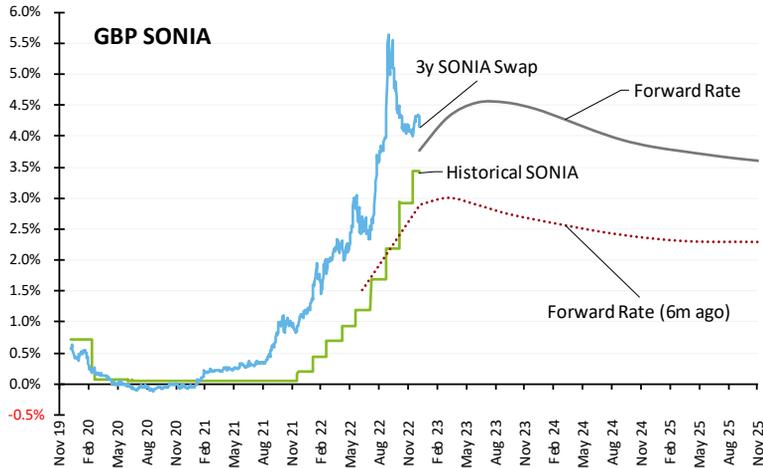


# Market update - Interest Rates

04 January 2023

## Interest Rate Markets

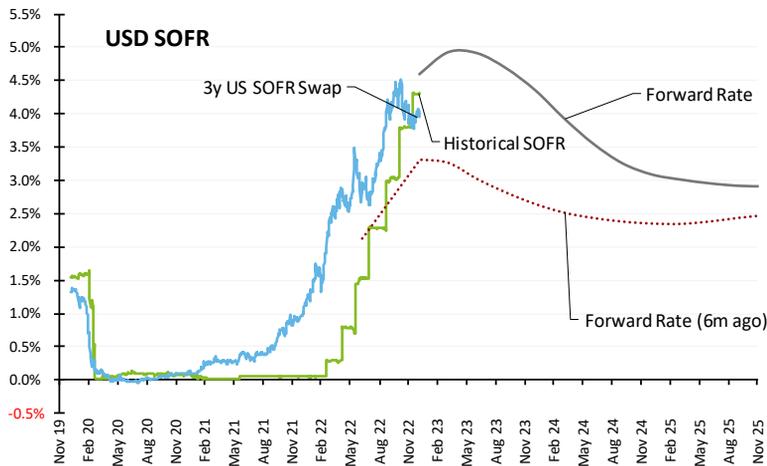
December saw a continued stabilisation in the UK interest rate Swap markets, despite a 50bp hike in the bank rate just before Christmas. Swap rates have moved, intraday, an average of 8bps over the past month vs. 18bps over the prior 3-month period. The US Swaps market, similarly, has come off its highs of early November presently settling c.50bps lower, with a reduced expectation of significant Fed rate hikes during 2023. EUR swap rates, meanwhile, have continued to climb reflecting the high expectation of sustained ECB rate rises during H1 of 2023. UK inflation is still running close to 10%, comparable to the Eurozone at 9.2% (Dec Flash), and circa 2% higher than in the US.



- The underlying SONIA rate is currently at 3.43%
- BoF base rate is at 3.50%. The market currently expects between 25-50bps at the next meeting on 02 Feb with a total of 75bps following the March meeting.
- The 3-year SONIA Swap rate is 4.15%, vs. 2.55% 6 months ago, and up 7bps in the last month.
- The curve remains inverted after summer 2023, decreasing hedging costs for longer tenors.

|                       | 2-year | 3-year | 5-year |
|-----------------------|--------|--------|--------|
| Swap rate (mid level) | 4.31%  | 4.15%  | 3.85%  |
| Cap @ 5.0% (premium)* | £0.74m | £1.40m | £2.79m |
| Cap @ 6.0% (premium)* | £0.42m | £0.88m | £1.92m |

