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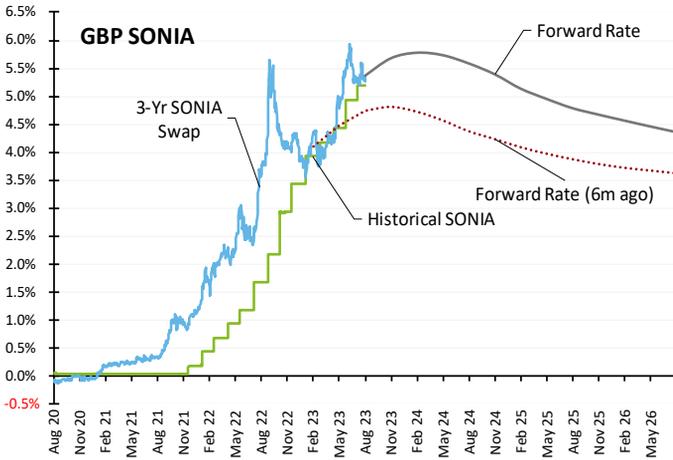
IR and FX Newsletter
September 2023



Interest Rate Markets

UK swap rates are almost unchanged in the last month, and down from recent highs of close to 6.00%. Although headline CPI has petered off in the last two months, core inflation remains a concern for monetary policymakers. Having fallen just 0.2% since June, core CPI data suggests that inflation has become more entrenched in the broader UK economy, and arguably supports the ‘higher for longer’ rates narrative that has surfaced in recent weeks.

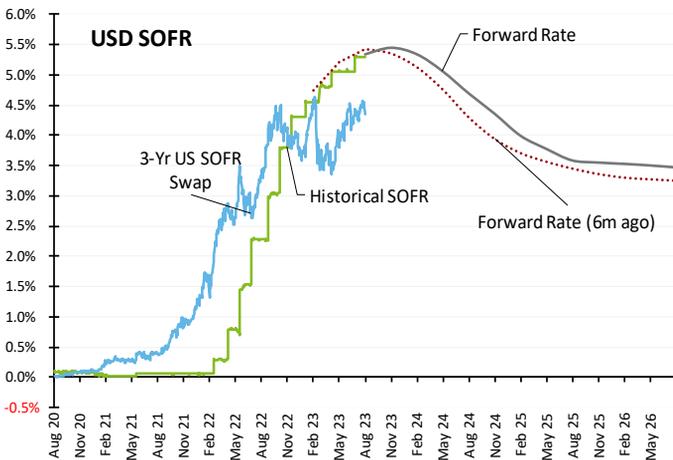
Similarly, and in spite of further moderation in headline inflation, Jerome Powell remained resolute in his commitment to decreasing price pressures by declaring “we [the Federal Reserve] are prepared to raise rates further if appropriate”. Christine Lagarde echoed this sentiment at Jackson Hole, suggesting rates need to stay sufficiently restrictive to bring inflation back to target.



- The underlying SONIA rate is currently at 5.1855%
- BOE base rate is at 5.25% following a 25bps hike at the most recent BOE meeting in August. The market presently anticipates a +25bps rise at the next meeting on 21st September, with a further +25bps thereafter by year end.
- The 3-year SONIA Swap rate is 5.27%, vs. 4.34% 6 months ago, and almost flat month-on-month (“MoM”).
- The forward curve remains downward sloping from Q2 2024.

	2-year	3-year	5-year
Swap rate (mid level)	5.56%	5.27%	4.81%
Cap @ 6.0% (premium)*	£0.75m	£1.32m	£2.43m
Cap @ 7.0% (premium)*	£0.35m	£0.75m	£1.53m

