Changing FX Markets

Impact of monetary policies and regulations on FX markets

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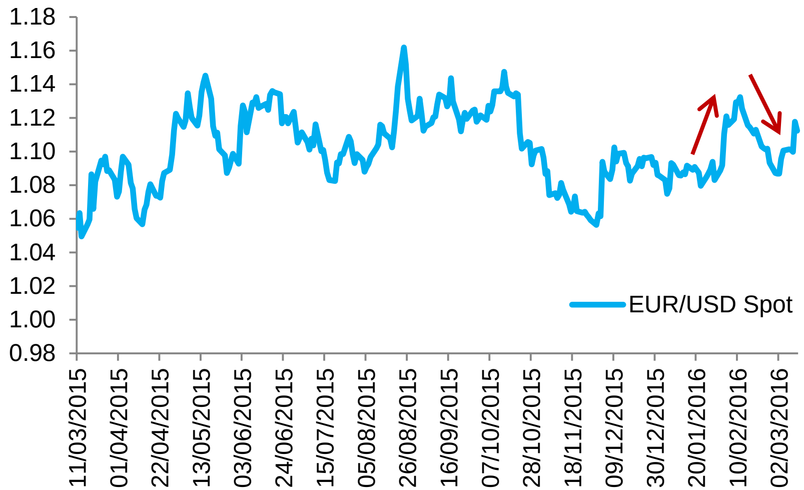
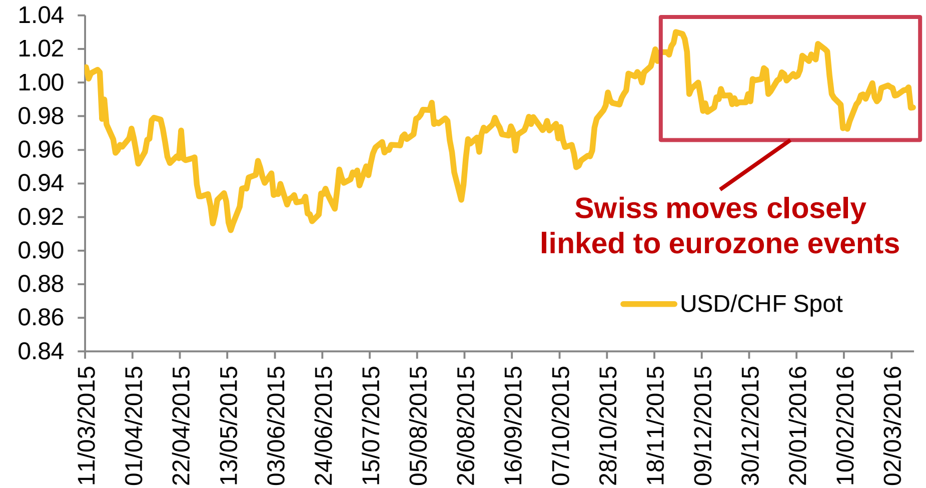
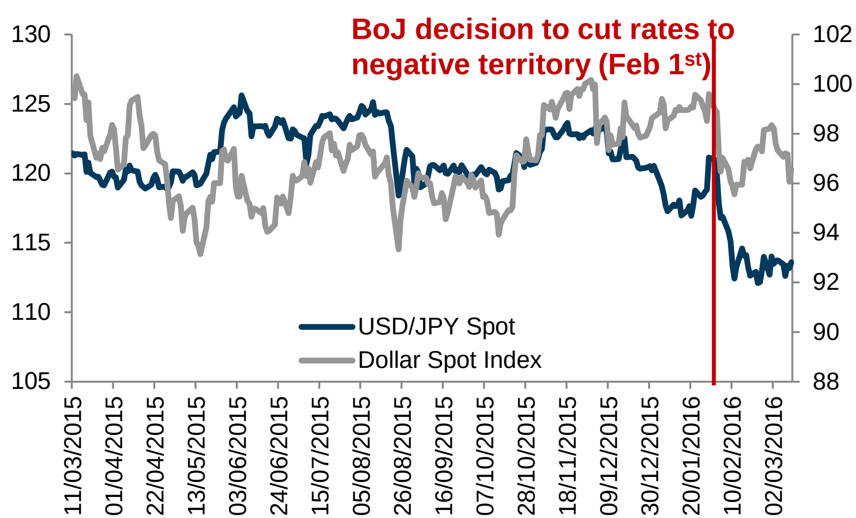
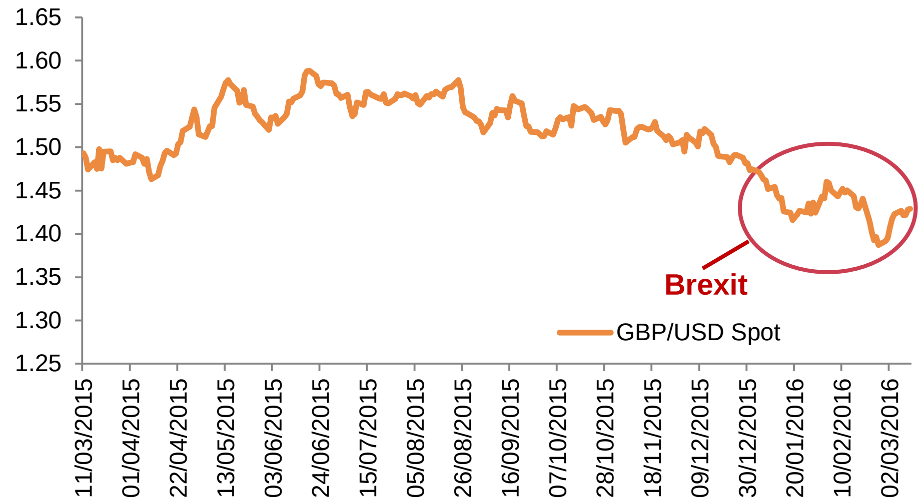
Spot FX Rates









