

Reasons to Consider Interest Rate Hedging

24 July 2024

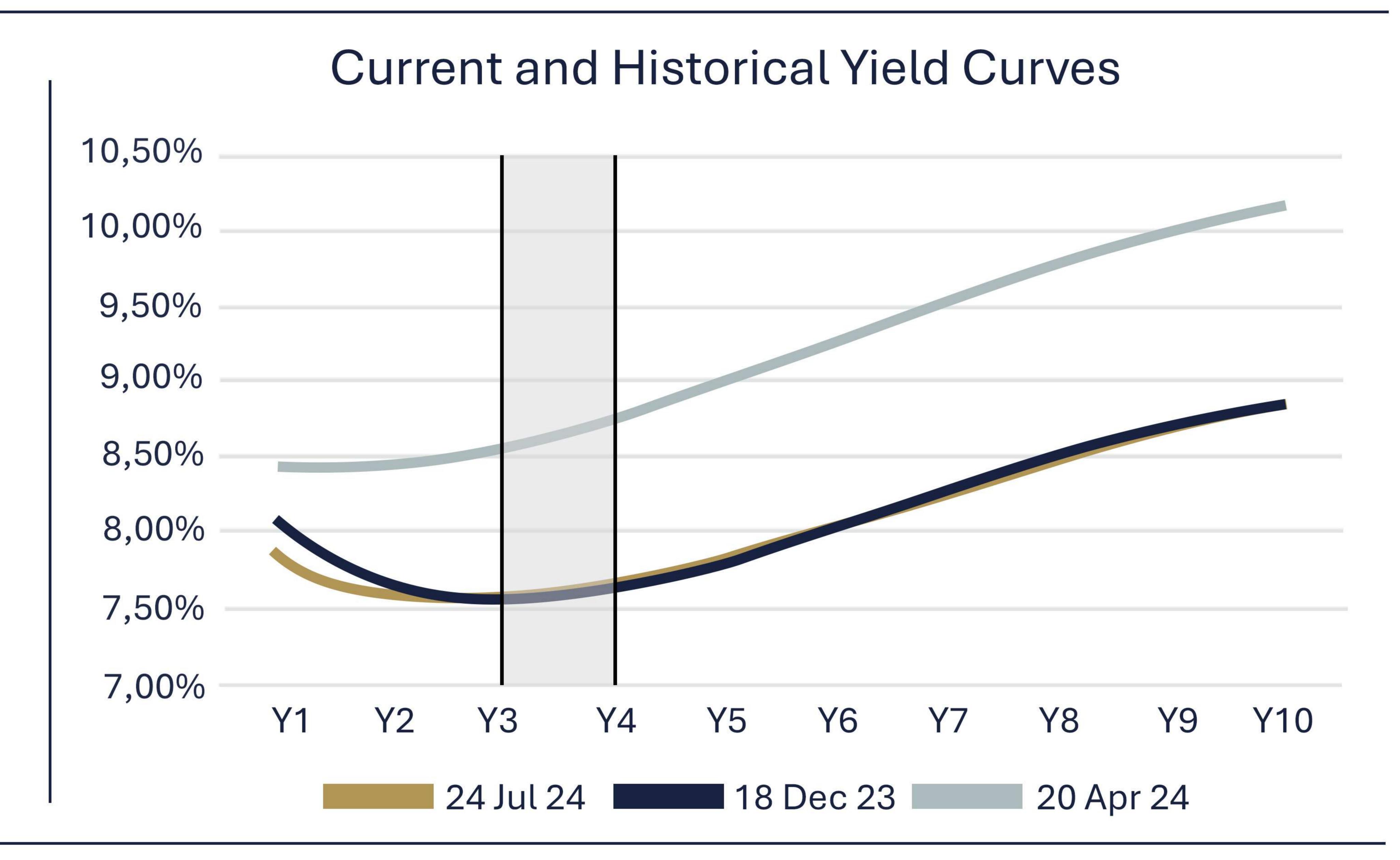
Companies with interest rate exposure can reduce risk by Capitalising on market expectations of rate cuts.

The prevailing interest rate swap market is providing the best opportunity to lock-in interest rates since December 2023. As seen in December, the market overstated the expectation of rate cuts, none of which have come to pass as yet. Companies that took advantage of these low swap rates in December continue to enjoy positive cash flows on every JIBAR interest rate reset.

Charts and Data Reflecting the opportunity in the local interest rate market:

YIELD CURVE:

The current interest rate swap yield curve has dropped to the levels seen in December 2023. We see the best value in the 3-to-4-year area of the curve.



