

WEBVTT

00:00.000 --> 00:04.600

Good day, and welcome to the IBOR Transition in Euro and Yen.

00:04.600 --> 00:10.540

I'm Will Mitting, founder of Acuity, and on behalf of our hosts, Eurex and Osaka Exchange,

00:10.540 --> 00:12.900

it's my pleasure to welcome you today.

00:12.900 --> 00:17.420

The transition to risk-free rates and the succession of most IBOR-referenced derivatives

00:17.420 --> 00:23.280

contracts has been one of the most significant changes to global derivatives markets in decades.

00:23.280 --> 00:27.300

In this webcast, we're going to be looking at how the transition is developing in the

00:27.300 --> 00:29.900

Euro and Yen markets.

00:29.900 --> 00:37.240

To discuss this, I'm joined today by Kensuke Yasu, General Manager of the Osaka Exchange,

00:37.240 --> 00:44.160

Iris Hui, Senior Representative of North Asia FIC Derivatives and Repo Sales at Eurex,

00:44.160 --> 00:51.880

Elad Hertshten, Managing Director of Futures First, and Shun Yanagisawa, Director, Jappenhead,

00:51.880 --> 00:55.240

Futures Clearing and FXPB at Citi.

00:55.240 --> 00:59.160

Later on in the discussion, we're also going to be joined by Alexis Stenfors, a Reader

00:59.160 --> 01:03.840

in Economics and Finance at the University of Portsmouth.

01:03.840 --> 01:08.580

This webinar will feature two sections, firstly a discussion on the transition in Europe and

01:08.580 --> 01:14.880

Japan, and then a Q&A with economist Alexis Stenfors on his views on the outlook for rates

01:14.880 --> 01:17.000
markets in Japan and Europe.

01:17.000 --> 01:21.640
If you have any questions during the webcast, please follow them through the question portal

01:21.640 --> 01:23.680
and they'll be answered after the event.

01:23.680 --> 01:30.160
I now want to hand over to Iris and Kensuke to give a brief overview of the RFR strategy

01:30.160 --> 01:31.760
at their respective exchanges.

01:31.760 --> 01:34.760
Kensuke, over to you first.

01:34.760 --> 01:39.840
Hi, thanks very much for your kind introduction.

01:39.840 --> 01:42.960
I'm more than excited to talk about this topic.

01:42.960 --> 01:45.360
I will begin with TONA.

01:45.360 --> 01:50.840
Tokyo overnight average rate, TONA, is a risk-free reference rate to replace LIBOR

01:50.840 --> 01:57.080
in Japan, which is a volume-weighted average of the rates of all transactions in the JPY

01:57.080 --> 01:59.800
unsecured overnight money market.

01:59.800 --> 02:06.600
With the permanent suspension of the JPY LIBOR publication at the end of December 2021, the

02:06.600 --> 02:12.480
majority of JPY interest rate swaps shifted to TONA-based transactions.

02:12.480 --> 02:19.440
In fact, Japan's clearing house, JSCC, created a notional amount of interest rate swaps based

02:19.440 --> 02:27.120

on TONA, recorded the highest number, around 200 trillion yen, or around 1.5 trillion US

02:27.120 --> 02:30.480

dollar in March.

02:30.480 --> 02:36.640

Interest rate futures based on risk-free rates, substituting to LIBOR, has been dramatically

02:36.640 --> 02:37.640

expanding.

02:37.640 --> 02:43.720

As you know, software and SONIA futures have seen significant growth in trading, along

02:43.720 --> 02:50.560

with the transition from LIBOR and rising interest rates.

02:50.560 --> 02:55.640

Unlike the US and European markets, Japan's interest rate environment is on a different

02:55.640 --> 02:56.640

path.

02:56.640 --> 03:03.100

Even though the core inflation rate is at a historically high level, 3.1% from the previous

03:03.100 --> 03:10.280

year in March, the inflation speed is slower compared to other developed countries.

03:10.280 --> 03:16.640

In addition, Japan's yield curve has remained relatively low and less volatile over the

03:16.640 --> 03:22.600

past decade, a result of the VOJ's monetary policy to stimulate the economy through a

03:22.600 --> 03:27.120

combination of QQE and yield curve controls, YCC.