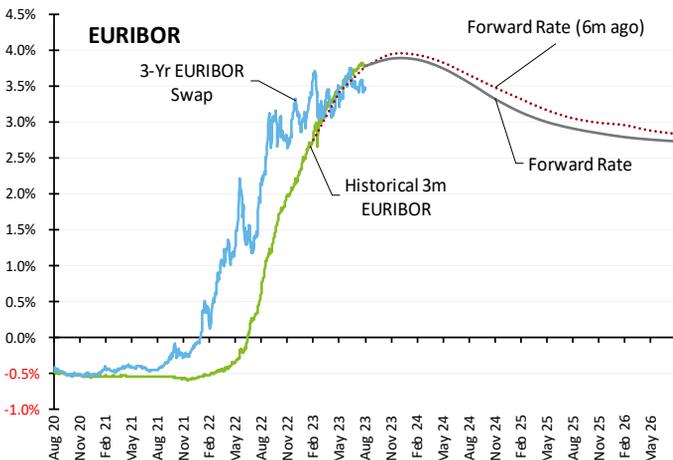
*£100m hedge notional



- SOFR is currently 5.30%, inside the Fed Funds target rate range of 5.25%-5.50%.
- Having hiked by 25bps in July, markets now assign a c. 50-50 probability to the Federal Reserve hiking again by year end, before cutting rates in Q2 2024.
- The 3-year SOFR Swap rate is 4.36%, vs. 4.52% 6m ago, and almost unchanged against the prior month.
- The forward curve is steeply inverted from Q1 2024.

	2-year	3-year	5-year
Swap rate (mid level)	4.77%	4.36%	4.01%
Cap @ 5.50% (premium)*	\$0.57m	\$0.89m	\$1.75m
Cap @ 6.00% (premium)*	\$0.28m	\$0.53m	\$1.26m

*\$100m hedge notional

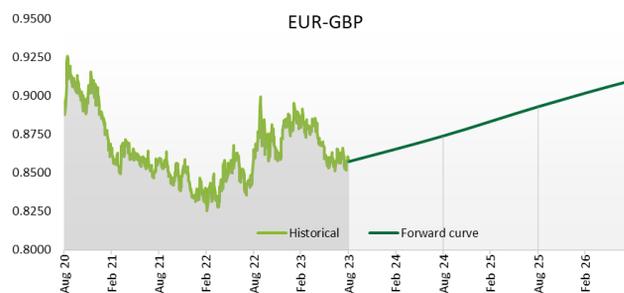


- 3-month EURIBOR is 3.8030%, up 9bps MoM.
- Following a +25bps hike in July, the ECB are now given a c. 40% chance of a further +25bps increase, either at their meeting on 14th September or later in November, reflecting 4.00% by year-end.
- The 3-year EURIBOR Swap rate is currently 3.44%, vs. 3.65% 6 months ago, with the whole forward curve flattening slightly, with a reduced expectation for large imminent rate hikes.

	2-year	3-year	5-year
Swap rate (mid level)	3.69%	3.44%	3.19%
Cap @ 4.0% (premium)*	€0.41m	€0.79m	€1.70m
Cap @ 5.0% (premium)*	€0.15m	€0.38m	€0.99m

*€100m hedge notional

Currency Markets



- GBP-USD is broadly unchanged since the end of July, following a quiet month in the macroeconomic calendar. Persistent core inflation in both jurisdictions has ensured hedging costs remain consistent MoM.
- Option premia fell between 1-3% depending on the level of protection, as falling rate expectations were reflected in a drop in volatility levels.
- Forward FX rates remain lower out through 5 years for GBP sellers, demonstrating a higher-for-longer rate environment in the UK over that period.

- EUR-GBP fell marginally – 0.40% lower – as markets continue to expect higher UK rates for longer, than in the Eurozone.
- The cost of hedging via options for EUR-GBP has continued to fall significantly, between 1-9%, depending on the level of protection sought; see the grid below.
- FX forward rates steepened once more in August, as markets are torn between a rate pause and +25bps hike for the ECB in September.

GBP-USD Spot Rate: 1.270	6mo	12mo	18mo
Forward rate	1.271	1.268	1.263
GBP Put Option* (ATMS**)	\$2.87m	\$4.22m	\$5.37m
GBP Put Option* (5% OTMS***)	\$1.00m	\$2.11m	\$3.11m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.270		
*** 5% Out-of-the-money vs Spot rate:	1.206		

EUR-GBP Spot Rate: 0.857	6mo	12mo	18mo
Forward rate	0.865	0.874	0.885
GBP Put Option* (ATMS**)	€2.49m	€4.08m	€5.46m
GBP Put Option* (5% OTMS***)	€0.59m	€1.62m	€2.66m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.857		
*** 5% Out-of-the-money vs Spot rate:	0.900		

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

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