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IR and FX Newsletter
June 2023

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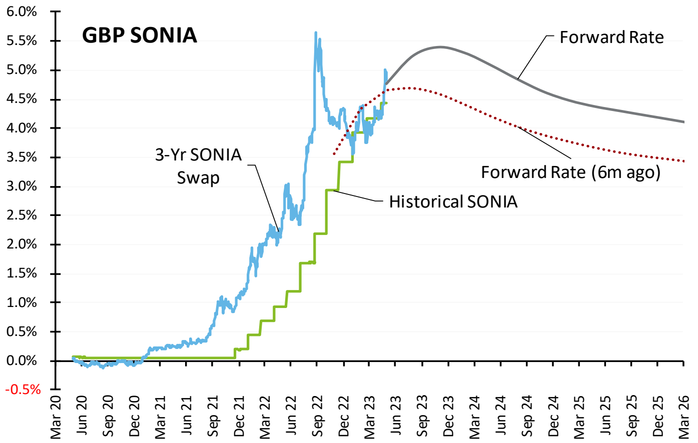
Interest Rate Markets

UK swap rates have once again risen substantially month-on-month ("MoM"), up ~70bps versus the end of April, following a 25bps hike by the Bank of England on 11th May and higher-than-expected inflation data (although falling to 8.7% YoY, headline CPI was still comfortably above market expectations of 8.2%).

The Fed also hiked by 25bps at their meeting on 3rd May, though Jerome Powell suggested a pause in the Fed's tightening cycle in his post meeting press conference, following 500bps of cumulative hikes since March 2022. US PCE figures released on 26th May were higher than market consensus, suggesting sticky inflation on both sides of the Atlantic. Interest rate volatility remained marginally higher in the US throughout May, due to ongoing debt ceiling negotiations, which have since seemingly been resolved.

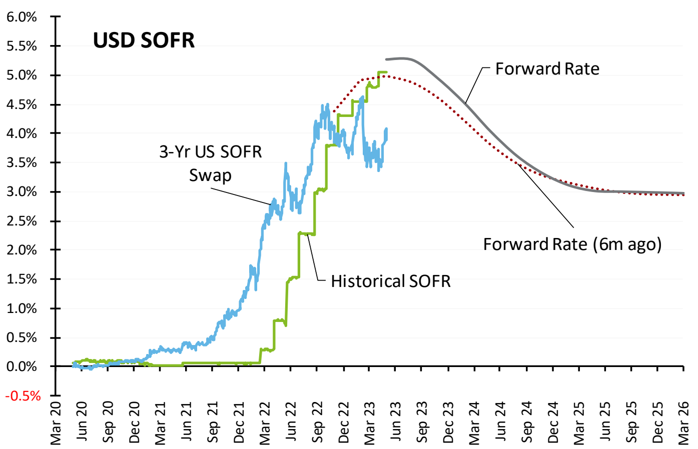
In contrast, while the ECB also hiked by 25bps on 5th May, Christine Lagarde affirmed that European policymakers were "not pausing" their series of hikes.



- The underlying SONIA rate is currently at 4.428%
- BofE base rate is at 4.50% following a 25bps hike at the most recent BofE meeting in May. The market continues to price a further +25bps rise at the next meeting on 22nd June, with a further +75bps by year end.
- The 3-year SONIA Swap rate is 4.82%, vs. 4.08% 6 months ago, and up 60bps MoM.
- The forward curve remains downward sloping from Q4 2023.

	2-year	3-year	5-year
Swap rate (mid level)	5.06%	4.82%	4.44%
Cap @ 5.0% (premium)*	£1.10m	£1.66m	£2.78m
Cap @ 6.0% (premium)*	£0.41m	£0.73m	£1.43m

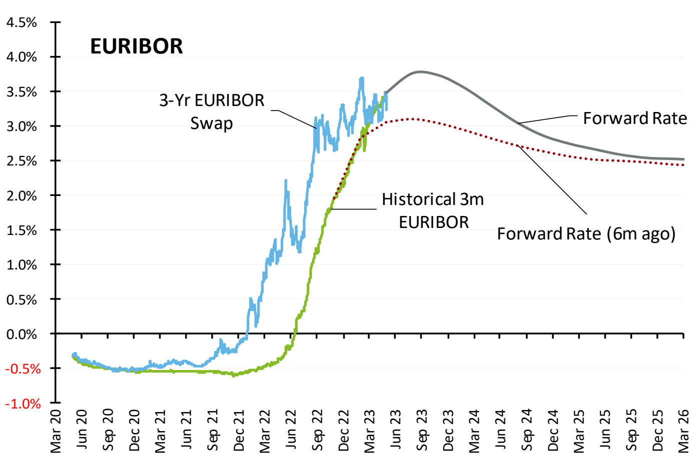
*£100m hedge notional



- SOFR is presently 5.06%, inside the Fed Funds target rate range of 5.00%-5.25%.
- After the +25bps hike in May, markets are now split between holding at present levels or a further +25bps hike on 14th June. Rate cuts are still anticipated in Q4 2023 / Q1 2024.
- The 3-year SOFR Swap rate is 3.88%, vs. 3.85% 6m ago, and up 33bps in the past month.
- The forward curve is steeply inverted from Q3 2023.