03:27.120 --> 03:35.880

Regardless of how the VOJ's long-term policy shift plays out under the new governor, Wada-san,

03:35.880 --> 03:42.960

it is sure that normalization will start someday, not in the far future, we assume.

03:42.960 --> 03:48.640

The normalization path will lead to adequate volatility in Japan's rate markets, and investors

03:48.640 --> 03:54.400

will boost demand for more liquid trading instruments that will enable them to hedge

03:54.400 --> 04:00.840

against the risk of higher interest rates, or to take great trading opportunities arising

04:00.840 --> 04:03.440

from that volatility.

04:03.440 --> 04:12.520

In this context, OSE decided to launch three-month TONA futures on May 29th, prior to future

04:12.520 --> 04:15.760

changes in the VOJ's monetary policy.

04:15.760 --> 04:21.120

The contract is the first-ever short-term interest rate futures product on OSE, and

04:21.120 --> 04:29.080

our TONA futures will provide another valuable tool for hedging and trading amid the normalization

04:29.080 --> 04:35.400

process with investors, in addition to existing 10-year JGB futures.

04:35.400 --> 04:40.800

We cannot predict when the normalization will occur, but even in the current negative interest

04:40.800 --> 04:47.100

rate condition, we had particularly trading demand for our three-month TONA futures from

04:47.100 --> 04:51.240

swap dealers, market makers, and hedge firms.

04:51.240 --> 04:59.520

Currently, JPY OIS is cleared at both JSCC and LCH, and there is a basis spread between

04:59.520 --> 05:04.680

the OIS cleared at the different clearing houses due to the differences in the investor

05:04.680 --> 05:09.080

base and demand and supply in each market.

05:09.080 --> 05:17.840

OSE's TONA futures could become a great trading tool to acquire these basis spreads.

05:17.840 --> 05:25.480

If a highly liquid market is achieved through trading by a wide range of investors, it will

05:25.480 --> 05:30.160

provide an appropriate price discovery function for short-term zone Japanese yen interest

05:30.160 --> 05:31.160

rates.

05:31.160 --> 05:38.280

It may then be possible to observe what expectations investors are forming for short-term interest

05:38.280 --> 05:40.600

rates through TONA futures.

05:40.600 --> 05:47.240

Well, I should stop here, but I would like to emphasize that we are very much optimistic

05:47.240 --> 05:50.840

about the brilliant growth of this market.

05:50.840 --> 05:51.840

Thank you, William.

05:51.840 --> 05:52.840

So back to you.

05:52.840 --> 05:53.840

Thank you, Kensuke.

05:53.840 --> 05:58.440

And now, we'll pick apart some of those points you made there in the discussion.

05:58.440 --> 06:01.040

Iris, over to you.

06:01.040 --> 06:02.040

Thank you very much, Will.

06:02.040 --> 06:03.040

Thank you very much, Yasu-san.

06:03.040 --> 06:07.440

Actually, first of all, I would like to introduce myself.

06:07.440 --> 06:08.840

I'm Iris from Eurex.

06:08.840 --> 06:14.560

I'm responsible for FIC and OTC clearing in North Asia for Eurex.

06:14.560 --> 06:19.200

It's my honor to participate in this webinar, and thank you very much for your participation.

06:19.200 --> 06:24.440

Back to the topic of risk-free rates, the switch from former short-term interest rate, EONIA,

06:24.440 --> 06:29.160

to €STR actually is a part of a broader reform.

06:29.160 --> 06:35.800

The ECB began to officially publish €STR on 2nd of October 2019.

06:35.800 --> 06:42.400

And Eurex supports this transition and started clearing the first €STR OIS in November 2019.

06:42.400 --> 06:47.120

It's just one month after the ECB published €STR.

06:47.120 --> 06:53.120

So complementing this offering with a listed product right now, actually, we believe it

06:53.120 --> 06:57.500

would further help the market in transitioning smoothly to a new rate.

06:57.500 --> 07:05.400

So on 23rd of January this year, Eurex has expanded its interest rate segment by launching

07:05.400 --> 07:09.580

their three-month EUR STR futures, referencing €STR.

07:09.580 --> 07:15.520

This launch actually marked a very important milestone in establishing the €STR as a new

07:15.520 --> 07:22.880

benchmark risk-free rate and expands Eurex's euro-denominated interest rate product offering.

