

Negative BOR-OIS : can't keep up with the ECB's pace?

- The EUR3M-OIS3M spread has a singular behaviour and cannot be explained only from the publication lag.
- Extrapolating from the latest transparency report, the current spread seems to originate from the appeal of short-term instruments as well as the discrepancies between the different counterparty sectors. The waterfall methodology can also allow outliers to persist up to five days.
- The spread is unlikely to normalise before there is actual funding need in the contributing panel.

EUR3M-OIS3M spread bounced back 0.89bp to -15.47bp, with the EURIBOR leg lagging the strong repricing of the ESTR3M. The spread has exhibited a singular behaviour since the September 2022 ECB meeting and remains stubbornly in negative territory, with a strong acceleration since the beginning of the year.

For the broad spectrum of tenors, volatility of the BOR-OIS spreads mainly originates from the EURIBOR fixings, as short ESTR OIS have been well behaved for most of the ECB hike cycle. This should come as no surprise because the EURIBOR fixings are a lagged average of contributions based on a rather illiquid market while the ESTR OIS quotes are forward-looking market prices of highly liquid instruments. However, the EUR3M-OIS3M cannot be explained purely by lag effects, contrary to 1W and 1M spreads.

In our [latest IR Focus](#), we look at trends on the unsecured market and EURIBOR transparency reports to identify the drivers of the negative basis. The sheer amount of excess liquidity in the banking system creates an asymmetrical situation in the treatment of counterparties when it comes to unsecured deposits, at a time when activity is picking up due to precautionary savings and inverted curves, which both create strong demand for short-term instruments. This allows contributing banks to quote defensively for their 3M deposits and seize opportunistic trades. These contributions are then amplified due to mechanical factors (lagged EURIBOR vs live OIS, steep curve) and technical factors (persistence of outliers due to level 2.3 contributions for instance and low liquidity on the underlying unsecured markets).

We expect this distortion to persist at least up to June, which is roughly in line with market prices (Figure 1). The speed of normalisation will depend on both the banks strategy to refinance TLTRO repayments and the appeal of short-term instruments.



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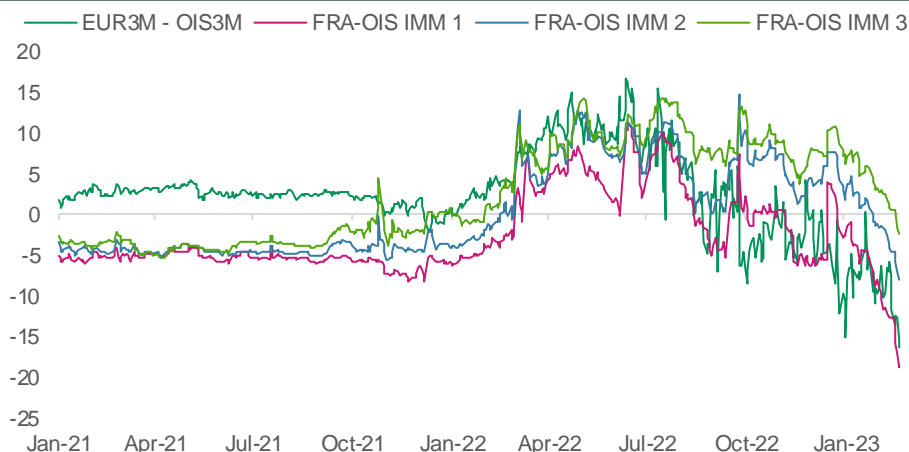
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Upcoming supply

Date	Bond	Amount (bn)
28-Feb	BKO 2 1/2 03/13/25	6.00
28-Feb	NETHER 0 01/15/38	2.50
1-Mar	DBR 1 05/15/38	1.50
1-Mar	DBR 4 1/4 07/04/39	1.00
2-Mar	FRTR 2 11/25/32	
2-Mar	FRTR 1 1/4 05/25/34	10.5 - 12.0
2-Mar	FRTR 1 1/4 05/25/38	
2-Mar	FRTR 4 04/25/60	
2-Mar	SPGB 2.8 05/31/26	
2-Mar	SPGB 0.8 07/30/29	TBA
2-Mar	SPGB 3.15 04/30/33	
2-Mar	SPGBEI 0.7 11/30/33	

Source: DMOs, Crédit Agricole CIB

Fig 1. FRA-OIS IMM Dates (bp)

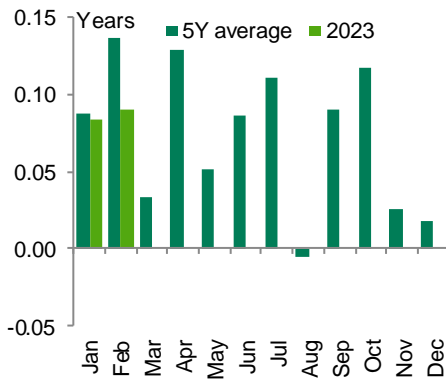


Source: Crédit Agricole CIB, Bloomberg

Looking at month-end extensions in the EGB space, we estimate an EGB index duration jump of 0.09 years when the basket changes at the beginning of next month, lower than the five-year average of 0.14 years. The most significant extension flows should come from Portugal, Belgium, France and Germany.