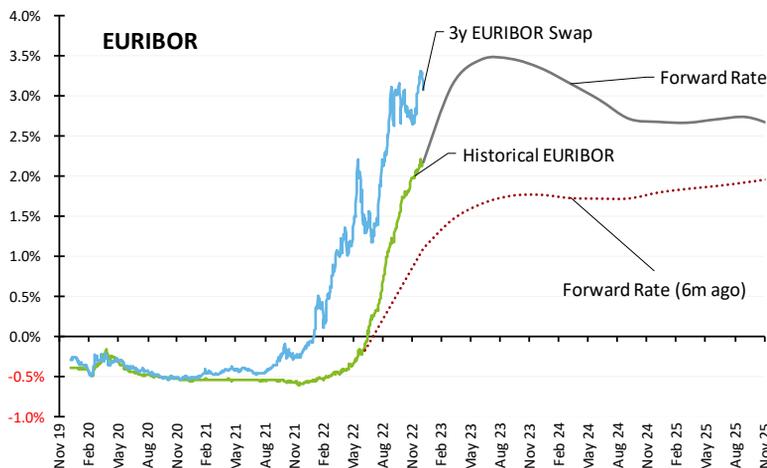
\*£100m hedge notional



- SOFR is presently 4.31%, reflecting the +50bps hike at the Fed's December meeting.
- A further 25bp hike is favoured from the Fed for the 01 Feb meeting, as well as a further 25-50bps in March.
- The 3-year SOFR Swap rate is 3.96%, vs. 2.89% 6m ago, and up 5bps from 1 month ago.
- Swap rates remain steeply inverted, resulting in far cheaper longer-term trades.

|                       | 2-year  | 3-year  | 5-year  |
|-----------------------|---------|---------|---------|
| Swap rate (mid level) | 4.39%   | 3.96%   | 3.57%   |
| Cap @ 5.0% (premium)* | \$0.50m | \$0.81m | \$1.64m |
| Cap @ 6.0% (premium)* | \$0.24m | \$0.44m | \$1.0m  |

\*\$100m hedge notional



- 3-month EURIBOR continues to climb steadily and is presently 2.172%.
- A +50bp hike is priced for the ECB's February meeting, taking the bank deposit rate to 2.5%. March forecasts a further 50bps increase.
- The 3-year EURIBOR Swap rate is currently 3.07%, vs. 1.48% 6 months ago, as well as 37bps higher than one month ago.

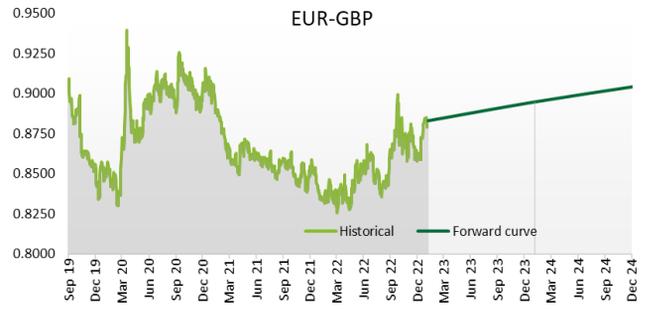
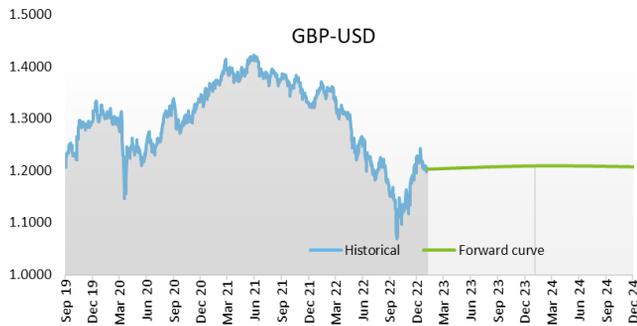
|                       | 2-year | 3-year | 5-year |
|-----------------------|--------|--------|--------|
| Swap rate (mid level) | 3.22%  | 3.07%  | 2.92%  |
| Cap @ 3.0% (premium)* | €0.94m | €1.59m | €3.05m |
| Cap @ 4.0% (premium)* | €0.34m | €0.73m | €1.72m |