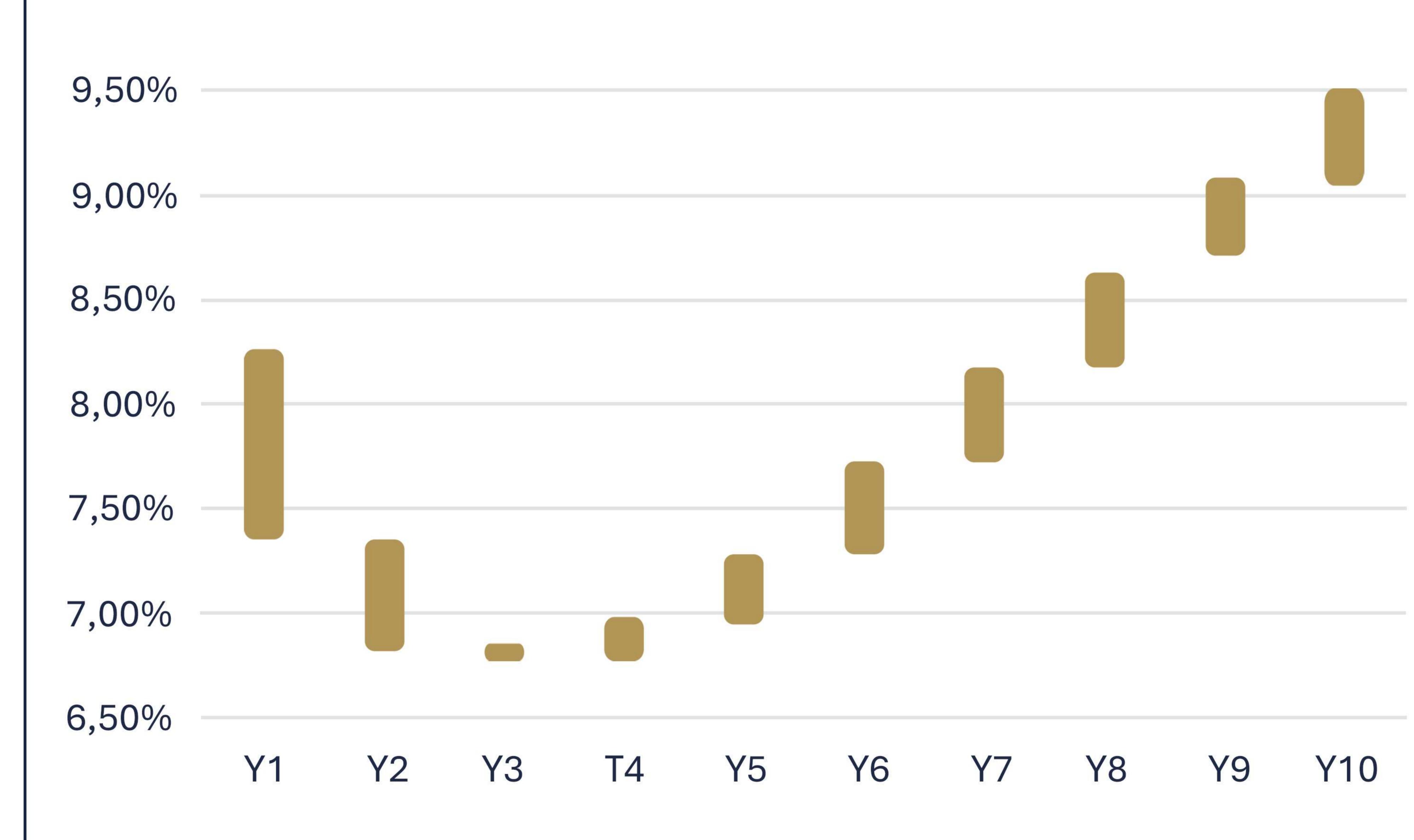
When breaking the yield curve down to understand what interest rate movements are being implied, we note:

The implied total rate cuts in:

12 months: 0.85% 24 months: 1.40%

This implies by locking-in rates now, the corporate is effectively able to lock in JIBAR moving to below 7% over the next 24 months.

Implied Rate Changes by Year (Swap Curve)



The adjacent table reflects the actual rates offered per period when compared to Dec 23 and more recently in April 24 when the outlook for rates was more bearish.

These differences demonstrate that the market moves from a conservative to optimistic stance regularly depending on the latest data releases.

