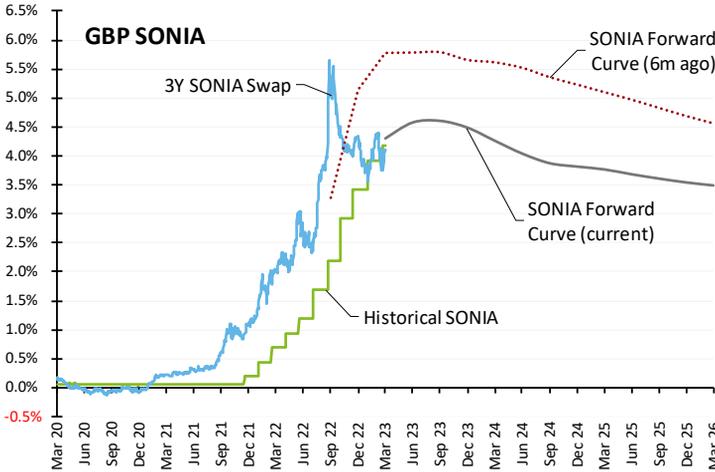
IR and FX Newsletter
April 2023



Interest Rate Markets

Month-on-month, swap rates have fallen, as markets have priced out a number of prospective hikes from central banks. Nevertheless, UK, US and European Central banks met in mid-March, raising rates by 25bps, 25bps and 50bps respectively. However, the middle of the month was overshadowed by the failings of Silicon Valley Bank and Signature Bank in the US, as well as the forced sale of Credit Suisse to UBS by Swiss regulators.

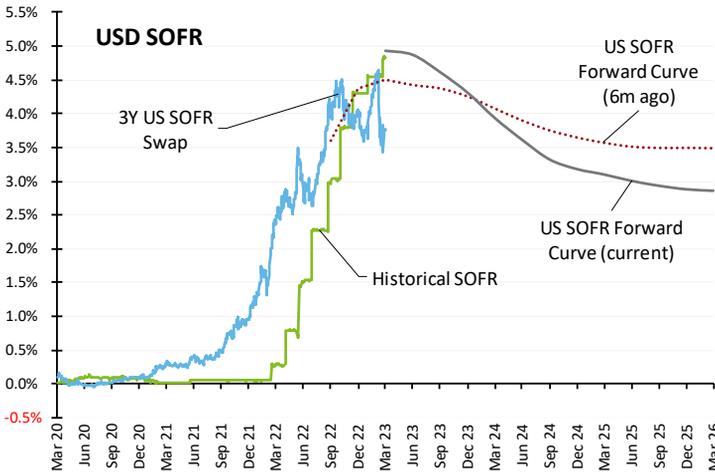
Consequently, the rates markets saw heightened volatility, with intraday moves exceeding 40bps throughout this period. As concern of a tightening in lending conditions remains, markets have priced in rate cuts to start in Q3-Q4 2023, as well as forecasting a lower peak in central bank base rates.



- The underlying SONIA rate is currently at 4.18%
- BoF E base rate is at 4.25% following a 25bp hike at the latest BoF E meeting in March. The market continues to price a further +25bps rise at the next March meeting, with a further +25bps likely in May.
- The 3-year SONIA Swap rate is 4.11%, vs. 5.04% 6 months ago, and down 24bp from February.
- The forward curve inversion is pushed back, now in Q4 2023.

	2-year	3-year	5-year
Swap rate (mid level)	4.29%	4.11%	3.79%
Cap @ 5.0% (premium)*	€0.56m	£1.02m	€2.01m
Cap @ 6.0% (premium)*	€0.26m	€0.56m	£1.25m

