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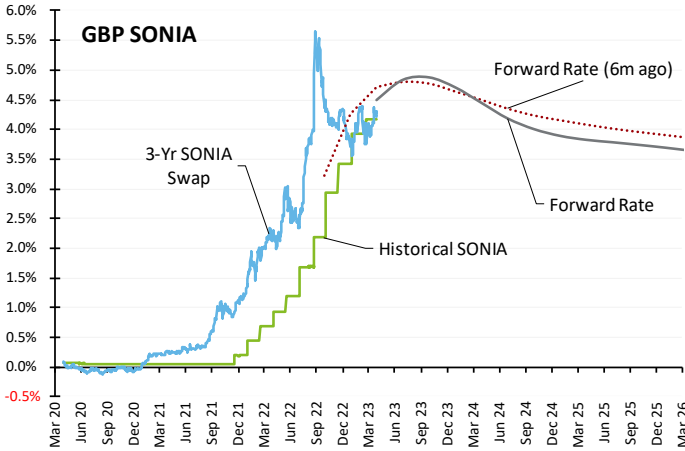
IR and FX Newsletter

May 2023



Interest Rate Markets

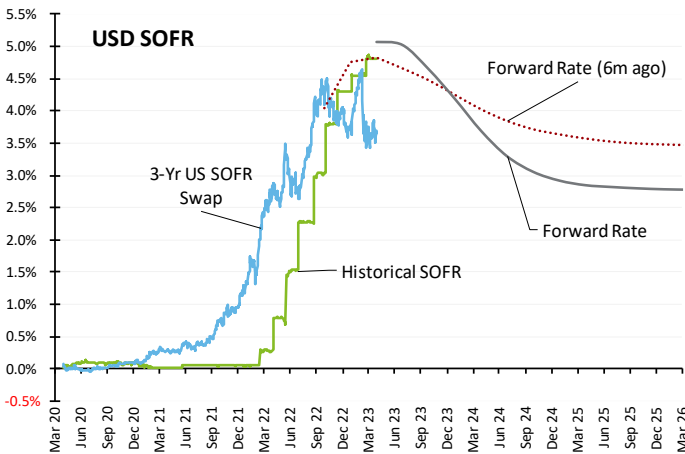
Swap rates in the UK have risen c. 20bps during April, while in the US and Eurozone rates ended the month where they began. Ahead of policy meetings from the Federal Reserve and ECB in the first week of May, and the Bank of England the week after, inflation data continues to dictate market dynamics. US data on Friday 28th April showed prices rose 4.2% year-on-year, down from 5.1% the month prior. However, headline and core price levels in the UK for March came in above market expectations for the second consecutive month, with CPI still above 10% where it has held since Q3 2022. Rates volatility in Europe and the UK fell slightly month-on-month (“MoM”), while the US continued to see larger intraday changes to their swap rates; driven by uncertainty surrounding the timing of any rate cuts from the Fed.



- The underlying SONIA rate is currently at 4.179%
- BofE base rate is at 4.25% following a 25bps hike at the most recent BofE meeting in March. The market continues to price a further +25bps rise at the next meeting on 11th May, with a further +50bps by the end of Q3.
- The 3-year SONIA Swap rate is 4.29%, vs. 4.50% 6 months ago, and up 33bps MoM.
- The forward curve remains downward sloping from Q4 2023.

	2-year	3-year	5-year
Swap rate (mid level)	4.52%	4.29%	3.95%
Cap @ 5.0% (premium)*	£0.63m	£1.10m	£2.13m
Cap @ 6.0% (premium)*	£0.26m	£0.56m	£1.26m

