Focus

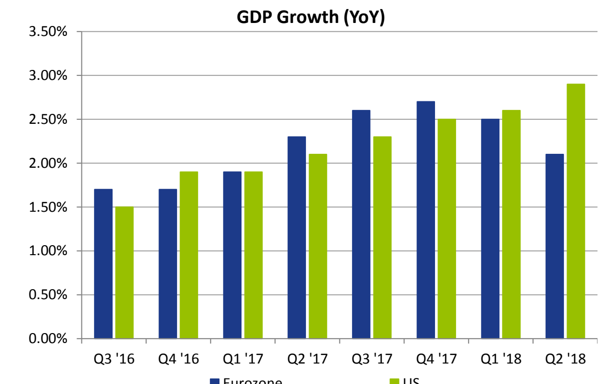
A large part of the global financial markets is based on standardized benchmark interest rates. These interest rates are used, among other things, as a starting point in determining the interest rate for loan and derivative contracts. The graph on the right shows that the nominal value of outstanding contracts based on these interest rates runs in the trillions of US dollars. In addition, these reference interest rates are used to determine the price of other financial instruments.

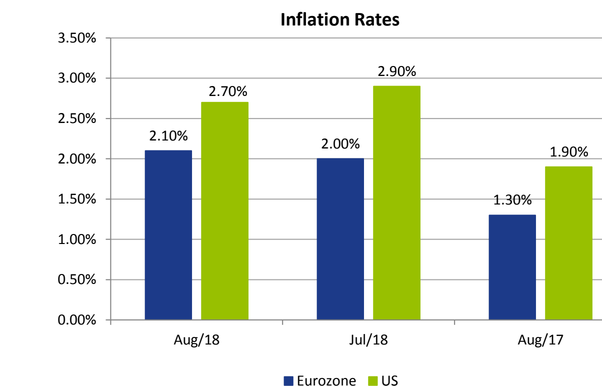
Examples of these interest rates are Euribor and Libor. A few years ago, these interest rates became the subject of discussion, when it became clear that it was possible to manipulate these interest rates. Recently, market parties entered into negotiations to reinvent the current system of reference interest rates. The goal is to replace the inherent weaknesses of the current system. The main point of attention in the current system is that interest rates are set by a panel of banks. This panel provides the rates each day for which banks could theoretically borrow money from other, comparable institutions. The problem with these rates is that, in many cases, they are not based on actual transactions.

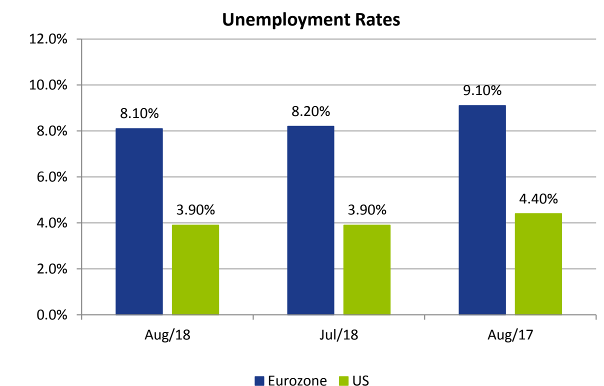
To solve this issue, central banks, including the ECB and the Federal Reserve, want to phase out the current reference rates and replace them with new, objectively set rates. These rates must be determined daily based on actual transactions. As a result, the rates should reflect the actual market. In the case of Euribor, the short-term EONIA rate is planned be replaced by ESTER (European Short TErm Rate). This is expected to take place in 2020. Multiple central banks have also announced a switch to other reference rates.

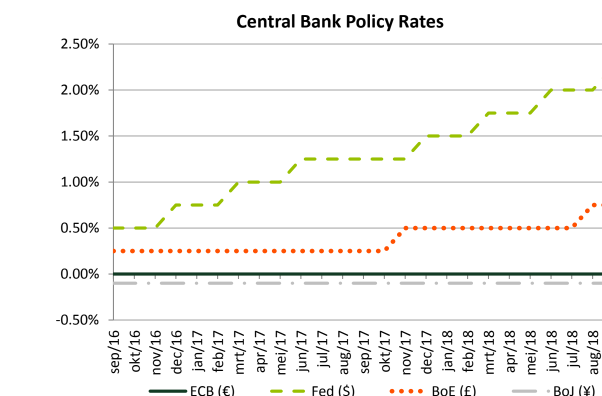
However, phasing out existing contracts and introducing a new reference rate is a major challenge. Transferring all existing and new contracts to a new system at any time will create an administrative and legal burden for all market parties. For example, all contracts must be renegotiated, all existing references to current interest rates are to be replaced, and all valuation models of financial parties will have to be redeveloped.

How the new reference rates will be implemented into the current system is unclear for now. But whatever scenario is chosen, the transition to new benchmarks will become a hot topic in financial markets in the coming years.









Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Ba1	BBB-
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Disclaimer: this monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. The data contained in the publication are prepared as of a particular date and time and will not reflect subsequent changes in the market. We do not accept any liability for the correctness, exactness, and completeness.