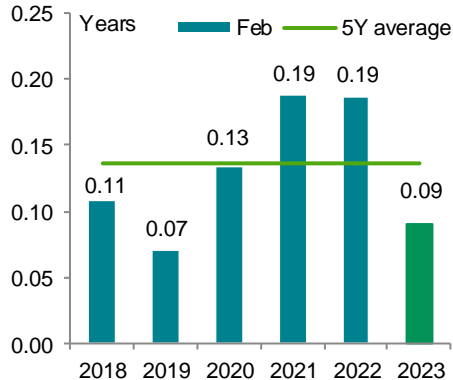
The impact of extension flows should fall broadly across the PGB, OAT and German curves. Conversely, flows should be supportive of flattening in the BGB curve.

Fig 2. 5 year average of EGB index extension by month



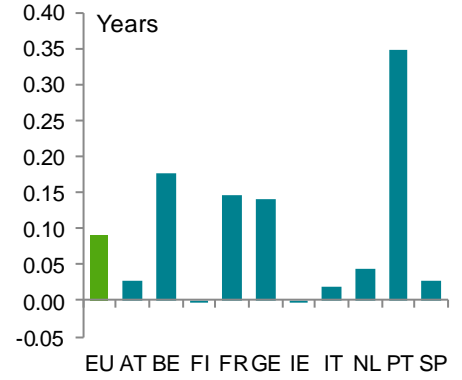
Source: Crédit Agricole CIB, Bloomberg

Fig 3. Historic duration extension in February



Source: Crédit Agricole CIB, Bloomberg

Fig 4. EGB index extension by sovereign issuer



Source: Crédit Agricole CIB, Bloomberg

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NEW Interest Rates Focus – [Making some sense out of negative BOR OIS spreads](#), 27 February

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NEW Supply and Cash Flow Monitors – [Issuance for 27 February – 6 March 2023](#), 27 February

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Interest Rates Focus – [Fed pause not yet on the cards](#), 1 February

Upcoming data highlights

ET	Country	Indicator/Event	Period	Consensus	Previous
08:00	GE	Import Price Index MoM	Jan	-1.50%	-1.60%
08:45	FR	CPI YoY	Feb P	6.10%	6.00%
08:45	FR	PPI YoY	Jan	--	20.70%
08:45	FR	GDP YoY	4Q F	0.50%	0.50%
09:00	SP	CPI YoY	Feb P	5.80%	5.90%
09:00	AS	PPI YoY	Jan	--	13.30%
10:30	PO	CPI YoY	Feb P	--	8.40%
11:00	BE	GDP SA YoY	4Q F	--	1.40%
11:00	IT	Industrial Sales MoM	Dec	--	0.90%
12:00	IR	Retail Sales Volume YoY	Jan	--	0.50%
12:00	PO	GDP YoY	4Q F	3.10%	3.10%
13:15	UK	BOE's Huw Pill speaks			
13:30	EC	ECB's Vujcic Speaks			
13:30	UK	BOE's Catherine Mann speaks			
15:00	US	House Price Purchase Index QoQ	4Q	--	0.10%
16:00	US	Richmond Fed Manufact. Index	Feb	-5	-11
16:00	US	Conf. Board Consumer Confidence	Feb	108.5	107.1

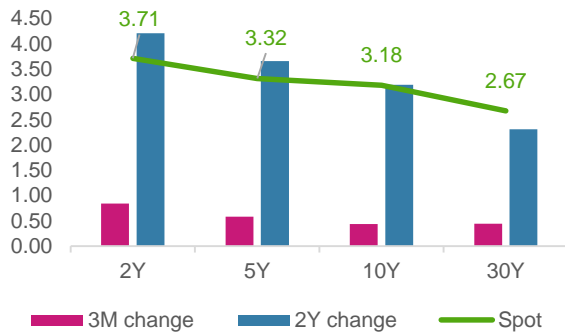
Source: Bloomberg

EUR Rates Dashboard

Spreads and their 3-month change vs Bunds (bp)

	2Y	3M ▲	5Y	3M ▲	10Y	3M ▲	30Y	3M ▲
Swap*	-66	13	-65	11	-60	15	-13	20
OAT	10	10	31	3	47	0	78	-2
BTP	50	-12	127	-17	184	-10	197	-6
Bono	24	2	63	10	96	-4	146	-4
UST	174	-73	153	-53	135	-49	138	-61
Gilt	62	-48	104	-27	123	3	159	19
JGB	-308	-98	-244	-56	-208	-33	-112	-64