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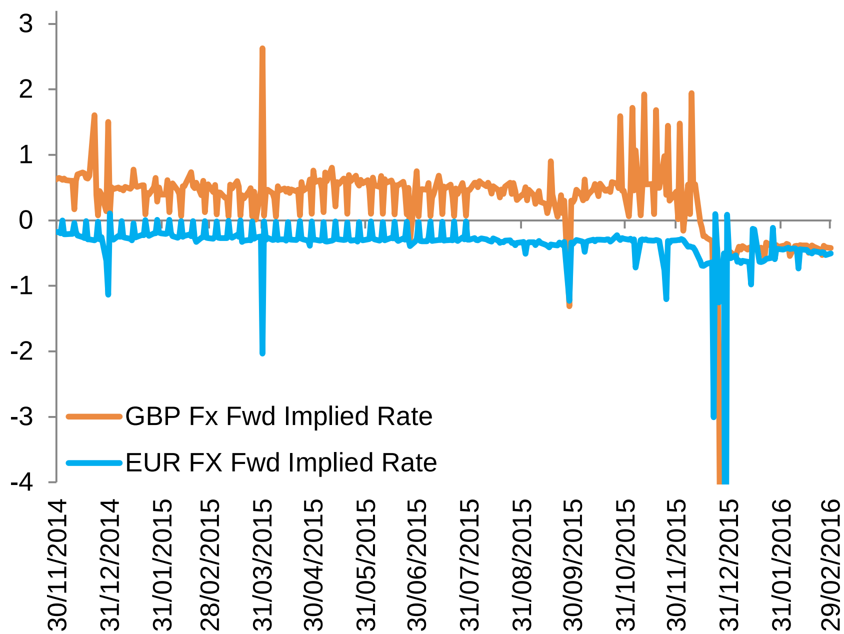
Balance Sheet impact of FX basis

