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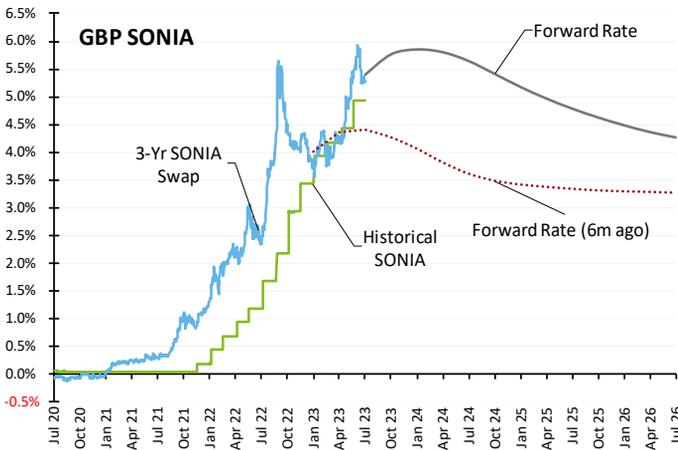
IR and FX Newsletter
August 2023



Interest Rate Markets

UK swap rates have calmed relative to recent months, following a surprise downturn in headline inflation figures. Headline CPI, released in July but for showing data for June, showed prices fell year-on-year to 7.9% versus an expected 8.2%. Equally, core CPI surprised to the downside at 6.9% vs. 7.1%. Nevertheless, UK inflation rates remain far above those in the US and Europe.

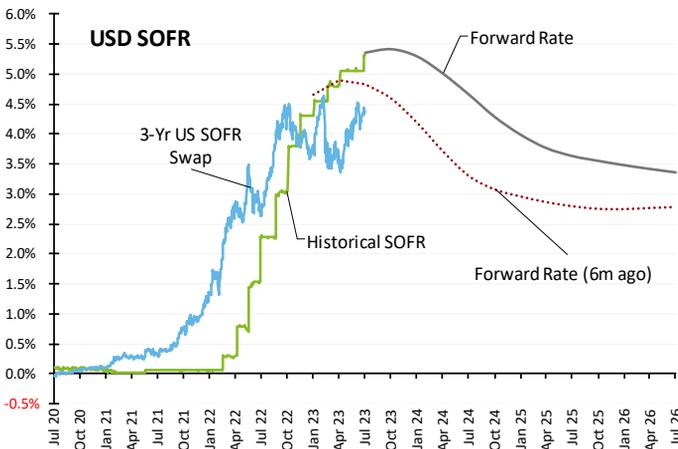
The final week of July provided a number of monetary policy headlines, with the Federal Reserve (“Fed”) and European Central Bank (“ECB”) meeting. Both central banks elected to raise rates by 25bps, with the subsequent market reaction favouring these moves as the last of this cycle. The Bank of England’s Monetary Policy Committee meets on 3rd August, with probability weighted for either a +25bps or +50bps at 65% and 35% respectively.



- The underlying SONIA rate is currently at 4.9315%
- BOE base rate is at 5.00% following a 50bps hike at the most recent BOE meeting in June. The market is currently leaning towards a +25bps rise at the next meeting on 3rd August, with a further +60bps thereafter by year end.
- The 3-year SONIA Swap rate is 5.31%, vs. 3.83% 6 months ago, and down 41bps MoM.
- The forward curve is now downward sloping from Q2 2024.

	2-year	3-year	5-year
Swap rate (mid level)	5.59%	5.27%	4.77%
Cap @ 6.0% (premium)*	£0.81m	£1.32m	£2.27m
Cap @ 7.0% (premium)*	£0.35m	£0.67m	£1.31m

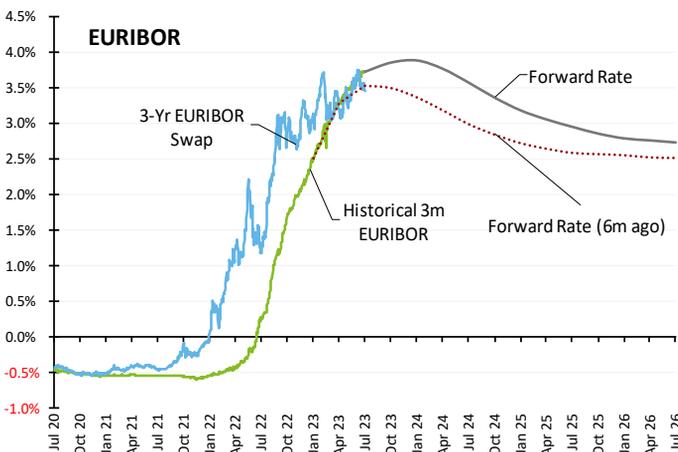
*£100m hedge notional



- SOFR is presently 5.31%, inside the Fed Funds target rate range of 5.25%-5.50%.
- The Fed chose to raise rates by +25bps in their meeting on 26th July. Markets clearly see this as the end of this current hiking cycle; assigning a 36% chance of a further +25bps move by year-end.
- The 3-year SOFR Swap rate is 4.39%, vs. 3.67% 6m ago, and down 5bps in the past month.
- The forward curve is steeply inverted from Q4 2023.