EUR Swap* (%)



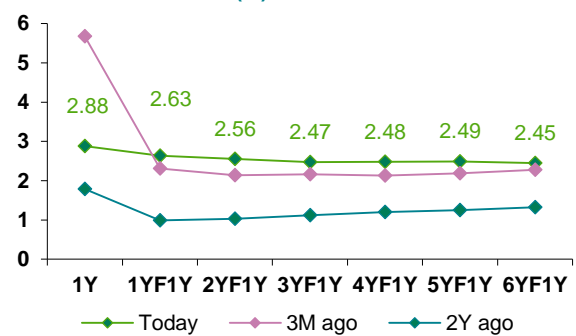
EUR Swap Curve (bp)

Slope	Spot	3M ▲	2Y ▲
2-5Y	-40	-26	-55
2-10Y	-53	-41	-102
5-10Y	-14	-15	-47
10-30Y	-51	0	-88
5-30Y	-64	-14	-135
2-30Y	-104	-40	-190

EUR Swaption Normal Implied (bp)

Straddles	Spot	3M ▲	2Y ▲
3M10Y	108	-24	64
1Y1Y	101	-15	84
2Y2Y	105	-15	78
5Y5Y	94	-13	47
10Y10Y	76	-5	23
20Y20Y	53	-1	5

EUR 1Y ZC Inflation (%)



References (%)

ECB Depo	ESTR Fixing	3M Euribor	6M Euribor	ON Bund GC	RX1	EURUSD	HICP YoY
2.50	2.40	2.72	3.24	2.42	133.64	1.06	8.60

* Swap vs 6M Euribor

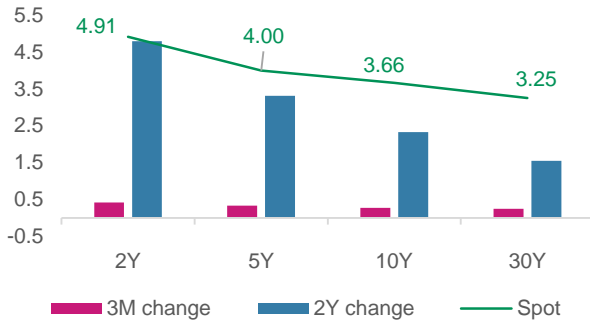
Source: Crédit Agricole CIB, Bloomberg

USD Rates Dashboard

Spreads and their 3-month change vs Treasuries (bp)

	2Y	3M ▲	5Y	3M ▲	10Y	3M ▲	30Y	3M ▲
Swap*	-11	-7	19	-3	27	-4	68	-4
DBR	174	-62	153	-44	135	-36	138	-57
OAT	165	-62	122	-35	88	-52	60	-64
Gilt	112	-13	49	-15	12	-53	-21	-67
CAN	53	-4	60	-9	53	-22	66	-13
ACGB	117	-10	48	-1	6	-5	-24	-5
JGB	483	34	397	18	343	-1	250	109

USD Swap* (%)



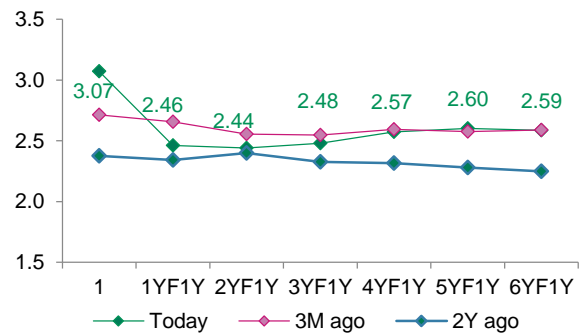
USD Swap Curve (bp)

	Slope	Spot	3M ▲	2Y ▲
2-5Y		-91	-5	-143
2-10Y		-125	-12	-238
5-10Y		-34	-7	-95
5-30Y		-75	-12	-174
10-30Y		-41	-5	-79
2-30Y		-166	-17	-317

USD Swaption Normal Implied (bp)

Straddles	Spot	3M ▲	2Y ▲
3M10Y	113	-17	27
1Y1Y	130	-22	98
2Y2Y	125	-14	61
5Y5Y	98	-8	23
10Y10Y	74	-2	12
20Y20Y	52	-1	2

USD 1Y ZC Inflation (%)



References (%)

IOER	Fed Funds	SOFR	GCF Repo	3M Libor	TY1	DXY	CPI YoY	Core PCE YoY
4.65	4.58	4.55	4.56	4.95	111.13	104.79	6.40	4.71

* Swaps vs SOFR

Source: Crédit Agricole CIB, Bloomberg

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