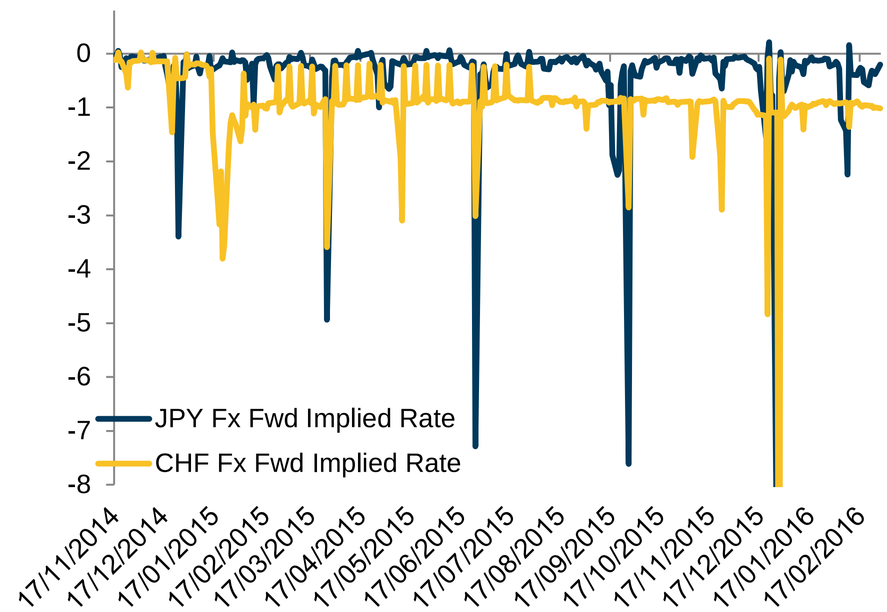
Leverage and RWAs targets have an impact on FX Basis globally.

- At M/E and Q/E we see spikes in some currencies vs. USD due to the willingness of FIs to hold these currencies in their balance sheets (JPY due to incurring in RWAs and CHF due to leverage constraints).

S-N GBP and EUR Basis



S-N JPY and CHF Basis



Source: Own calculations based on Bloomberg data – note: levels on last working day of 2016 fall below showed due to year-end balance sheet requirements driven tightness in liquidity. (GBP: -12.96, EUR -7.54, JPY -9.88, CHF -15.94). We limited the skewing impact of those outliers for the purposes of this presentation