\*€100m hedge notional

# Market update - FX

04 January 2023

## Currency Markets



- GBP-USD fell 3.50% from its highs in mid-December, losing momentum amid thinning liquidity, along with concerns over the UK's economic prospects in 2023.
- Forward rates are quite flat out to 2 years then lower, implying higher-for-longer interest rates in the UK.
- Options to sell GBP against USD are less expensive than a month ago while the underlying FX rate remained similar to the start of December at 1.205.
- EUR-GBP appreciated close to 4% during December, as both central banks hiked by 50bps. The changes to short-term interest rates in the UK and the Eurozone last month did little to alter the longer-term interest rate differentials, which drive the forward FX rates.
- Akin to GBP-USD, options to sell GBP against EUR are lower in cost than a month ago, though against a backdrop of a slightly weaker outright GBP level.

| GBP-USD Spot Rate: 1.205     | 6mo     | 12mo    | 18mo    |
|------------------------------|---------|---------|---------|
| Forward rate                 | 1.210   | 1.213   | 1.213   |
| GBP Put Option* (ATMS**)     | \$3.42m | \$4.64m | \$5.78m |
| GBP Put Option* (5% OTMS***) | \$1.63m | \$2.76m | \$3.80m |

\* GBP 100m Put option premium  
 \*\* At-the-money Spot rate: 1.2053  
 \*\*\* 5% Out-of-the-money vs Spot rate: 1.145

| EUR-GBP Spot Rate: 0.879     | 6mo    | 12mo   | 18mo   |
|------------------------------|--------|--------|--------|
| Forward rate                 | 0.886  | 0.891  | 0.896  |
| GBP Put Option* (ATMS**)     | €2.86m | €4.28m | €5.45m |
| GBP Put Option* (5% OTMS***) | €0.98m | €2.07m | €3.04m |

\* GBP 100m Put option premium  
 \*\* At-the-money Spot rate: 0.879  
 \*\*\* 5% Out-of-the-money vs Spot rate: 0.923

Data source: Refinitiv and ICE Data Services, as of 04 January 2023

## Hedging Advisory and Derivatives Execution team



**Hedging Strategy Advice**



**Outsourced Derivative Execution**



**Financial Market Knowledge**



**Derivative Pricing Expertise**



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# The other side of the rising interest rates...

With rising interest rates also comes the opportunity to invest surplus cash for incremental interest income making cash flow forecasting, real time cash visibility and reporting even more crucial.

The current market conditions therefore make it more critical than ever for Treasurers to rethink and improve practices around:

- ✓ *Cash generation* – for example, levers around optimising working capital and other liquidity sources;
- ✓ *Gain visibility of cash* and create robust processes that increases organisations' focus on cash, especially over the cash holdings parked in their bank accounts.



**Cash is King**

...still holds true and the need to review where pockets of cash is held across your business has never been more vital

## Key questions to ask

- Do you have daily and automated visibility?
- Is your cash centralized so you have easy access to all your global cash?
- Is any part of your cash 'trapped'?
- Does your investment policy allow you to leverage various investment products and counterparts available to optimize return on surplus cash?
- Is your working capital optimized, can you unlock cash?
- Are there any opportunities to reduce operational costs and improve EBITDA?

## Potential ways to optimise cash

- Use of technology for instant visibility of global cash – this can and should all be automated.
- Internal technology or bank led cash pools to reduce the existence of idle cash in the business
- Use of investment options such as fixed term investments, MMFs, commercial paper, short term bonds etc.
- Use of a Cash Czar or a Working Capital Czar to drive a cash focused culture in the organisation
- Diagnostic and operational cost reduction

## Treasury Advisory team



**Treasury Strategy, Policy & Governance**



**Liquidity & Investment Policy**



**Cash Management Solutions**



**Automation and technology expertise**



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