07:22.880 --> 07:29.560

With the launch of the three-month €STR futures, Eurex offers a listed, centrally cleared,

07:29.560 --> 07:34.560

and cash-settled solution to both trading and hedging the new risk-free rate.

07:34.560 --> 07:41.280

The contracts are based on the compound €STR over a three-month period and will complement

07:41.280 --> 07:45.680

Eurex clearing €STR OIS offering.

07:45.680 --> 07:50.760

Eurex is committed to staying the home of euro yield curve with a highly efficient,

07:50.760 --> 07:57.520

fully fungible product portfolio that encompasses the short-end and long-end across listed and

07:57.520 --> 07:59.540

OTC business.

07:59.540 --> 08:06.680

So customers will ultimately benefit from Eurex's portfolio-based margin offset across

08:06.680 --> 08:12.480

OTC, IRS, and also listed fixed-income products.

08:12.480 --> 08:14.560

So back to you, Will.

08:14.560 --> 08:16.640

This is what I want to say.

08:16.640 --> 08:17.640

Thanks.

08:17.640 --> 08:19.360

Thank you very much, Iris.

08:19.360 --> 08:26.680

I want to turn first to the Japan transition, and Shun, bring you in here now.

08:26.680 --> 08:31.240

Shun took a mention that after a period of relatively low volatility, he's expecting

08:31.240 --> 08:38.180

a return to volatility in the markets, but what's the current interest rate market situation

08:38.180 --> 08:44.000

in JPY, and where's the volume, and in particular, with a look at these swaps market as well?

08:44.000 --> 08:45.000

Okay.

08:45.000 --> 08:51.040

Thanks, Will, and thanks for the opportunity to speak today.

08:51.040 --> 08:58.160

So my name is Shun Yanagisawa, Head of Futures, OTC Clearing, and FX Prime Brokers in Japan.

08:58.160 --> 08:59.160

Okay.

08:59.160 --> 09:04.080

And then what's the current interest rate market in Japan?

09:04.080 --> 09:08.000

So policy is as in the theater.

09:08.000 --> 09:16.800

The grand finale of ex-POJ governor, Koda, was with drama, and his successor, Mr. Wada,

09:16.800 --> 09:21.000

first meeting finished without drama.

09:21.000 --> 09:27.640

Since last year, December, the JPY market caught eyes ever in the past 10 years.

09:27.640 --> 09:33.520

Mr. Koda suddenly changed his policy in 10 years' yield curve control, a bandwidth from

09:33.520 --> 09:38.000

25 basis to 50 basis at the December meetings.

09:38.000 --> 09:44.400

Despite the central banks around the raising rate through 2022, to combat his trick in

09:44.400 --> 09:54.080

inflation, the BOJ remained on continuing the QE, keeping its NIRP negative interest

09:54.080 --> 10:02.480

policy late at negative 0.1 and the continued yield curve control by purchasing 10-year

10:02.480 --> 10:10.920

JGBs at the 25 basis, despite OIS market trading at 3x this level.

10:10.920 --> 10:19.560

So the BOJ soon find itself to be only the buyer for the YCC eligible JGBs, owning 100%

10:19.560 --> 10:23.440

of the market for those in issuance.

10:23.440 --> 10:32.240

This created significant market discount and disfunctions and kinked yield curves.

10:32.240 --> 10:38.680

With the 10-year OIS rallying to an 80 to 100 basis in January, the hedge funds bet

10:38.680 --> 10:44.200

the BOJ would abandon the YCC in the March 9 meeting.

10:44.200 --> 10:50.520

Then after the BOJ extended 10-year yield control to the stock market, it stabilized

10:50.520 --> 10:57.200

at an 80 basis in February, following another no-actions meeting on April 27.

10:57.200 --> 11:04.640

Overall, the global tightening in fiscal conditions, as well as in the Silicon Valley shock and

11:04.640 --> 11:13.560

the credit seats crisis, the JPY OIS once again fallen back to a 60 basis, no far from

11:13.560 --> 11:18.000

the current YCC level of 50 basis.

11:18.000 --> 11:23.640

This has a large extent restore the normalization in the yield curve.

