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Macro-Regulatory View of Liquidity Drivers and Impact on Corporations

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Post Crisis Effects on Banks: Basel III + Clearing + Reporting

- Implementation around, 2017-18 ‘bedding in’:
- Topics: Capital Requirements, Liquidity Ratios, Stress Tests, FRTB
- CCP Derivatives Clearing Requirements - - - > Collateral Demand

- Quantitative Easing (QE) in USA has ended and is tapering, USD interest rates normalising
- Eurozone (QE) is still in place, EUR interest rates remain negative
- UK faces uncertainty even post-Brexit, but so does Europe

- EU Money Market Fund Regulation, 2019: M2M, dual Daily and Liquidity minimum, Weekly public reporting brings transparency, concentration limits bring diversification

- Securities Financing Transaction Reporting: SFTR

Basel III Funding Stability Measures

- **Phasing in of Basel III regulations on funding stability measures (LCR and NSFR) fully implemented 2016 - 2017 are changing Banks' balance sheet appetite**

- **Dis-Incentives to quote and accept 'non operational' deposits from clients who do not use them as their primary operational relationship.**

- **The changes affect particularly cash and reverse repo deposits with maturities less than 31 days and anecdotally result in unfavourable rates or outright refusals.**

- **Changes in Senior Unsecured Bank Debt being redefined into Senior Preferred vs Senior Non-Preferred debt has raised the cost of banks’ bond funding.**

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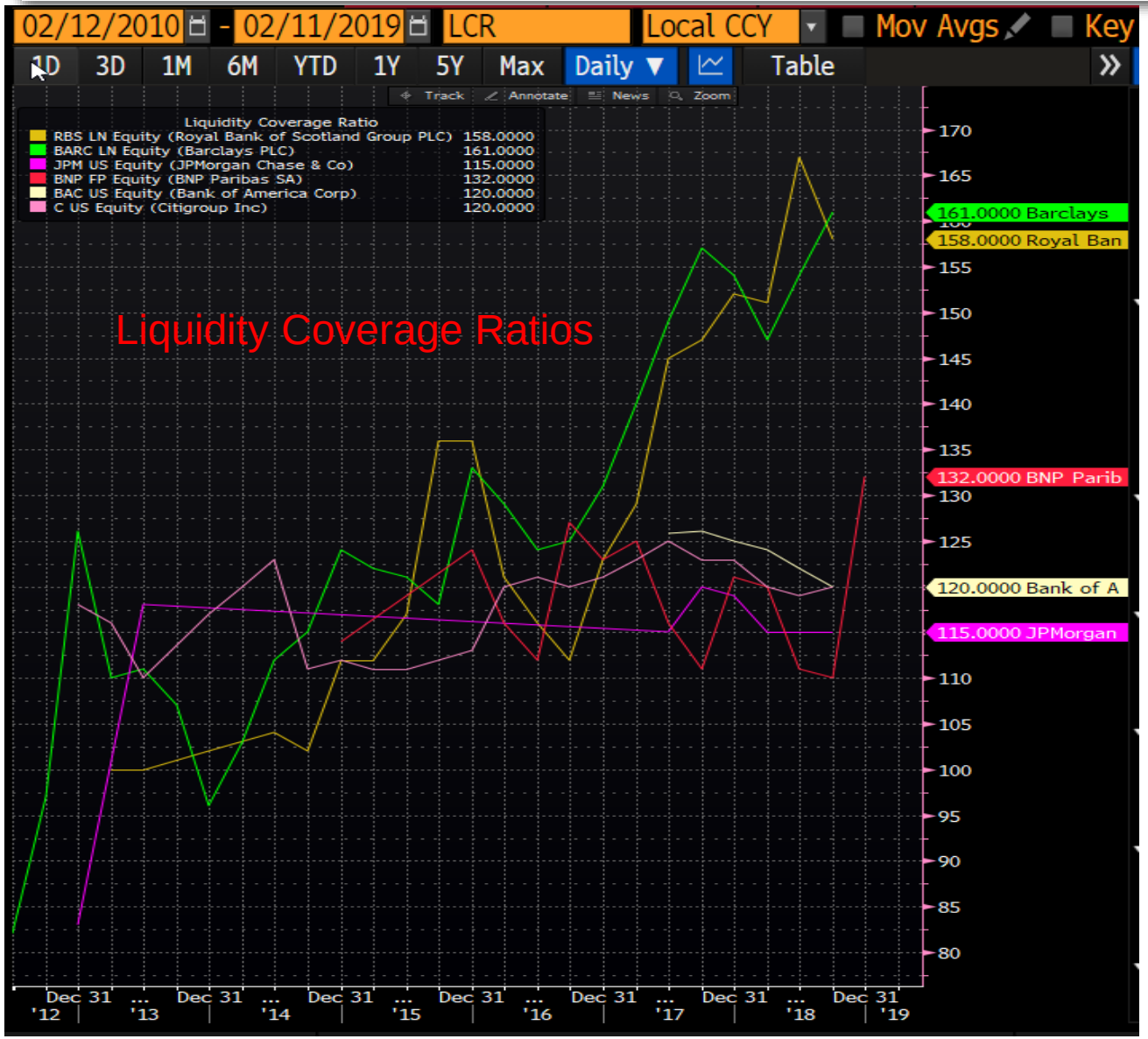
Selected Banks Liquidity Coverage Ratios 2012 - 2018



