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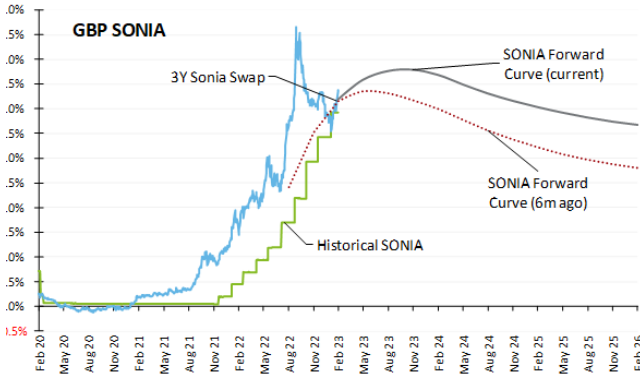
**IR and FX Newsletter**  
March 2023



## Interest Rate Markets

February has seen a rise in Swap rates, as markets develop the sentiment that Inflation will have a more lasting impact to US, UK and European economies than previously priced. UK, US and European Central banks will each meet in mid-March and are expected to increase their bank rates. The impact of February's market moves is a near 50bps rise in medium-term hedge rates.

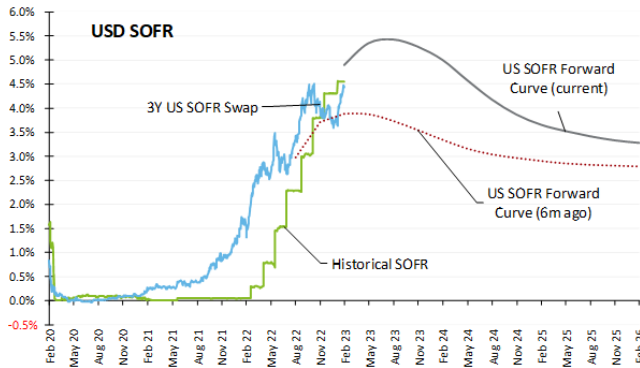
In each jurisdiction, the forward curve anticipates rate cuts to begin around the end of 2023. Such cuts have been priced in for several months already, but have not materialised, and the inversion of the forward curve has been continually delayed. The inverted curves for GBP, USD and, to a lesser degree, EUR, still mean that it is cheaper to hedge for longer tenors, and also result in a Fixed hedged rate that is cheaper than the current Floating rate for certain maturities.



- The underlying SONIA rate is currently at 3.93%
- BofE base rate is at 4.0%. The market currently prices a +25bps hike at the next March meeting, with a further +25bps likely in May.
- The 3-year SONIA Swap rate is 4.37%, vs. 3.71% 6 months ago, and up 53bps during February.
- The forward curve inversion is pushed back, now occurring after Q3 2023.

	2-year	3-year	5-year
Swap rate (mid level)	4.57%	4.37%	4.04%
Cap @ 5.0% (premium)*	£0.71m	£1.21m	£2.28m
Cap @ 6.0% (premium)*	£0.35m	£0.67m	£1.40m

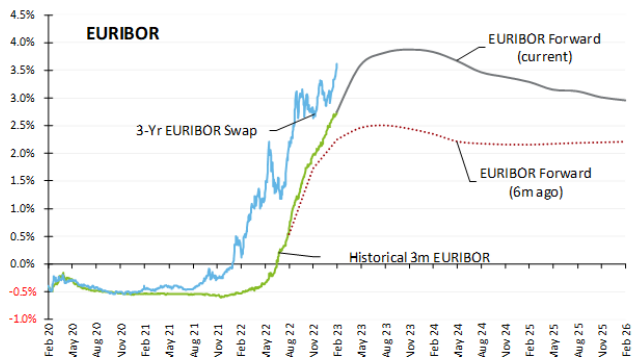
\*£100m hedge notional



- SOFR is presently 4.55%, inside the Fed Funds target rate range of 4.50%-4.75%.
- A +25bp hike is anticipated at the March meeting, with 2 further +25bps hikes expected for May and June, taking the floating rate to ~5.25% by summer.
- The 3-year SOFR Swap rate is 4.45%, vs. 3.38% 6m ago, and up over 60bps in the past month.
- The steeply inverted forward curve offers significantly cheaper longer-term swap rates.

	2-year	3-year	5-year
Swap rate (mid level)	4.89%	4.45%	3.98%
Cap @ 5.0% (premium)*	\$0.78m	\$1.10m	\$1.81m
Cap @ 6.0% (premium)*	\$0.28m	\$0.48m	\$0.95m

\*\$100m hedge notional

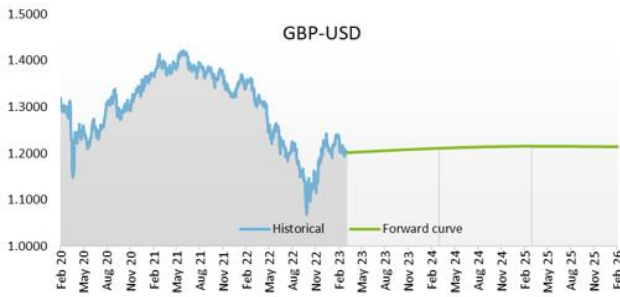


- 3-month EURIBOR shows no sign of slowing its climb, presently at 2.744%, up 26bps in Feb.
- A 50-75bps hike is priced for the ECB's March meeting, an increase of 25bps from last month's estimates. Another 25bps increase is expected for May and June, which would take the bank deposit rate to 3.75% by summer.
- The 3-year EURIBOR Swap rate is currently 3.62%, vs. 2.21% 6 months ago, and up 48 bps on the month.