11:23.640 --> 11:32.400

So during the history market, volatility in the 10-year JPY OIS actually higher than the

11:32.400 --> 11:35.800

Lehman crisis shock in 2008.

11:35.800 --> 11:42.800

In April, BOJ's monetary policy meeting, new governor Ueda, a former university professor,

11:42.800 --> 11:51.160

announced status quo, including the YCC policy for now, and said they will review monetary

11:51.160 --> 11:55.480
policy in 12 to 18-month period.

11:55.480 --> 12:01.340
This is longer than the market expectations, but there is a chance to change the policy

12:01.340 --> 12:05.600
in June meeting, depending on the U.S. interest rate environment.

12:05.600 --> 12:13.720
There are several scenarios, but we think the YCC policy is linked with the U.S. rate

12:13.720 --> 12:14.720
hike.

12:14.720 --> 12:18.120
If we stop, then continue as is.

12:18.120 --> 12:22.960
If continue to raise the rate, adjustment may happen in June meeting.

12:22.960 --> 12:29.680
The house view is two more 25 basis rates hike in this year.

12:29.680 --> 12:35.680
So the next step is observing administration in the U.S. decisions.

12:35.680 --> 12:43.200
Maybe starting in the year end, the test inflation, the salary increase in the 2024 spring next

12:43.200 --> 12:51.680
year, and they decide that the commissions of YCC or adjustment or status quo again.

12:51.680 --> 12:55.680
In either way, it's matter of the time.

12:55.680 --> 13:01.680
I personally think the YCC is not a big topic in the market in next year.

13:01.680 --> 13:07.200
JPY rates start moving, and once it starts moving, we cannot stop.

13:07.200 --> 13:08.200
Thank you.

13:08.200 --> 13:09.200
Interesting.

13:09.200 --> 13:10.200
Thanks, Shun.

13:10.200 --> 13:18.560
And to look towards the TONA futures, where do you see the demand currently, and what

13:18.560 --> 13:21.000
do you see as the future demand?

13:21.000 --> 13:27.320
Yeah, so we touch upon the current interest market situations, then the demand for the

13:27.320 --> 13:29.320
TONA and the futures.

13:29.320 --> 13:35.360
TONA is the least great benchmark rate, and replaced LIBOR.

13:35.360 --> 13:40.840
And TONA futures is three months futures contract compounding daily TONA rate published

13:40.840 --> 13:41.840
by BOJ.

13:41.840 --> 13:47.080
There are two TONA futures market in Japan, TFX and OSE.

13:47.080 --> 13:56.120
The TFX one is already launched in March, and OSE one is going to launch in May 29th.

13:56.120 --> 14:05.560
So basically, the same contract spec, although you cannot offset margin between TFX and OSE

14:05.560 --> 14:08.000
because the CCP is different.

14:08.000 --> 14:16.120
TFX clears through TFX, and OSE one is cleared through the JSCC.

14:16.120 --> 14:22.360
So honestly speaking, the current demand for the TONA futures is not strong yet.

14:22.360 --> 14:31.560
We talked about the YCC 10-year yield control policy, and in addition to YCC, the BOJ continued

14:31.560 --> 14:38.800

NIRP, the negative interest rate policy, which keep policy ratio to negative 10 basis.

14:38.800 --> 14:47.720

So we anticipate easing YCC or abolishment of the YCC in next year, although NIRP policy

14:47.720 --> 14:51.640

change may not be in the topic of the BOJ yet.

14:51.640 --> 14:57.560

So why we need TONA?

14:57.560 --> 15:04.040

We need it because the first and its futures contract, so the standardized contract, transparent

15:04.040 --> 15:11.240

first market, and if you have enough liquidity, and the low margin than OTC.

15:11.240 --> 15:19.120

And second, the TONA futures have 20 contracts, up to five years, so you can build a pack.

15:19.120 --> 15:21.920

And third, no access limitations.

15:21.920 --> 15:29.800

The US platforms are not allowed to clear JCC snaps due to the CFTC's regulations, which

15:29.800 --> 15:36.160

create the so-called LCH JSCC-base issue.

15:36.160 --> 15:41.160

But futures market have no such limitations, anyone can join the market.

15:41.160 --> 15:45.480

The fourth, the margin offset between the JGV futures and the TONA futures.