Selected Liquidity Coverage Ratios:

Barclays / RBS : 161 / 158

BNP: 132

BoA / JPM : 120 / 115

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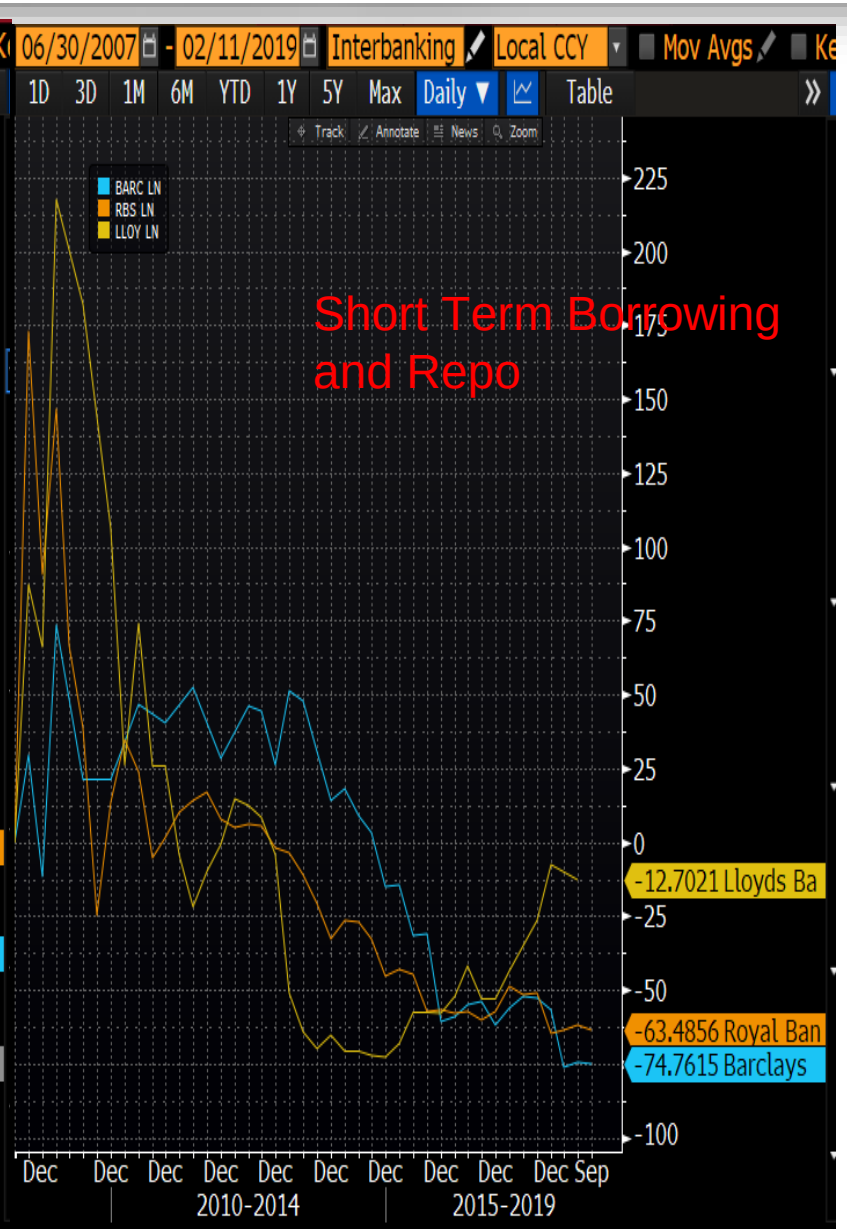
SELECTED UK BANKS:
INTERBANK ASSETS VS SHORT-TERM BORROWING + REPO



June '07 - Dec '18
Mid-Observation:

- Interbank Assets (- 48%)
- ST Borrowings (-63%)

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SELECTED US BANKS:
INTERBANK ASSETS VS SHORT-TERM BORROWING + REPO

June '07 - Dec '18
Mid-Observation:

- Interbank Assets (+85%)
- ST Borrowings (-39%)

