Public

Markets Directorate Interest Rate Flash

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Fed has tapered!

Source: Bloomberg			
Short term interest rates EUR (%)	10.11.21	12.10.21	difference
Eonia	-0.4910	-0.477	-0.01
EURIBOR1m	-0.5660	-0.561	0.00
EURIBOR3m	-0.5690	-0.552	-0.02
EURIBOR6m	-0.5320	-0.523	-0.01
IRS EUR (%), source: Bloomberg			
IRS 2Y	- 0.26	- 0.33	0.07
IRS 3Y	- 0.14	- 0.22	0.08
IRS 5Y	- 0.02	- 0.02	0.01
IRS 10Y	0.22	0.35	- 0.13
Zero cost (ZC) collar 3 month EURIBOR (%), calculation by K&H based on Bloomberg data		IRS+0% strike floor purchase on 3 month EURIBOR	
10.11.21		10.11.21	
collar 3Y	-0.30-0.10	IRS+floor 3Y	0.15
collar 5Y	-0.20-0.40	IRS+floor 5Y	0.27
collar 7Y	-0.10-0.50	IRS+floor 7Y	0.40
collar 10Y	0.10-0.50	IRS+floor 10Y	0.66

Source: Bloomberg				
IRS euro Forward start (%)		10.11.21	12.10.21	difference
1Y Forward	IRS 2Y	0.01	-0.10	0.11
	IRS 4Y	0.07	0.08	-0.01
2Y Forward	IRS 3Y	0.13	0.18	-0.05
	IRS 7Y	0.29	0.46	-0.17
CAP 3month EURIBOR (%), source: Bloomberg			10.11.21	
3Y -0.10%				0.77
3Y 0.00%				0.44
5Y 0.25%				1.21
5Y 0.50%				1.02
Running premium paid quarterly on 0% strike floor purchase on 3 month EURIBOR (%) calculation by K&H based on Bloomberg data				
10.11.21				
floor 3Y	0.41			
floor 5Y	0.41			
floor 7Y	0.42			
floor 10Y	0.44			

Source: Bloomberg	
Base rate (%)	10.11.21
Eurozone	0.00
US	0.25
Great-Britain	0.10
Canada	0.25
New-Zealand	0.50
Japan	0.10
Poland	1.25
Czech Republic	2.75
Australia	0.10
Hungary	1.80
Turkey	16.00
Romania	1.75

Markets commentary and significant price evolutions

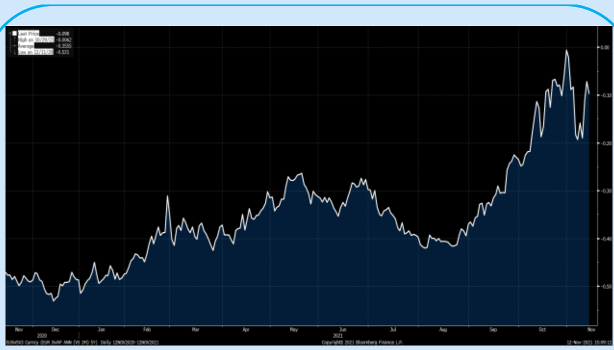
Fears of inflation have intensified in recent weeks as more and more areas (sea transportation, building materials, oil, energy, etc.) have seen rapid and significant price increases. Moreover, looking ahead, these markets are not expected to return to normal in the short-run, so it may push further up consumer prices. In recent months we already seen accelerating inflation in both the USA and Europe, and the turning point can only be reached around November. This new wave of inflation has once again triggered a rise in the euro and dollar yield curves. At the same time, a more parallel shift can be seen in case of the dollar curve, while the euro curve is rather steep, which can be explained by several factors.

The US economy is moving forward in recovering from the Covid crisis. Through the budget, much greater economic recovery has been achieved than in most European countries. As a result, consumer prices also started to rise earlier, which triggered the FED tapering .

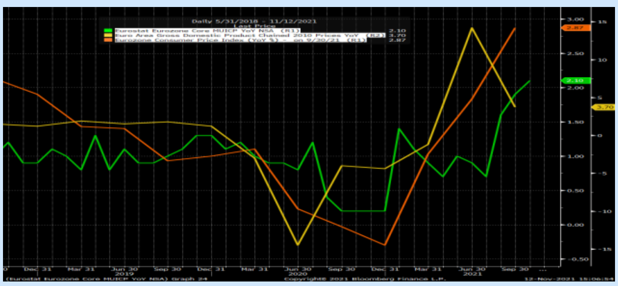
Although the European Central Bank, has raised its forecast for both growth and inflation rates this year, it still maintains its wait and see approach. Inflation is regarded as temporary and the asset purchase programs will be continued. Based on the communication of recent weeks, the asset purchase programs introduced due to the outbreak of the pandemic, may be phased out by March, and so the tightening cycle may begin.

In the case of the Fed, a bigger and bigger part of policymakers hit a rather hawkish tone recently, the result: FED started to phased out its $120 billion bond purchase in November by $15 bilion/month, and the central bank will completely stop purchases by next June. In addition, a cycle of interest rate hikes may start as early as the second half of next year.

Moreover, the risk appetite of the market is sometimes being hampered due to the possible default of Chinese corporate loans (e.g Evergrande), which lead to greater volatility to the markets. All in all, despite the rise in yields in recent weeks, still historically low interest rates rule the world in case of both the dollar and euro markets.



The 5-year EUR IRS (orange).



EU YOY GDP at 3.70% (yellow), core inflation at 2.10% (green), inflation at 2.87% (orange)