15:45.480 --> 15:51.960

In addition, you can offset margin with the JPY's swaps cleared at the JCC.

15:51.960 --> 15:57.760

And the final point, the TONA futures will be the critical hedging tool once the BOJ

15:57.760 --> 16:06.960

modifies the NIRP and volatility returns to the short end of the yield curve.

16:06.960 --> 16:07.960

Thank you.

16:07.960 --> 16:11.600

And finally, how do you see investors using TONA futures?

16:11.600 --> 16:12.600

Okay.

16:12.600 --> 16:21.120

First of all, they prepare for the short term interest rate change in JPY market.

16:21.120 --> 16:22.120

We don't know that.

16:22.120 --> 16:25.040

We don't know when, but need to prepare.

16:25.040 --> 16:31.680

The currently, the JPY and swaps are mostly cleared at JCC in the dealer market.

16:31.680 --> 16:34.040

It's approximately 90%.

16:34.040 --> 16:40.600

And the clients with buy side access is limited due to the missing of the US platforms, which

16:40.600 --> 16:41.600

I mentioned before.

16:41.600 --> 16:43.960

So it's only 20%-ish.

16:43.960 --> 16:51.220

So I'm repeating again, but TONA futures is an easier way for anyone to the market.

16:51.220 --> 16:57.440

And most of us already have an access to the OSE and trading JGB futures or the Nikkei

16:57.440 --> 16:58.440

futures.

16:58.440 --> 17:05.640

Then next step is take the margin efficiencies into the consideration of the portfolio in

17:05.640 --> 17:07.180

building a portfolio.

17:07.180 --> 17:13.560

So as I explained, you can offset margin between TONA futures and the JGB futures and JCC's

17:13.560 --> 17:18.420

also provide a cross product margin with the cleared OTC swaps.

17:18.420 --> 17:23.160

So this may be the main differentiator of the product.

17:23.160 --> 17:30.280

For example, if you have a long or receive in the fixed five-year TONA OIS swaps and

17:30.280 --> 17:37.120

the TONA futures in the short positions after the five years, your margin requirement reduce

17:37.120 --> 17:38.120

96%.

17:38.120 --> 17:43.680

That means only 6% of the original margin required.

17:43.680 --> 17:53.400

This is an extreme case, but you don't have liquidity in TONA futures to the five years,

17:53.400 --> 17:54.400

maybe two years.

17:54.400 --> 17:55.400

Okay.

17:55.400 --> 17:56.400

Yeah.

17:56.400 --> 18:02.720

So you can create a STIR curve by the TONA futures, then two to seven years curve create

18:02.720 --> 18:10.560

by OIS and eight years above can be replaced by JGB futures.

18:10.560 --> 18:13.920

So this view provides you the margin efficiencies.

18:13.920 --> 18:19.880

Naturally, the futures margin is lower than the swaps as it's now 1.5 days or two days

18:19.880 --> 18:26.600

in value at least if you want and where the OTC is now five to seven days in the margin

18:26.600 --> 18:27.600
calculations.

18:27.600 --> 18:36.200
So to extend that you can use that those features for the hedging swap portfolio.

18:36.200 --> 18:43.240
For example, if you have an OIS curve due up to the 20 years, then you can hedge that

18:43.240 --> 18:49.440
duration risk such as convexity risk or invoice risk by those features.

18:49.440 --> 18:53.940
The cross product margins you apply to save your funding costs.

18:53.940 --> 19:00.340
So if you want to build asset swaps and cross product margin, you work too.

19:00.340 --> 19:05.820
So currently the market consensus is no change in the NIRP.

19:05.820 --> 19:14.520
That means there's a huge unhitched exposure in the market.

19:14.520 --> 19:20.640
This is the fundamental risk, particularly given the recent volatility in a TONA fixing.

19:20.640 --> 19:29.560
So looking back my old days when I studied to be a futures broker in early 2000, the TIFFE

19:29.560 --> 19:36.960
, now it's called the TFX, was one of the main markets for futures broker.

19:36.960 --> 19:39.660
There was a huge liquidity in the market.

19:39.660 --> 19:44.000
Every day trade thousands of the lots from each client.