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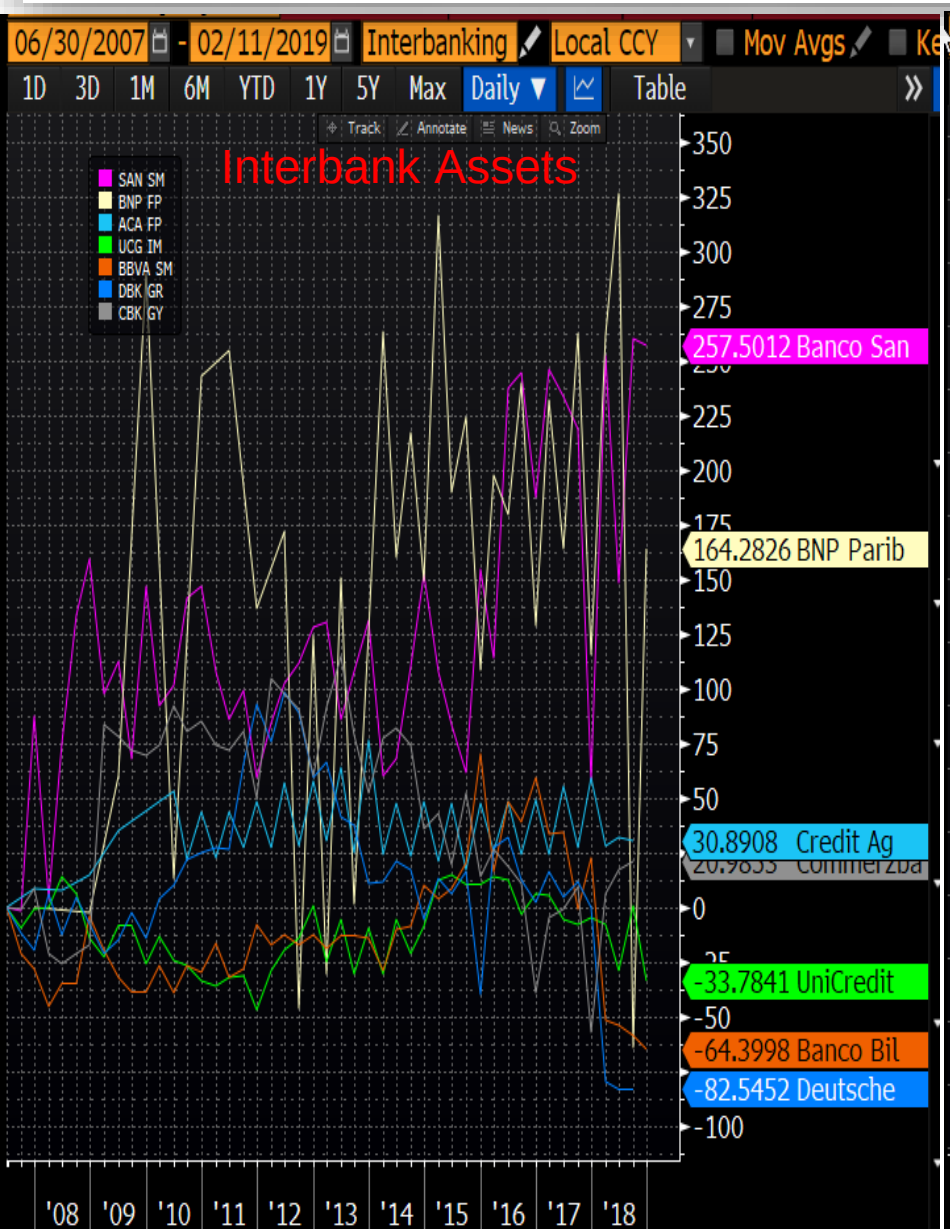
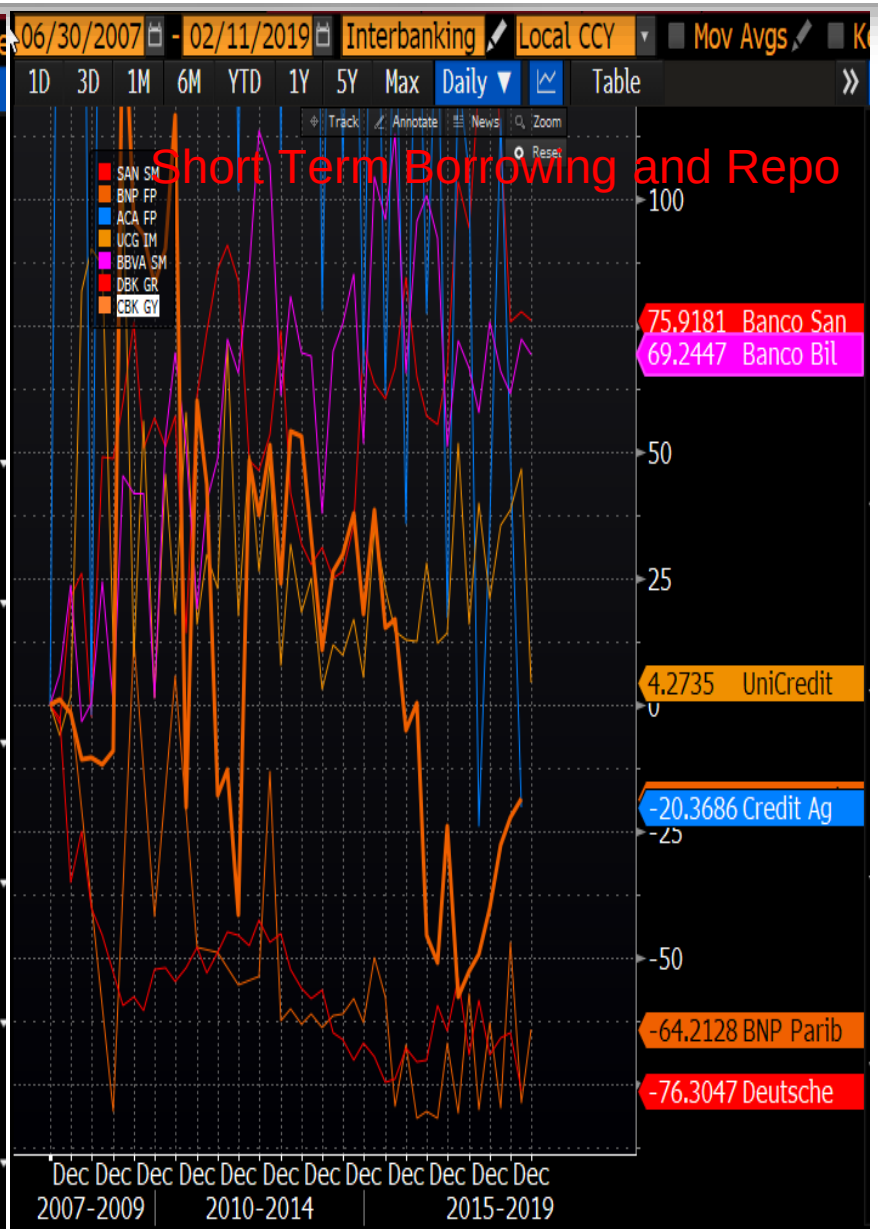
SELECTED EUROPEAN BANKS:
INTERBANK ASSETS VS SHORT-TERM BORROWING + REPO