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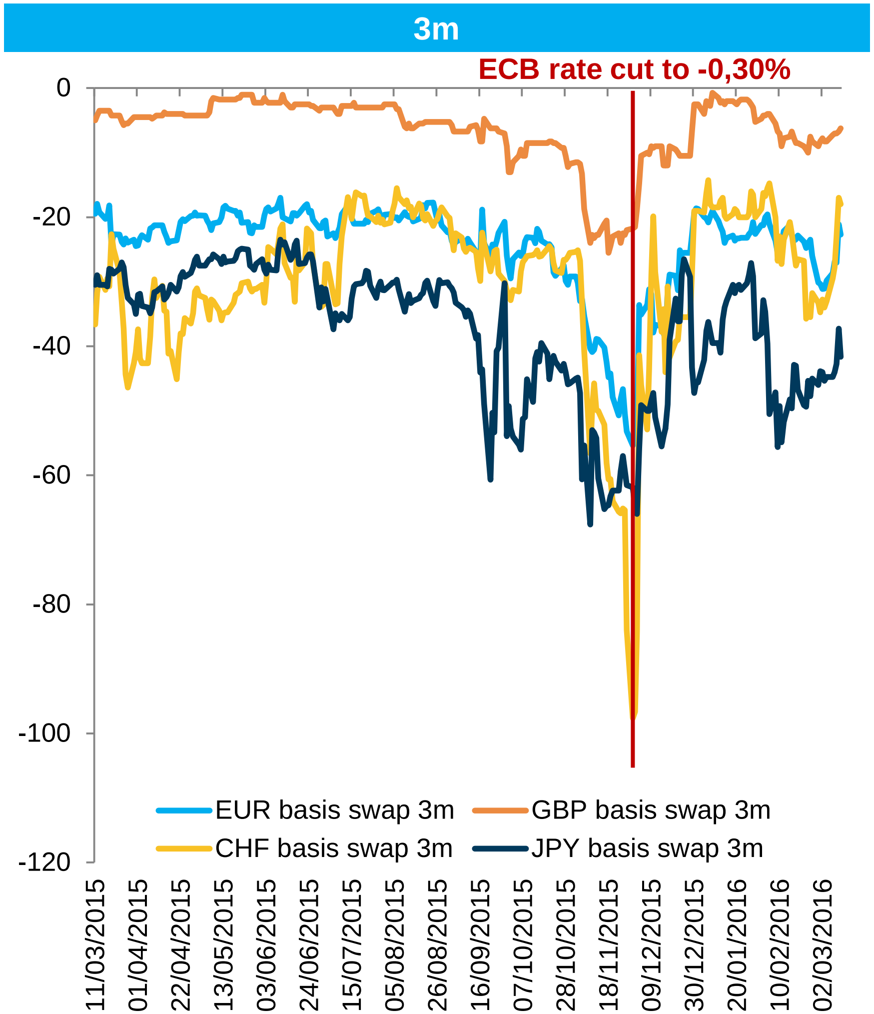
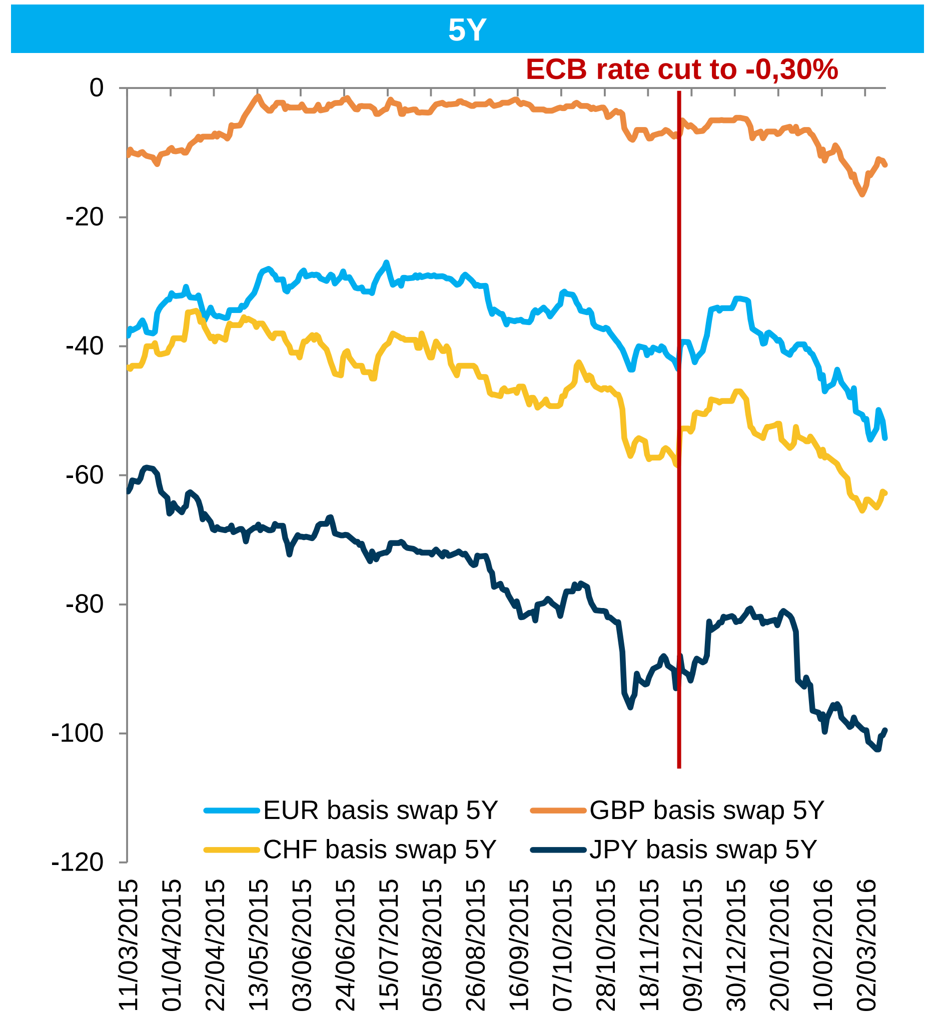
CCY Basis swap 3m volatility and 5Y widening