19:44.000 --> 19:51.280
The market is almost dead since the DOJ introduced the NIRP, but the policy change may happen

19:51.280 --> 19:57.280
sooner or later and the market ecosystem is evolving.

19:57.280 --> 20:05.200

So hope you enjoyed my speech and please feel free to contact me if you have any questions.

20:05.200 --> 20:12.240

I'm recording this video from London but returning to Tokyo next week, but I will be back if you

20:12.240 --> 20:13.240

call me.

20:13.240 --> 20:14.240

Thank you.

20:14.240 --> 20:15.240

Thank you very much.

20:15.240 --> 20:18.520

And yeah, and if you do have any questions, please do put them into the question portal

20:18.520 --> 20:20.520

and we will answer them after the webinar.

20:20.520 --> 20:28.120

Elad, I want to turn now to Europe, €STR Futures launched in January.

20:28.120 --> 20:31.040

How do you see them fitting into the European rates market?

20:31.040 --> 20:32.040

Thanks Will.

20:32.040 --> 20:34.360

First of all, I'll just introduce myself.

20:34.360 --> 20:35.920

Hi everyone and thanks for having me.

20:35.920 --> 20:37.880

My name is Elad Herjten.

20:37.880 --> 20:41.120

Unlike Shun, I have to introduce my firm too.

20:41.120 --> 20:42.560

So I would get Futures first.

20:42.560 --> 20:48.760

It's a subsidiary of Herjten Group, who's a proprietary trading firm.

20:48.760 --> 20:53.480

So sort of where do I see €STR fitting in the European rates market?

20:53.480 --> 20:59.320

First of all, in theory, €STR could replace Euribor and Ionia.

20:59.320 --> 21:00.320

That's pretty clear.

21:00.320 --> 21:04.480

We've seen that in the US, we've seen that in the UK.

21:04.480 --> 21:10.480

Because of the fact that there's no plan to get rid of Euribor, nothing that I'm aware

21:10.480 --> 21:17.000

of, no regulatory mentioning of this anywhere, €STR could replace Ionia quite simply.

21:17.000 --> 21:22.320

But the way I see it as it could be a very good complementary product for Euribor.

21:22.320 --> 21:28.200

And by complementary product, I mean, it can create a really interesting complex in Europe,

21:28.200 --> 21:35.440

which doesn't exist now, and allow many opportunities for prop groups like us to trade Euribor versus

21:35.440 --> 21:36.440

€STR.

21:36.440 --> 21:43.440

Now, this is quite an interesting now, especially nowadays, with the banking crisis going on

21:43.440 --> 21:50.200

in the US and potentially and in Switzerland, and potentially more to come.

21:50.200 --> 21:57.820

There's no better way to express credit risk than this specific trade, Euribor versus €STR.

21:57.820 --> 22:02.240

So IBOR contract versus the risk-free rate contract.

22:02.240 --> 22:05.160

So I think it could be a fantastic complementary one.

22:05.160 --> 22:11.720

Also, I believe that if €STR one is to be launched, not the three months, but rather

22:11.720 --> 22:17.920

the one month contract, which could be somewhat similar to what Fed Funds is in the US.

22:17.920 --> 22:25.960

This could also allow many more trading opportunities for prop groups, such as ourselves.

22:25.960 --> 22:32.320

I think the one month will give great opportunities like the one month versus three months, one

22:32.320 --> 22:39.480

month versus Euribor, and even include the treasuries, etc.

22:39.480 --> 22:42.440

Interesting, thank you, Ilad.

22:42.440 --> 22:48.600

And you referenced the US market there, obviously that transitioned some time ago, but what

22:48.600 --> 22:49.600

have you seen there?

22:49.600 --> 22:53.320

Where are the opportunities for firms like yourselves in the US market, and what can

22:53.320 --> 22:54.320

we expect as a result?

22:54.320 --> 22:58.240

I know you've touched on some of it, but just drawing on lessons from the US, where do you

22:58.240 --> 23:01.000

see the opportunity?

23:01.000 --> 23:07.120

So first of all, the transition in the US worked because there was no other option because

23:07.120 --> 23:11.920

Eurodollar had a final date, and by Eurodollar having a final date and people wanting to

23:11.920 --> 23:21.500

hedge the US risk, then SOFR became successful by default.