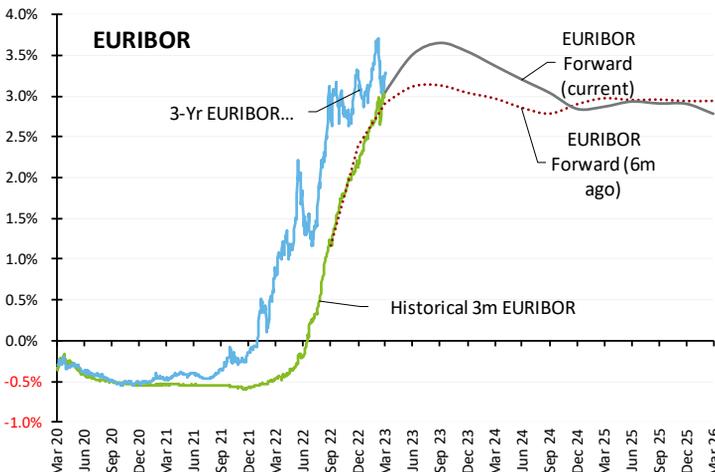
*€100m hedge notional



- SOFR is presently 4.82%, inside the Fed Funds target rate range of 4.75%-5.00%.
- After the +25bp hike in March, markets are now expecting another +25bps hike in Q2, taking the floating rate to ~5.25% by the summer.
- The 3-year SOFR Swap rate is 3.78%, vs. 3.91% 6m ago, and down 90bps in the past month.
- The steeply inverted forward curve offers the ability to swap at levels far below the underlying floating rates.

	2-year	3-year	5-year
Swap rate (mid level)	4.16%	3.78%	3.44%
Cap @ 5.0% (premium)*	\$0.62m	\$0.91m	\$1.58m
Cap @ 6.0% (premium)*	\$0.28m	\$0.47m	\$0.94m

*\$100m hedge notional

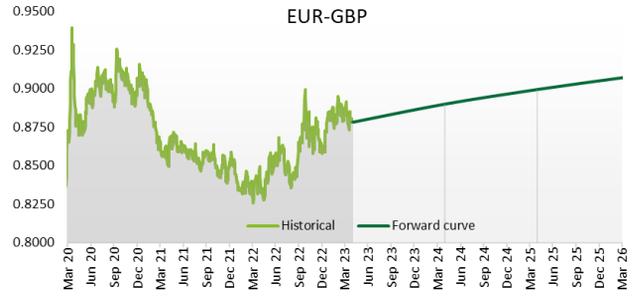


- 3-month EURIBOR shows no sign of slowing its climb, presently at 2.915%, up 41bps in March.
- After hiking by 50bps in March, another 25bps increase is expected for May, which would take the bank deposit rate to 3.25% by the start of summer
- Further 50-75bps of hikes are priced in by year-end.
- The 3-year EURIBOR Swap rate is currently 3.28%, vs. 2.59% 6 months ago, but down approximately 40bps on the month.

	2-year	3-year	5-year
Swap rate (mid level)	3.46%	3.28%	3.09%
Cap @ 4.0% (premium)*	€0.40m	€0.78m	€1.58m
Cap @ 5.0% (premium)*	€0.14m	€0.36m	€0.84m

*€100m hedge notional

Currency Markets



- GBP-USD has traded steadily higher throughout March, as the fallout from SVB's collapse had more of an impact on the dollar across the board.
- Volatility for the pair has risen, increasing option premia by 5%-11% versus February.
- Forward rates are largely flat out to 3 years, consistent with what has been seen in recent months, and reflecting a similar interest rate outlook in the UK and the US.

- EUR-GBP has traded within a 1.5 cent range in the last month, as the traditionally low volatility currency pair remained relatively isolated from the ramifications of SVB's failure.
- Although the pair traded sideways in March, option premia ticked up by ~3%, signalling a move higher in volatility more broadly.
- Interest rates rose similarly in UK and Europe, keeping forward rates similar to last month.

GBP-USD Spot Rate: 1.237	6mo	12mo	18mo
Forward rate	1.241	1.241	1.240
GBP Put Option* (ATMS**)	\$3.22m	\$4.59m	\$5.70m
GBP Put Option* (5% OTMS***)	\$1.32m	\$2.53m	\$3.51m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.237		
*** 5% Out-of-the-money vs Spot rate:	1.175		

EUR-GBP Spot Rate: 0.878	6mo	12mo	18mo
Forward rate	0.885	0.890	0.894
GBP Put Option* (ATMS**)	€2.60m	€3.90m	€4.94m
GBP Put Option* (5% OTMS***)	€0.76m	€1.72m	€2.60m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.878		
*** 5% Out-of-the-money vs Spot rate:	0.922		

Data source: Refinitiv and ICE Data Services, as of 31 March 2023

Hedging Advisory and Derivatives Execution team



Hedging Strategy Advice



Outsourced Derivative Execution



Financial Market Knowledge



Derivative Pricing Expertise



Paolo Esposito
Lead Director

+44 20 7007 8964
pesposito@deloitte.co.uk



Mark Beckett
Director

+44 20 7303 7849
mbeckett@deloitte.co.uk



Svenja Schumacher
Assistant Director

+44 20 7007 9363
scschumacher@deloitte.co.uk



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