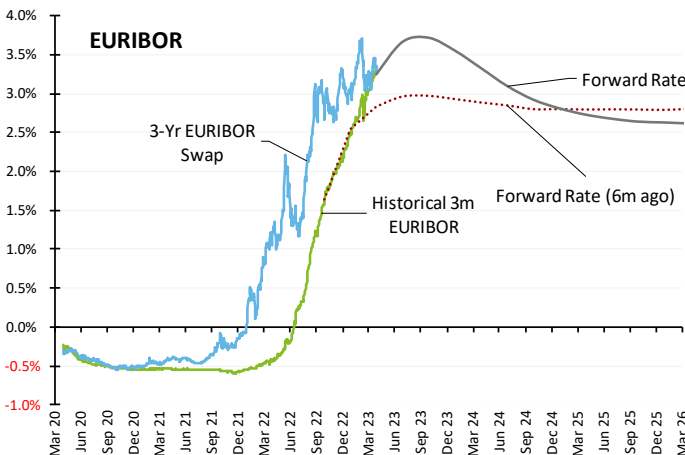
*£100m hedge notional



- SOFR is presently 4.81%, inside the Fed Funds target rate range of 4.75%-5.00%.
- After the +25bps hike in March, markets are now expecting another +25bps hike on 3rd May, before a pause until Q4 2023, when rates are then anticipated to begin being cut.
- The 3-year SOFR Swap rate is 3.64%, vs. 4.32% 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)	4.04%	3.64%	3.31%
Cap @ 5.0% (premium)*	\$0.58m	\$0.89m	\$1.64m
Cap @ 6.0% (premium)*	\$0.22m	\$0.44m	\$1.01m

*\$100m hedge notional

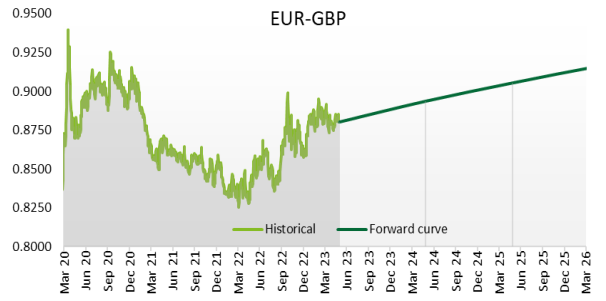
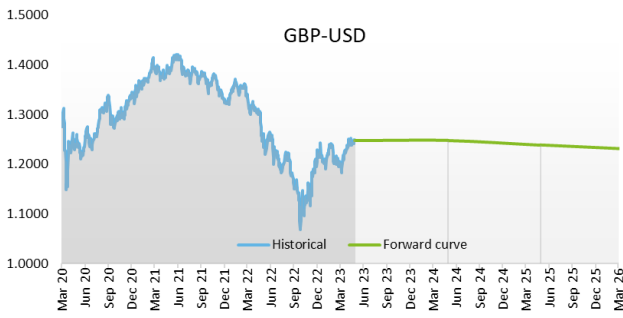


- 3-month EURIBOR is presently at 3.25%, up 24bps MoM, reflecting the ECB’s 25bps hike in March.
- Another 25bps increase is expected on 4th May, with an outside chance of a 50bps hike.
- Further out, an additional 50bps of hikes are priced in by October 2023.
- The 3-year EURIBOR Swap rate is currently 3.25%, vs. 2.90% 6 months ago.

	2-year	3-year	5-year
Swap rate (mid level)	3.48%	3.25%	3.05%
Cap @ 4.0% (premium)*	€0.43m	€0.80m	€1.69m
Cap @ 5.0% (premium)*	€0.16m	€0.36m	€0.91m

*€100m hedge notional

Currency Markets



- GBP-USD has moved ~1.4% higher since the end of March, as global risk sentiment somewhat recovered following the fallout from US banking issues.
- Option premia has fallen between 10%-25% for the pair, commensurate with smaller daily price moves seen through April.
- 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.
- Hedging USD revenues for 1-year incurs a marginal cost of ~6 pips, versus 32 pips the month prior. This suggests a convergence in GBP and USD base rate expectations.

- EUR-GBP has traded flat in the last month, as volatility fell across the respective jurisdictions.
- Subsequently, the cost of hedging via options for EUR-GBP has fallen significantly, down from 16%-32%, depending on the level of protection.
- The greatest drop in premium costs is seen on short-dated options; the premium for a 6-month 5% OTMS option fell 32% MoM – see grid below.
- Short-term interest rates rose by the same magnitude in the UK and Europe during April, and are expected to do so again in May, ensuring that the forward curve has held steady.
- Hedging EUR revenues for 1-year will continue to result in a cost advantage of ~125 pips.

GBP-USD Spot Rate: 1.258	6mo	12mo	18mo
Forward rate	1.260	1.259	1.254
GBP Put Option* (ATMS**)	\$2.81m	\$4.07m	\$5.16m
GBP Put Option* (5% OTMS***)	\$1.00m	\$2.05m	\$2.98m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.258		
*** 5% Out-of-the-money vs Spot rate:	1.195		

EUR-GBP Spot Rate: 0.877	6mo	12mo	18mo
Forward rate	0.883	0.890	0.895
GBP Put Option* (ATMS**)	€2.00m	€3.19m	€4.14m
GBP Put Option* (5% OTMS***)	€0.52m	€1.35m	€2.15m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.877		
*** 5% Out-of-the-money vs Spot rate:	0.921		

Data source: Refinitiv and ICE Data Services, as of 28 April 2023

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