Review

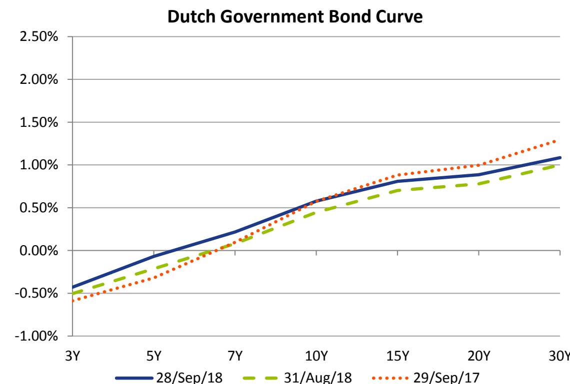
The Federal Open Market Committee (FOMC) decided to raise the Federal Funds target rate to a bandwidth of 2.00% to 2.25% on the 26th of September. This is the third interest rate hike of 2018. Fed-chairman Powell stated that he remains positive about the US economy, particularly the labor market. He repeated that the policy of the Fed is to increase the Federal Funds rate once more this year and three times in 2019. Also, the European Central Bank (ECB) and the Bank of England (BoE) published interest rate decisions. Both banks decided to remain the current interest rate.

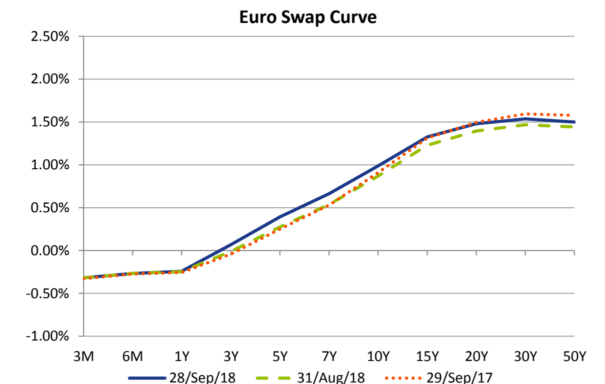
Monthly Preview

The ongoing uncertainty about the way the United Kingdom (UK) will separate from the European Union (EU) continues to put stress on markets. The recent rejection of EU-leaders of the so-called 'Chequers'-plan, where the UK would still be part of the European free trade area, puts more pressure on Prime Minister May. Meanwhile the Conservative party conference at the start of October found her losing support from within her own party. The upcoming EU summit on October 28 was previously seen as the most likely summit where an agreement for the divorce of the UK from the EU can be successfully reached. With an EU bloc unwilling to yield to British demands of remaining in the free trade area and Prime Minister May stating that she would not stray from her Chequers proposal, an agreement is unlikely to be reached on October 28th 2018. A further emergency EU summit meeting could be planned in November this year if the deadlock persists, but this might not be enough to ward off a no-deal Brexit on 29th of March 2019.

Timeline macroeconomic indicators:

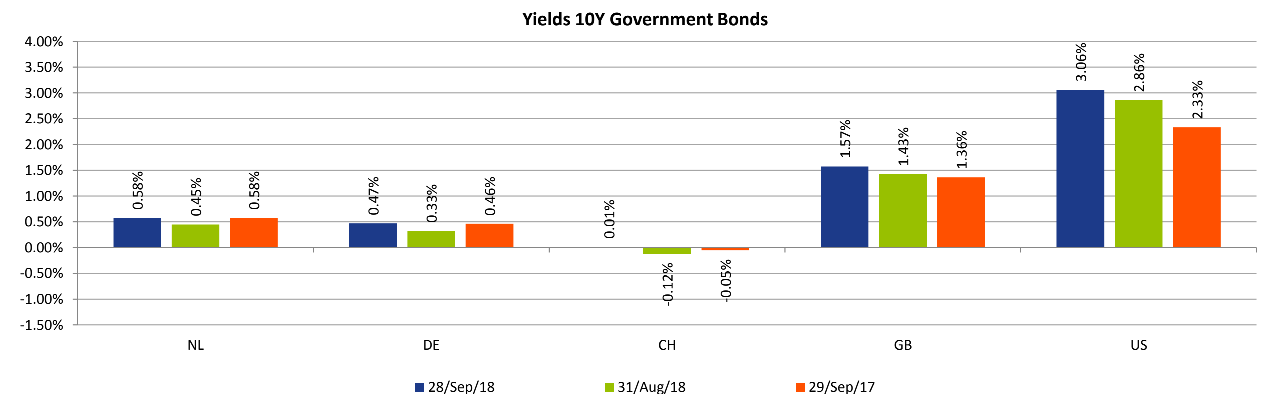
10 October 2018:	Trade balance United Kingdom
11 October 2018:	Inflation rate United States
17 October 2018:	Inflation rate United Kingdom
23 October 2018:	Government Debt United Kingdom
25 October 2018:	Interest rate decision ECB
26 October 2018:	GDP United States
30 October 2018:	Inflation rate Germany
31 October 2018:	Interest rate decision BoJ
1 November 2018:	Interest rate decision BoE
2 November 2018:	Trade balance United States





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	A+
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AA+
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	Baa3	BBB+
BNP Paribas	A	Aa3	A+
Barclays Bank	A	A2	A
Credit Suisse Int.	A	A1	A-

Currencies	28/Sep/18	31/Aug/18	29/Sep/17
EUR/USD	1.160	1.160	1.181
EUR/GBP	0.890	0.896	0.882
EUR/CHF	1.140	1.124	1.144
EUR/JPY	131.930	128.840	132.920
EUR/DKK	7.457	7.456	7.442
EUR/SEK	10.316	10.603	9.625
EUR/CAD	1.498	1.513	1.474
EUR/AUD	1.607	1.614	1.508
EUR/CNY	7.971	7.926	7.837



ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Disclaimer: this monthly publication is based on information available from several international financial and economic sources that Zanders regards as reliable. This publication can be used for informational purposes only. The data contained in the publication are prepared as of a particular date and time and will not reflect subsequent changes in the market. We do not accept any liability for the correctness, exactness, and completeness.