23:21.500 --> 23:28.000

What I think is quite unique for the US short-term interest rate complex is that it is an entire

23:28.000 --> 23:29.000

complex.

23:29.000 --> 23:35.840
It's not a single product.

23:35.840 --> 23:43.040
And by the strategies and various, for example, in the US, you have the Fed funds, the SOFR-1,

23:43.040 --> 23:48.240
the SOFR-3, and then the active treasury futures, the 10 years, the five years, the 10 years,

23:48.240 --> 23:51.040
sorry, the two years, five years, 10 years, 30 years.

23:51.040 --> 23:57.020
So there's basically a whole yield curve that you can participate that is very liquid and

23:57.020 --> 24:00.760
allows you to do many, many different strategies.

24:00.760 --> 24:06.720
I think that's one of the areas where the US has been very successful in is not just

24:06.720 --> 24:14.280
having that single IBER or risk-free rate future, it's having an entire complex.

24:14.280 --> 24:23.240
In general, risk-free rate versus IBER, I mean, I don't want to fully go into it, but

24:23.240 --> 24:30.020
in risk-free rate, you could also basically, the same rate hikes or cuts can be expressed

24:30.020 --> 24:32.200
in a similar way.

24:32.200 --> 24:37.160
From a prop trading point of view, there's pros and cons to both.

24:37.160 --> 24:38.160
Interesting.

24:38.160 --> 24:39.160
Thanks.

24:39.160 --> 24:45.560
And in terms of growing the market, you should mention there's been a relatively quiet start

24:45.560 --> 24:51.720

in Japan, and we're going to get the views of Iris and Kansuke on how they'll build liquidity.

24:51.720 --> 24:53.020

But what would you like to see?

24:53.020 --> 24:57.720

How best to grow the ESTA market in Europe?

24:57.720 --> 25:01.440

So again, this is something that I'm not in favor of, but obviously, it's a regulatory

25:01.440 --> 25:02.440

push.

25:02.440 --> 25:05.200

That's clearly the best way to grow it.

25:05.200 --> 25:09.360

It's not actually any particular exchange doing anything.

25:09.360 --> 25:15.200

It's clearly a regulatory push, and there is obviously a lot of interest in liquidity

25:15.200 --> 25:16.200

in IBER.

25:16.200 --> 25:22.040

So by that, again, similar to the US, by default, ESTA will be a successful product.

25:22.040 --> 25:29.000

That being said, if there is no regulatory push, there should be at least a way to persuade

25:29.000 --> 25:37.000

swap markets to participate in ESTA instead of ONIA.

25:37.000 --> 25:39.320

That will create some initial liquidity.

25:39.320 --> 25:44.320

And similar things to what I discussed before, where ESTA-1 can be launched.

25:44.320 --> 25:49.080

I think that will also be a unique thing that Euribor can't fully replace and will just

25:49.080 --> 25:51.280

attract liquidity.

25:51.280 --> 25:55.720

And if ESTA-1 is active, then there's more ways to trade ESTA-3 as well.

25:55.720 --> 26:02.480

Now, I think another big opportunity for ESTA to grow is by listing ESTA-Euribor spreads.

26:02.480 --> 26:08.440

It's a bit complicated with various exchanges being involved, but I think those spreads

26:08.440 --> 26:16.400

can be a great opportunity for hedgers and for prop trading firms to participate in and

26:16.400 --> 26:21.760

by that, to grow the liquidity in the ESTA market.

26:21.760 --> 26:23.240

That's great.

26:23.240 --> 26:24.240

Thanks.

26:24.240 --> 26:25.240

Thanks.

26:25.240 --> 26:28.680

I had lots of good ideas there.

26:28.680 --> 26:35.040

So to turn over, Iris, I want to come to you first as we're following up on Europe.

26:35.040 --> 26:39.400

You heard some ideas from me, lad, for some product development, which is obviously in

26:39.400 --> 26:40.400

your scope.

26:40.400 --> 26:43.960

Regulatory issues, I understand, are outside your remit.

26:43.960 --> 26:47.360

What's the Eurex strategy for growing liquidity?

26:47.360 --> 26:48.360

Okay.

26:48.360 --> 26:52.280

Thank you very much for your last feedback.