June '07 - Dec '18
Mid-Observation:

- Interbank Assets (+30% but big differences)
- ST Borrowings (-20% but also big differences)

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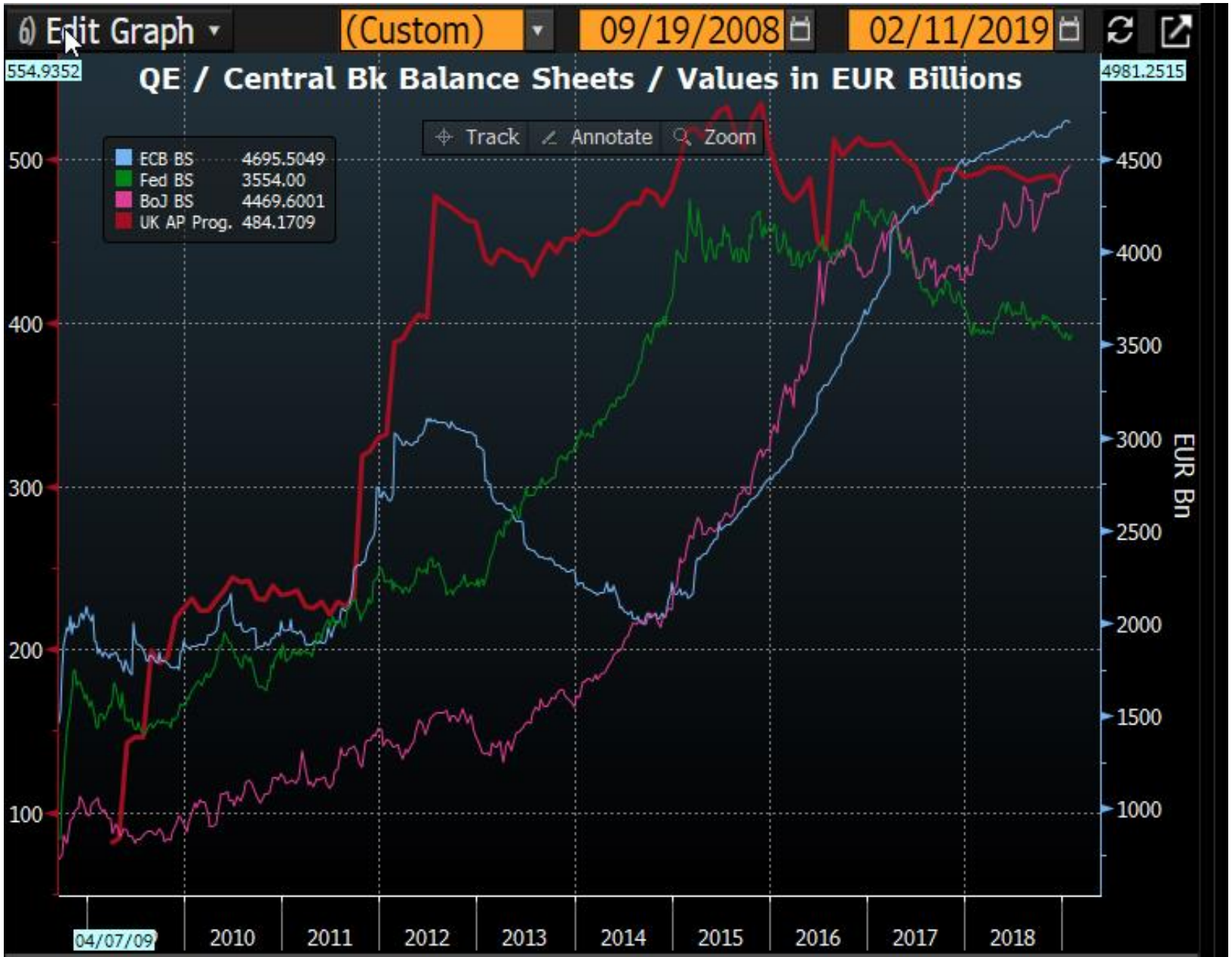
CBK QE: SELECTED BALANCE SHEETS



Dec 2018

ECB:

- EUR 4.9 trillion (rising)

JAPAN:

- EUR 4.4 trillion (rising)