	2-year	3-year	5-year
Swap rate (mid level)	3.78%	3.62%	3.38%
Cap @ 4.0% (premium)*	€0.47m	€0.87m	€1.74m
Cap @ 5.0% (premium)*	€0.19m	€0.41m	€0.97m

\*€100m hedge notional

# Currency Markets



- GBP-USD has broadly traded sideways during February, with neither currency gaining much ground on the other.
- This lack of directionality has decreased the trading volatility of the currency pair, in turn cutting option premia by 5-10% versus the previous month.
- Forward rates are largely flat out to 3 years, reflecting the similarity on interest rate outlook over the same period in the UK and the US.
- EUR-GBP is traditionally a low volatility currency pair, reflecting lower daily moves relative to currencies facing the USD.
- Despite a number of larger moves during February, the pair ended the month where it began, at 0.88.
- Interest rates rose similarly in UK and Europe, keeping forward rates similar to last month.

GBP-USD Spot Rate: 1.202	6mo	12mo	18mo
Forward rate	1.208	1.212	1.214
GBP Put Option* (ATMS**)	\$3.07m	\$4.16m	\$5.03m
GBP Put Option* (5% OTMS***)	\$1.27m	\$2.30m	\$3.11m
* GBP 100m Put option premium			
** At-the-money Spot rate:	1.202		
*** 5% Out-of-the-money vs Spot rate:	1.142		

EUR-GBP Spot Rate: 0.880	6mo	12mo	18mo
Forward rate	0.884	0.889	0.893
GBP Put Option* (ATMS**)	€2.54m	€3.79m	€4.76m
GBP Put Option* (5% OTMS***)	€0.76m	€1.69m	€2.51m
* GBP 100m Put option premium			
** At-the-money Spot rate:	0.880		
*** 5% Out-of-the-money vs Spot rate:	0.923		

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

## Hedging Advisory and Derivatives Execution team



Hedging Strategy Advice



Outsourced Derivative Execution



Financial Market Knowledge



Derivative Pricing Expertise



**Paolo Esposito**  
Lead Director

+44 20 7007 8964  
pesposito@deloitte.co.uk



**Mark Beckett**  
Director

+44 20 7303 7849  
mbeckett@deloitte.co.uk



**Svenja Schumacher**  
Assistant Director

+44 20 7007 9363  
scschumacher@deloitte.co.uk

## Managing tax in a volatile market...

The current scenario of increasing volatility in interest rates, foreign exchange and commodity markets, combined with an everchanging international tax landscape and ongoing global tax reforms imposes many challenges to multinational corporations and investors when assessing the tax implications and risks of financing/treasury operations. It is therefore critical for treasury, tax and accounting professionals to consider the tax angle in financing operations, in order to balance the need to:

Optimise cash generation, effective tax rate and reduce overall cost of capital  
WHILST...

Mitigating tax volatility and effectively hedge profit and loss volatility in respect of unrealised and realised amounts.



Managing tax risk associated with complex financial instruments and ensuring compliance with different tax systems and ongoing global tax reform.

## Key areas that our team can provide support

- Manage accounting profit and tax volatility as a result of unrealized fair value and foreign exchange movements associated with hedging instruments
- Reduce external cost of hedging/financing so as to optimize cost of capital with different funding mechanisms (including complex financial instruments)
- M&A tax advice on deal contingent derivatives and acquisition financing.
- Compliance and HMRC engagement support for complex financial instruments
- Managing foreign exchange volatility on global cash management and cash pooling arrangements in multiple currencies.
- Assess tax risk associated with financing and hedging arrangements on international tax compliance/new legislation:
  - International tax reform (OECD) including Global Minimum tax.
  - Interest deductibility/loss restriction rules in multiple jurisdictions.

## National Treasury Tax team



Finance and Treasury Tax Advisory



Hedging and Forex Management Tax Solutions



Tax Advisory associated with cash management and debt restructuring



Tax Controversy (Finance and Treasury)



Cash repatriation and international financing



**Helen Chadwick**

*Lead Partner*

+44 161 455 6034  
hchadwick@deloitte.co.uk



**Gemma Marshall**

*Director*

+44 161 455 8149  
gemmarshall@deloitte.co.uk



**Judith Daykin**

*Director*

+44 118 322 2328  
jdaykin@deloitte.co.uk



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