	2-year	3-year	5-year
Swap rate (mid level)	4.29%	3.88%	3.53%
Cap @ 5.0% (premium)*	$0.72m	$1.01m	$1.79m
Cap @ 6.0% (premium)*	$0.24m	$0.42m	$0.99m

*$100m hedge notional



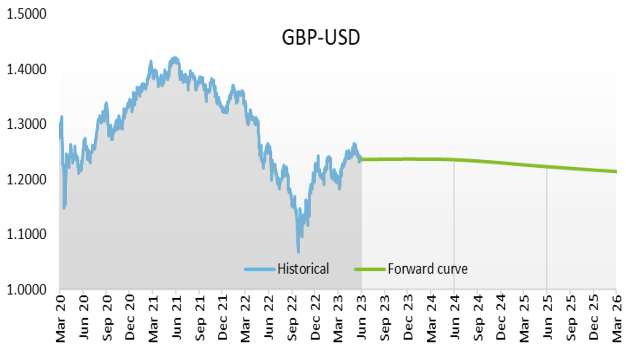
- 3-month EURIBOR is presently at 3.47%, up 21bps MoM, reflecting the ECB's 25bps hike in May.
- Another +25bps increase is expected on 15th June, with a slim chance of a +50bps hike.
- Further out, an additional +25bps of hikes are priced in by September 2023.
- The 3-year EURIBOR Swap rate is currently 3.24%, vs. 2.64% 6 months ago.

	2-year	3-year	5-year
Swap rate (mid level)	3.50%	3.24%	3.00%
Cap @ 4.0% (premium)*	€0.30m	€0.58m	€1.29m
Cap @ 5.0% (premium)*	€0.10m	€0.25m	€0.67m

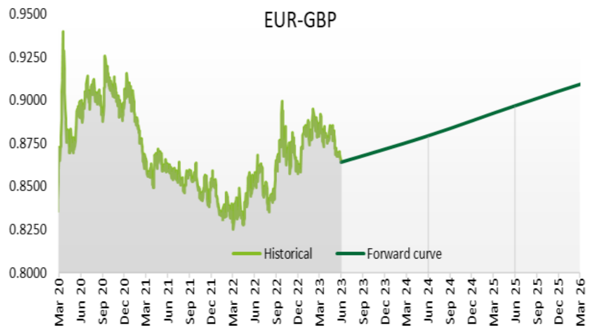
*€100m hedge notional

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

Currency Markets



- GBP-USD has moved 1.26% lower since the end of April, as markets have adopted a more cautious tone month-on-month, predicated on persistent inflation and the US debt ceiling negotiations.
- Option premia have increased slightly for the pair, between 1-9% depending on the protection level, and reflecting the higher FX volatility seen in May.
- Forward rates start to decrease out to 3 years for GBP sellers, demonstrating a higher-for-longer rates environment in the UK over that period.



- EUR-GBP traded 1.33% lower in the last month, as market expectations lean towards higher UK rates for longer versus the Eurozone.
- The cost of hedging via options for EUR-GBP has risen between 22-29%, depending on the level of protection sought; see the grid below. This is due to the more volatile macroeconomic environment.
- Short-term interest rates rose by the same magnitude in the UK and Europe during May, and are expected to do so again in June. However, the forward curve has steepened, due to the expectation of higher-for-longer UK rates.

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 31 May 2023

Hedging Advisory and Derivatives Execution team

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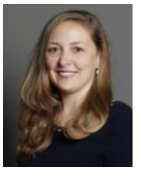

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Managing risk in a digital world

Entering into an increasingly volatile, risky, and more expensive interest rate environment, it is imperative that automation is at the heart of any business today.

Market conditions are of utmost importance to the treasury function, where the most advanced organizations leverage their TMS for automation and insight. This leaves more time for value-add analysis and informed decision and execution.

Current market conditions mean that it is key that we have real time visibility into:

✓ Derivative valuation and the effects that different market scenarios would have on your treasury's portfolio.

✓ Counterparty risk to ensure that your business is safeguarded against the increasingly risky banking market through active alerting

✓ Adherence to hedge policy so that treasury can ensure certainty of cash flow for strategic decision making by automated exposure consolidation across the company

Key questions

- How long does it take for your CFO to get an understanding of counterparty exposure?
- When gathering exposures, are you manually collecting in excel just to make basic decisions?
- Does your valuation process involve needless touchpoints in multiple systems?
- How often do you find yourself falling outside of your hedge policy?
- Are upcoming trade settlements that vary in volatile environments a concern to you because of trouble forecasting?

Ways to automate in your TMS

- Automated limit checks for alerts to actual or potential breaches for select counterparties
- Single source of truth for exposures so that your front office focus on execution and not data gathering
- Automate market data feeds and centralize valuations for all of your instruments into one place (TMS)
- Codify hedge policies so breaches are visible for effective financial planning
- Projected settlements are calculated and reported, meaning that treasury are confident in their ability to pay.

Treasury Technology Team

Creating a single source of truth

Real time calculations

Alerting of policy breaches

Increased time for decision making

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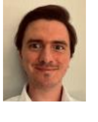

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