USA:

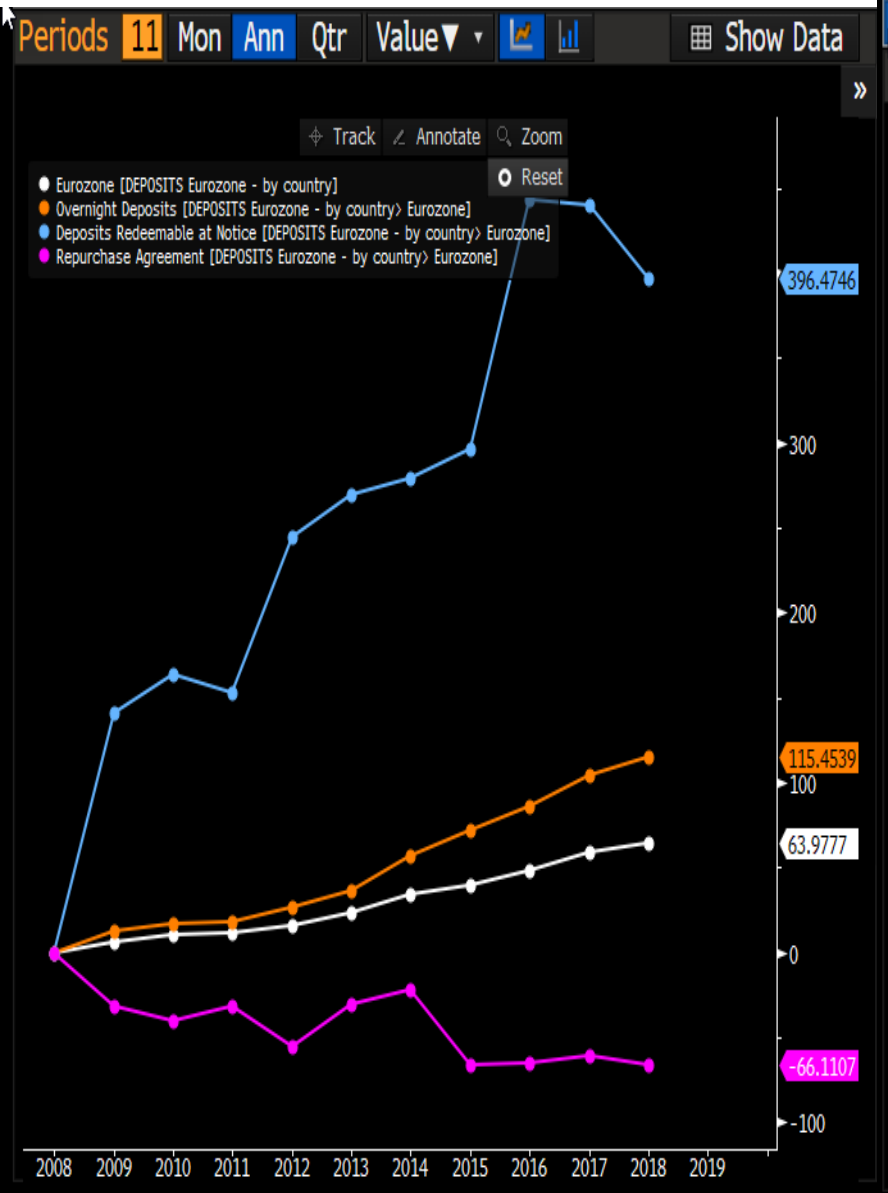
- EUR 3.5 trillion (falling)

UK:

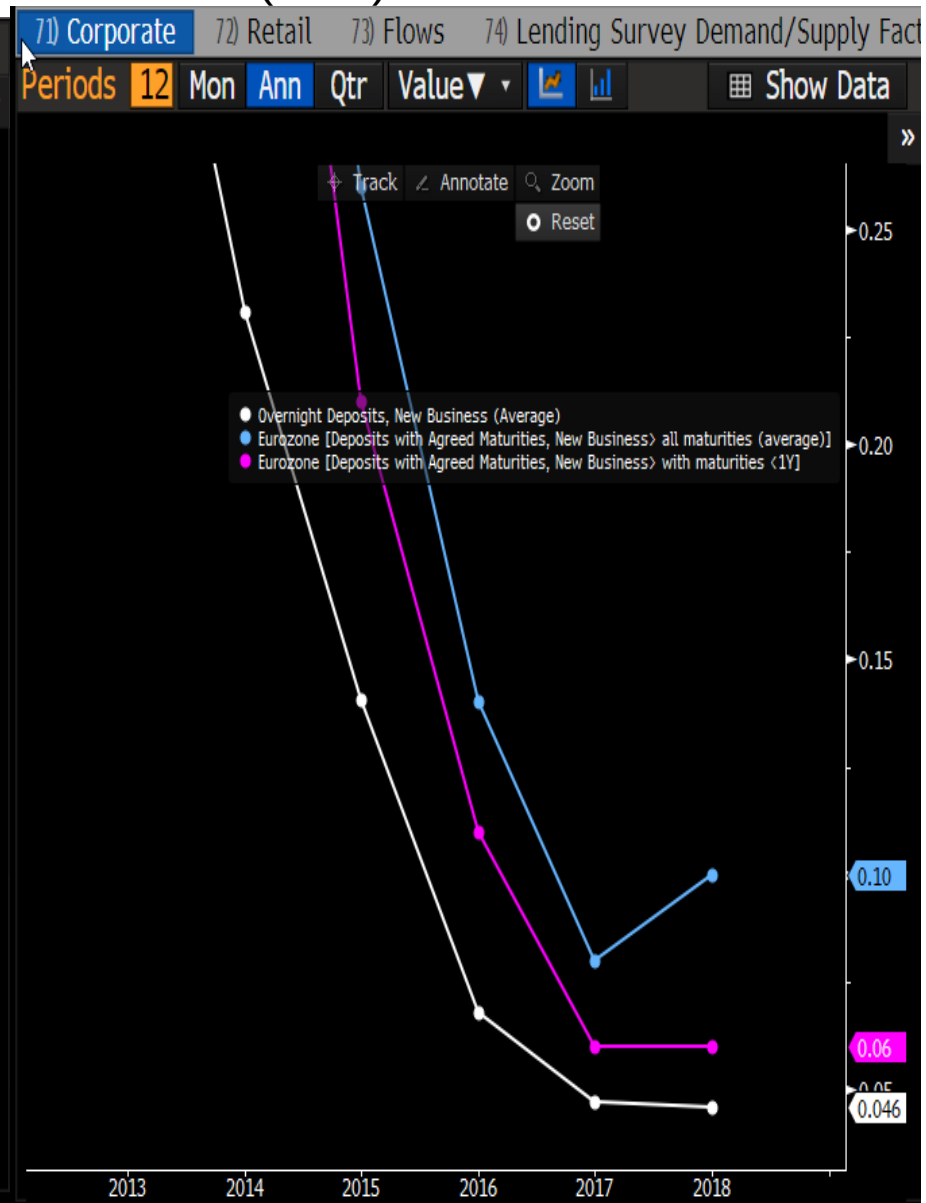
- EUR 500 billion (sideways)

CBK QE: SELECTED BALANCE SHEETS

EZ Deposits and Repo:
Percentage Growth post-2008



Euro Corporate Deposit Rates:
New Business (ECB)



Dec 2018

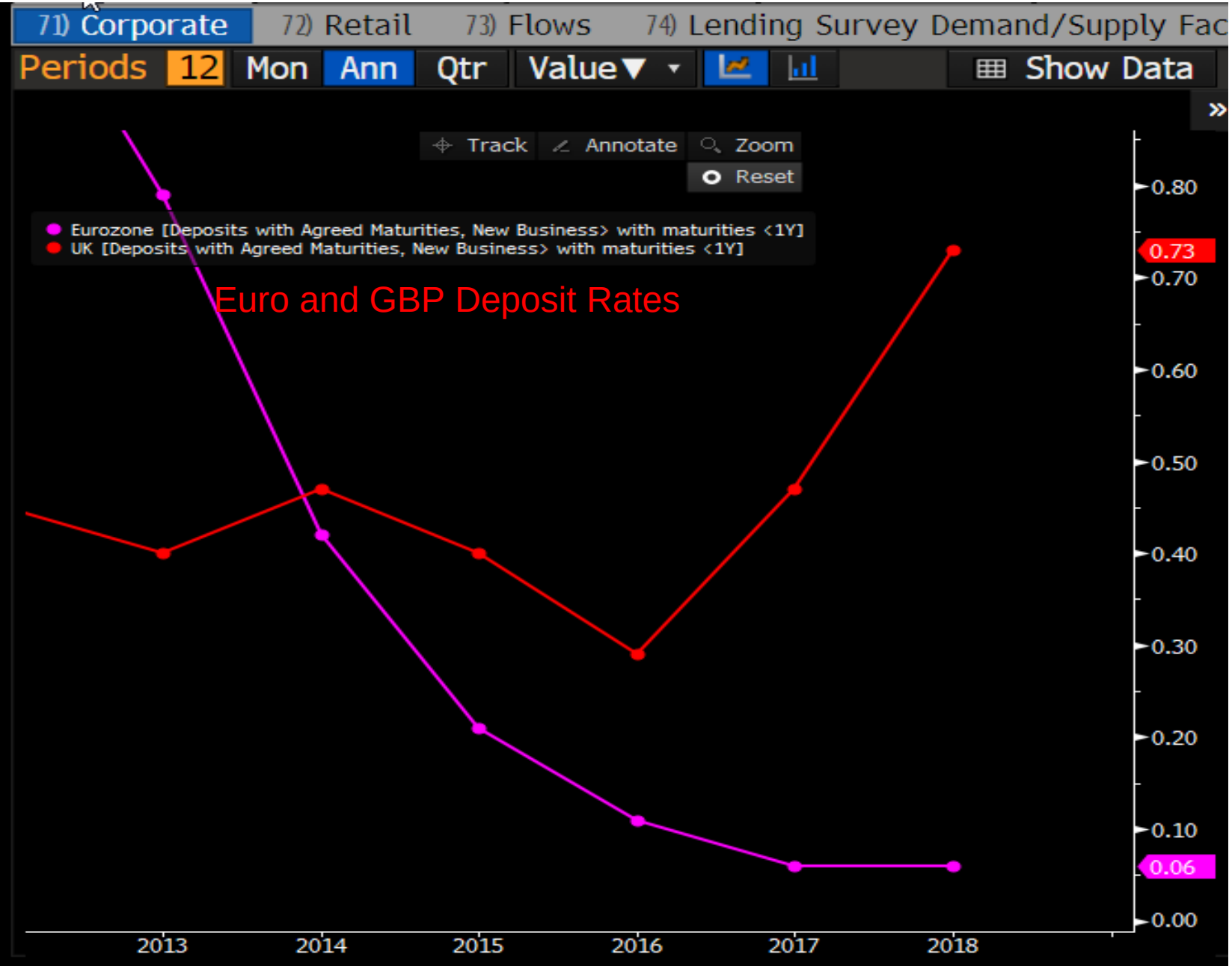
ECB:

- **EZ Corporate Deposits** +63%
- **Deposits redeemable at notice:** +396%
- **Repurchase Agreements** -66%

Deposit Rates

- Range 0.046% - 0.10%

Corporate Deposit Rates: EUR + GBP



Dec 2018
Source ECB:
Deposit Rates

- EUR 0.06%
- GBP 0.73%

Sterling rates rising
Euro rates flatline still

ECONOMIC FORECASTS

Country/Region/World | Contributor | Contributor Composite | Yearly | Quarterly

Eurozone | Browse | Private | Official

Actual / Forecasts | Probability of Recession 20.0%

Indicator	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Gross Fixed Investm...	3.4	2.9	3.7	2.5	3.1	2.3	2.3	2.4	2.4	2.3
Exports (YoY%)	3.8	4.0	2.8	1.4	3.1	2.8	3.3	3.1	3.1	3.0
Imports (YoY%)	2.7	2.7	3.6	2.1	3.6	3.5	3.4	3.4	3.3	3.2
Industrial Production (Yo...			0.6	0.1	0.4	0.6	1.1	2.0	1.9	1.8
Price Indices										
CPI (YoY%)	1.2	1.7	2.1	1.9	1.5	1.4	1.2	1.3	1.5	1.6
Labor Market										
Unemployment (%)	8.5	8.3	8.0	7.9	7.9	7.8	7.7	7.7	7.7	7.7
External Balance										
Curr. Acct. (% of GDP)	3.4	3.6	3.3	2.7	2.9	2.5	2.8	2.6	2.8	2.6
Interest Rates										
Central Bank Rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.08	0.12	0.22
3-Month Rate (%)	-0.33	-0.32	-0.32	-0.31	-0.27	-0.26	-0.22	-0.14	-0.06	0.07
2-Year Note (%)	-0.61	-0.67	-0.53	-0.62	-0.54	-0.45	-0.36	-0.23	-0.13	0.01
10-Year Note (%)	0.49	0.30	0.47	0.24	0.34	0.48	0.59	0.71	0.77	0.84
Exchange Rates										
EURUSD	1.23	1.17	1.16	1.15	1.15	1.17	1.18	1.20		

EUR Deposit Rates

- Expected Negative until Q2 2020
- Q2 2020: CPI 1.6% (down from 1.9%)

GBP Deposit Rates

- Expect 1.47% Q2 2020
- CPI 2.0% / RPI 3.0% (EURGBP 0.87)