	2-year	3-year	5-year
Swap rate (mid level)	4.77%	4.37%	3.96%
Cap @ 5.50% (premium)*	\$0.79m	\$1.14m	\$2.01m
Cap @ 6.00% (premium)*	\$0.20m	\$0.42m	\$1.06m

*\$100m hedge notional

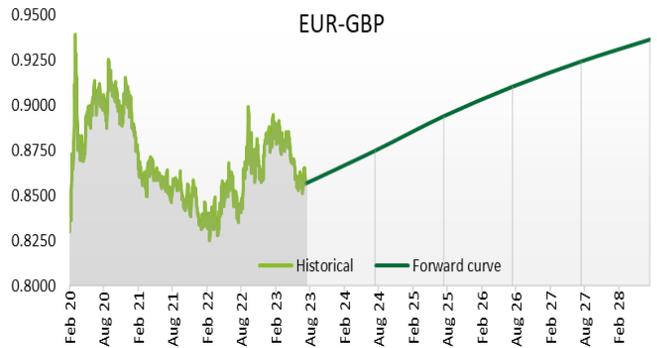
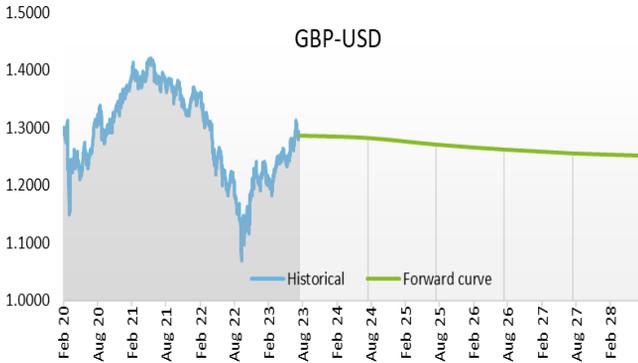


- 3-month EURIBOR is presently at 3.7250%, up 13bps MoM.
- The ECB hiked rates by 25bps on 27th July, in-line with market expectations. Forecasts are now split between a further +25bps hike and pause in September. Whilst a 68% probability is currently assigned to a further 25bps by year-end.
- The 3-year EURIBOR Swap rate is currently 3.48%, vs. 3.06% 6 months ago.

	2-year	3-year	5-year
Swap rate (mid level)	3.72%	3.45%	3.20%
Cap @ 4.0% (premium)*	€0.40m	€0.74m	€1.56m
Cap @ 5.0% (premium)*	€0.12m	€0.31m	€0.84m

*€100m hedge notional

Currency Markets



- GBP-USD has moved 1.09% higher since the end of June, although GBP has recently lost its crown as the best performing G10 currency against the dollar YTD. Softer than expected UK inflation data in July has narrowed the interest rate differential between the two currencies, causing the pound to give up some recent gains.
- Option premia fell between 4-12% depending on the level of protection, as lower 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 traded flat in the last month, as markets continue to expect higher UK rates for longer, than in the Eurozone, particularly following Christine Lagarde's suggestion of a rate pause in September.
- The cost of hedging via options for EUR-GBP has fallen significantly, between 6-14%, depending on the level of protection sought; see the grid below. These moves reflect a downward trend in inflation data in both jurisdictions.
- FX forward rate steepened once more in July, as ECB policymakers alluded to a pause in September, amid cooling price pressures in Europe.

GBP-USD Spot Rate: 1.284	6mo	12mo	18mo
Forward rate	1.284	1.280	1.275
GBP Put Option* (ATMS**)	\$2.93m	\$4.27m	\$5.43m
GBP Put Option* (5% OTMS***)	\$1.03m	\$2.14m	\$3.14m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.284		
*** 5% Out-of-the-money vs Spot rate:	1.220		

EUR-GBP Spot Rate: 0.858	6mo	12mo	18mo	24mo
Forward rate	0.866	0.876	0.885	0.895
GBP Put Option* (ATMS**)	€2.56m	€4.13m	€5.56m	
GBP Put Option* (5% OTMS***)	€0.65m	€1.68m	€2.76m	
* GBP 100m Put option premium				
** At-the-money Spot rate:	0.858			
*** 5% Out-of-the-money vs Spot rate:	0.901			

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

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