Maturity (Years)	Historic Yield Curves		
	24-Jul-24	18-Dec-23	20-Apr-24
	7,886	8,08	8,43
2	7,590	7,65	8,44
3	7,560	7,55	8,54
4	7,660	7,63	8,74
5	7,840	7,81	8,99
6	8,065	8,05	9,26
7	8,295	8,30	9,53
8	8,512	8,53	9,79
9	8,700	8,72	10,00
10	8,860	8,86	10,17

Rate Changes Implied 0-4 yrs

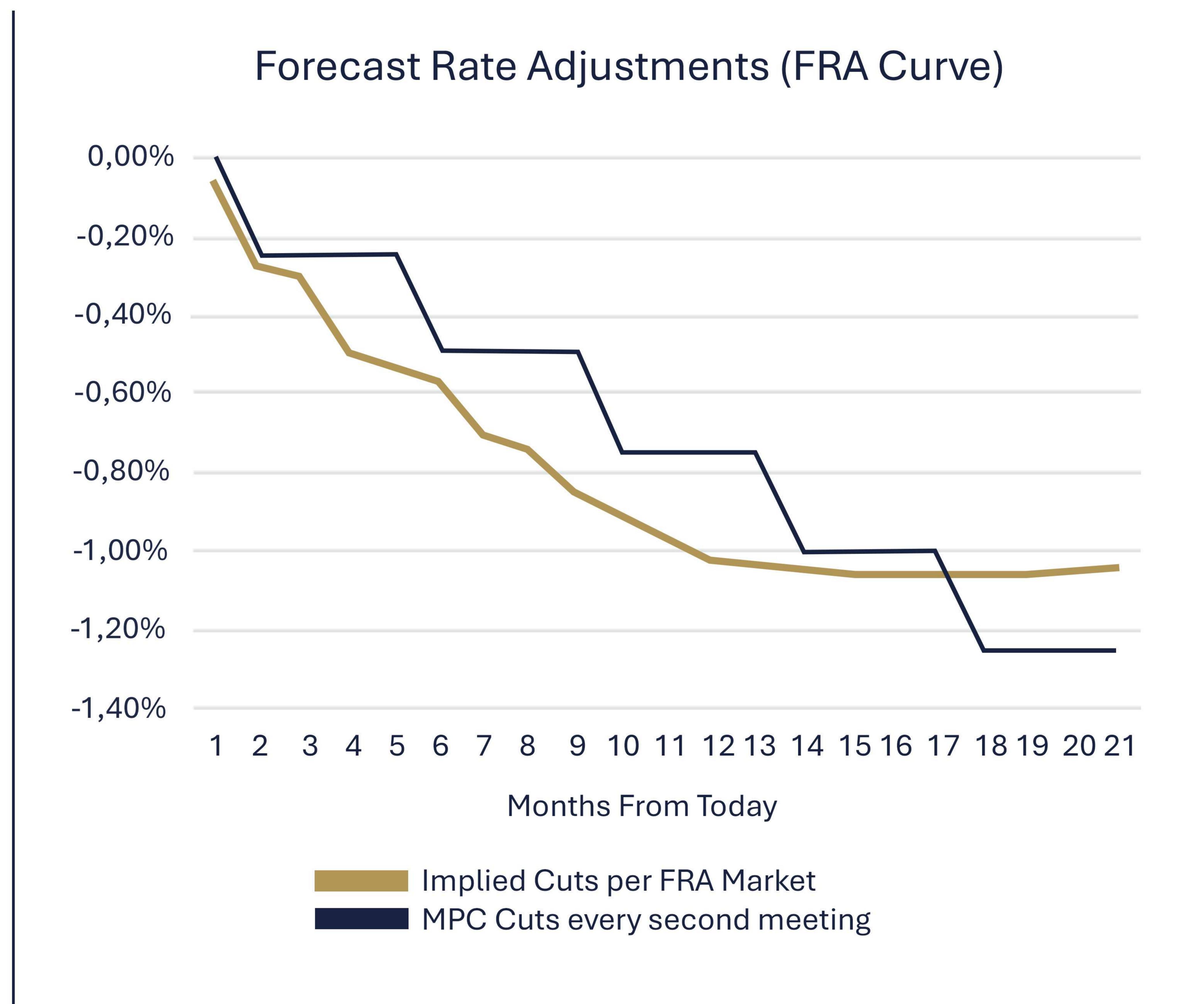
From a timing point of view the chart alongside shows the premium or discount for hedging when compared to the 3M JIBAR rate.



COST/BENEFIT OF INTEREST RATE HEDGING

When we compare the interest rate cuts implied in the current yield curve (yellow line) to the upcoming MPC meetings (Blue line) we see that:

- If the MPC cuts at every second meeting from Sept onwards, we will achieve a 7% REPO rate in 21 months. The graph shows that the corporate is better off fixing at the current available rates.
- If the MPC cuts faster than every second meeting then the corporate is better off staying floating.



Bastion is available to assist you in implementing your hedging strategies, offering improved pricing and decision-making for your interest rate and foreign exchange hedging needs

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