Source: Bloomberg

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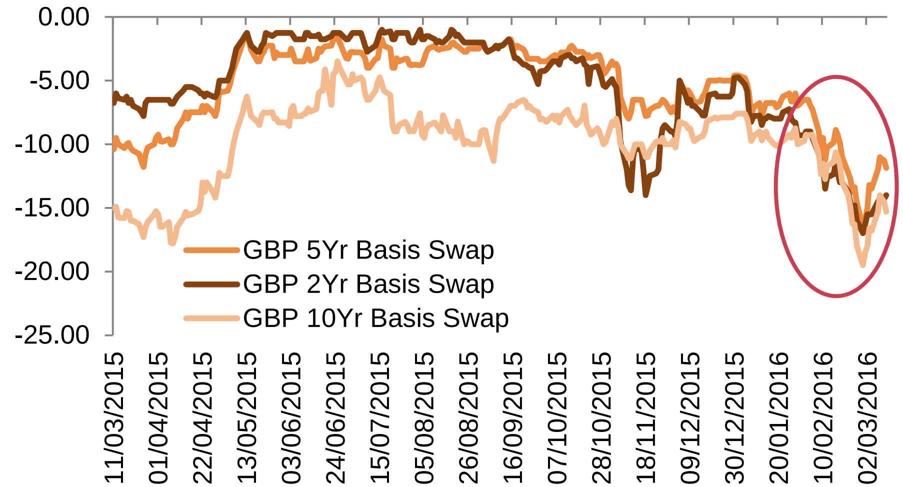
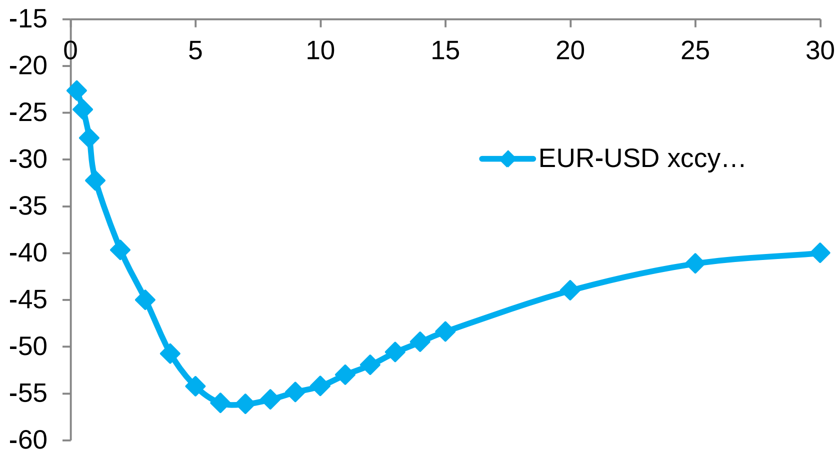
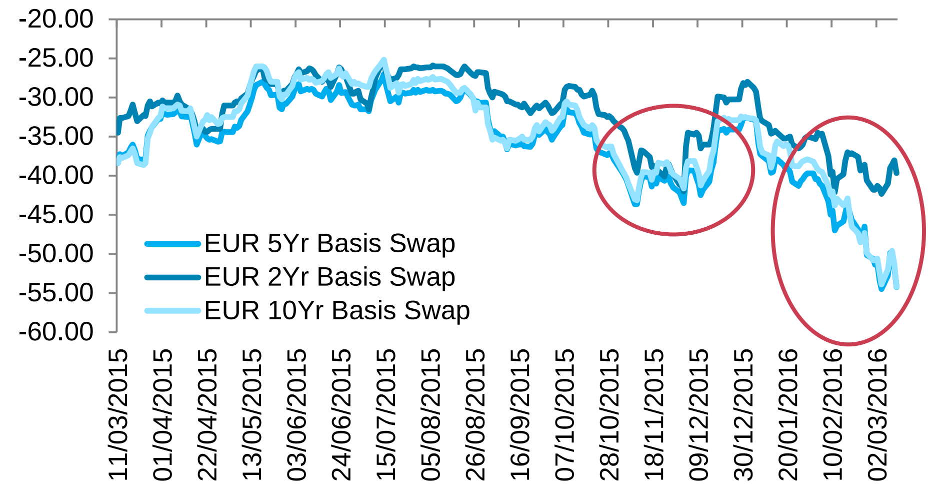
XCCY basis – EUR and GBP

The increasingly **negative cross-currency basis** across most currencies vs. USD, especially over the past few months is due to a few reasons:

1. Divergence in monetary policy between the US and most other large economies.
2. General scarcity of USD liquidity in other markets, such as Europe and Far East.
3. Lack of dollar issuance, replaced by issuance in euro/sterling which is then swapped into USD.
4. In Sterling, Brexit fears are also weighing on cross currency basis.







Source: Bloomberg as of 11/03/2016

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XCCY basis – JPY and CHF

4. Current easing monetary policies in both the eurozone and Japan (and the expectation they will continue) imply there will be less demand for euro and yen relative to USD.
5. JPY-USD xccy basis very negative not only because of BoJ's extreme QE programme but also due to being a high RWA currency for banks.
6. Swiss basis moves closely with euro developments due to the interconnectedness of the economies. Moreover the negative basis is also motivated by Swiss being a safe haven currency but with relatively few Swiss assets to invest in.