90) Chart | 97) Set as Default View | Economic Forecasts

Country/Region/World | Contributor | Contributor Composite | Yearly | Quarterly

United Kingdom | Browse | Private | Official

Actual / Forecasts | Probability of Recession 25.0%

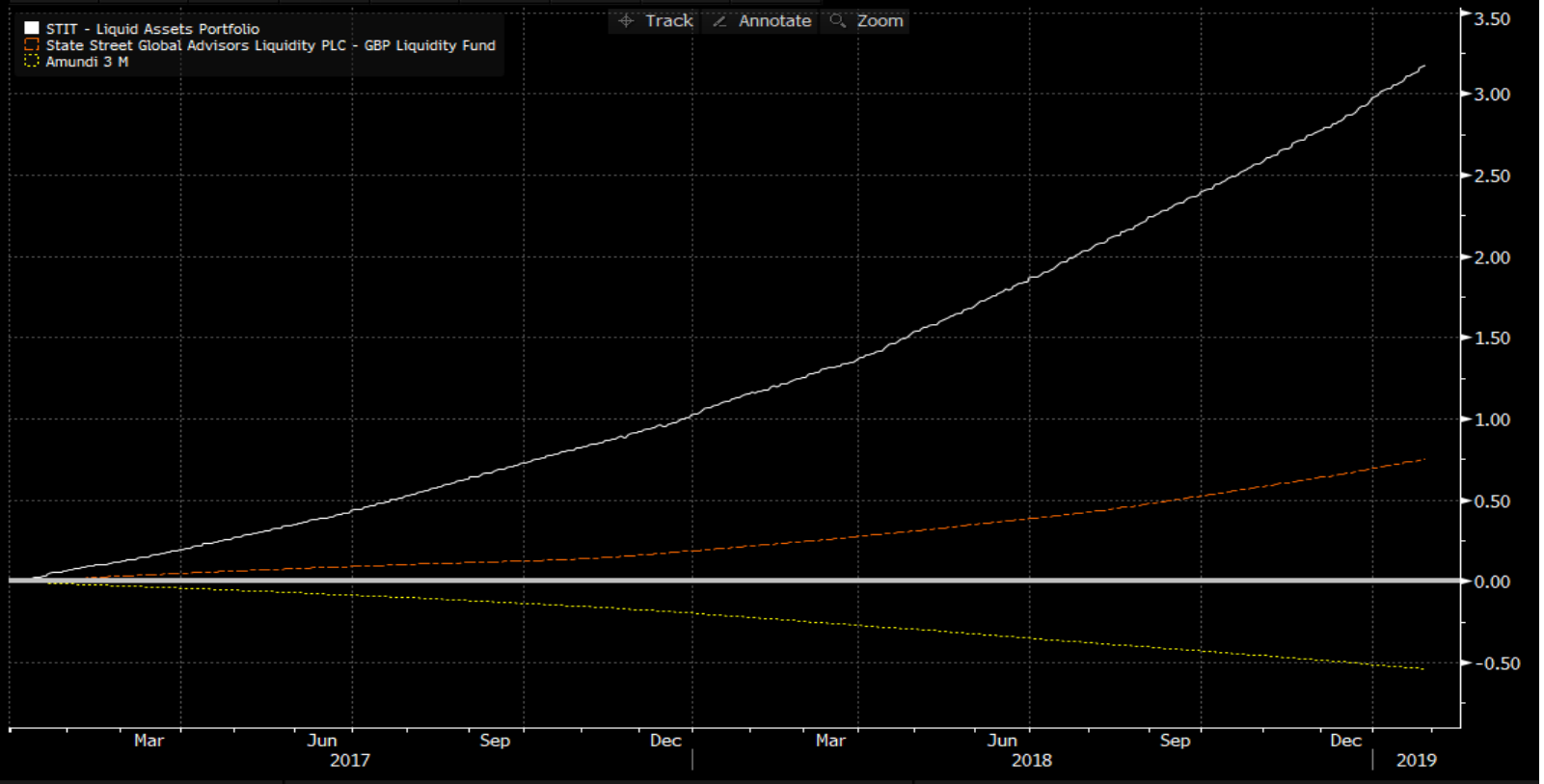
Indicator	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Imports (YoY%)	0.7	-0.1	0.2	1.0	2.0	2.3	2.4	2.4	2.2	2.6
Manufacturing Production...			0.9	-0.2	0.2	0.5	0.5	0.6	0.9	0.9
Price Indices										
CPI (YoY%)	2.7	2.4	2.5	2.3	2.0	2.1	1.8	1.9	2.0	2.0
RPI (yoy%)			3.4	3.2	2.7	2.8	2.5	2.6	3.0	3.0
Labor Market										
Unemployment (%)	4.2	4.1	4.0	4.0	4.1	4.0	4.1	4.1	4.1	4.1
External Balance										
Curr. Acct. (% of GDP)	-3.4	-3.3	-3.8	-4.0	-3.9	-3.8	-3.6	-3.6	-3.5	-3.4
Interest Rates										
Central Bank Rate (%)	0.50	0.50	0.75	0.75	0.75	0.90	0.95	1.10	1.20	1.35
3-Month Rate (%)	0.71	0.67	0.80	0.91	0.91	1.05	1.14	1.27	1.36	1.47
2-Year Note (%)	0.82	0.72	0.82	0.74	0.86	1.01	1.14	1.27	1.38	1.58
10-Year Note (%)	1.35	1.28	1.57	1.27	1.43	1.59	1.68	1.82	1.90	2.06
Exchange Rates										
GBPUSD	1.40	1.32	1.30	1.28	1.31	1.34	1.35	1.37		
EURGBP	0.88	0.88	0.89	0.90	0.87	0.87	0.87	0.87		

Selected MMF Returns: Dec 2016: Jan 2019
USD + EUR + GBP

Range 12/30/2016 - 01/29/2019 Period Daily No. of Period 760 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	LAPXX US Equity	USD	.00%	3.17%	2.42%	1.51%
2)	SCMPSGA ID Equity	GBP	.75%	.75%	--	.36%
3)	CLAM3MO FP Equity	EUR	-.54%	-.54%	-1.29%	-.26%
4)						
5)						
6)						

1M 3M 6M YTD 1Y 2Y 3Y 5Y 10Y



Selected MMF Returns
25 months to Jan 2019

- USD Total Return: 3.17% (1.51% ann)
- GBP Total Return:0.75% (0.36% ann)
- EUR Total Return: -0.54% (-0.26%)

Note the EU MMF Regulation since Jan 2019

Swap Clearing and SFTR

- **The final aspect to consider is the MIFID requirement for Swap Clearing where possible, and its impact on collateral demand and usage; this also affects corporations that use derivatives for hedging or liability management.**

  - **In this context, the regulation on Securities Financing Transaction Reporting regulations (SFTR) will come into effect in around 12 months' time for Banks, and 21 months for Non Financial Corporations.**

    This will affect all corporate treasuries that use repo and tri-party repo.

  - **Bloomberg is currently developing a full SFTR solution for negotiation, confirmation and reporting {SFTR<GO>}**

  - **This may give rise to different collateral-type curves outside of government debt which should be considered in the context of the phasing out of Libor fixings (though Euribor fixings will continue in a changed format)**

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