26:52.280 --> 26:57.680

The transition to a new risk-free reference rate has been a significant evolution in the

26:57.680 --> 27:01.060

short-term rates market and continues to be so.

27:01.060 --> 27:07.400

So it will be key for market participants to be equipped with the right tools to facilitate

27:07.400 --> 27:13.080

this transition and support a robust development to their new risk-free reference rate.

27:13.080 --> 27:19.960

So in this context, the three months euro stir futures act as an additional tool for

27:19.960 --> 27:27.240

the market to manage exposure to ESTA to assist in cementing it as their key benchmark rate

27:27.240 --> 27:29.400

in Europe.

27:29.400 --> 27:34.800

We currently have six dedicated market makers in three months ESTA futures and we are working

27:34.800 --> 27:41.520

very closely with them, providing in-client feedback on pricing quality and market makers

27:41.520 --> 27:47.360

have been very helpful in titling bid-ask spread whenever possible to facilitate client

27:47.360 --> 27:49.040

transactions.

27:49.040 --> 27:56.040

So we also have a number of banks ready to provide liquidity in blocks.

27:56.040 --> 28:02.320

Our emphasis is to build a healthy and genuine market where volumes are from real users and

28:02.320 --> 28:05.540

clients can find a liquidity they require.

28:05.540 --> 28:13.560

So trade volume and the ESTA futures at Eurex have started to increase in recent weeks and

28:13.560 --> 28:17.440

we expect this trend to continue in coming months.

28:17.440 --> 28:24.080

And additionally, the Eurex ESTA futures are part of the same liquidation group as euro

28:24.080 --> 28:31.560

OTC swap cleared at Eurex clearing and euro government bond futures and therefore offer

28:31.560 --> 28:37.400

opportunities for margin reduction which in turn could increase liquidity in this product

28:37.400 --> 28:40.160

in longer term as well.

28:40.160 --> 28:44.920

So thank you very much, back to you Will.

28:44.920 --> 28:45.920

Thank you very much.

28:45.920 --> 28:52.280

And Kintsuke, what's your strategy for liquidity growth in the TONA futures?

28:52.280 --> 28:58.320

So as always, the success of newly launched products depends on grabbing the right timing

28:58.320 --> 29:04.840

and getting initial market liquidity to pave the way for a positive market growth cycle.

29:04.840 --> 29:11.320

As for timing, investors have enjoyed a relatively low interest rate environment for decades

29:11.320 --> 29:18.520

but they could enjoy the next wave of opportunities through TONA futures when the BOJs path to

29:18.520 --> 29:20.880

normalization actually starts.

29:20.880 --> 29:28.720

As for creating initial market liquidity, OSE prepares several measures and programs.

29:28.720 --> 29:34.640

The first point I would like to say is providing easier access to the market.

29:34.640 --> 29:41.480

OSE has been providing trading opportunities for 10-year JGB futures, one of the world

29:41.480 --> 29:47.560

most active government bond futures, and global investors dominate a significant presence

29:47.560 --> 29:48.560

in the market.

29:48.560 --> 29:52.080

Over 60% of trading volume.

29:52.080 --> 29:59.080

By adding three-month TONA futures to OSE's lineup, investors can trade long-term and

29:59.080 --> 30:05.560

short-term interest rate futures through the same platform for OSE derivatives trading.

30:05.560 --> 30:12.400

In addition, TONA futures will be cleared at JCCC, which enables investors to increase

30:12.400 --> 30:19.000

margin efficiencies by offsetting exposures with existing JGB derivatives.

30:19.000 --> 30:26.840

And moving beyond, for pursuing further margin efficiency, we are preparing to provide cross-margining

30:26.840 --> 30:33.240

between three-month TONA futures and OSE interest rate swaps cleared at JCCC in the

30:33.240 --> 30:36.400

first quarter of the next year.

30:36.400 --> 30:43.160

This cross-margining will benefit our clearing users even further as they need to manage

30:43.160 --> 30:48.400

yen rate risk during important future events.

30:48.400 --> 30:53.760

We have received strong interest in the cross-margining scheme from margin-conscious investors and

30:53.760 --> 30:54.760
broker dealers.

30:54.760 --> 30:59.720
The second point is harmonizing product specs.

30:59.720 --> 31:05.040
The specs of three-month TONA futures are very similar to CME's three-month software

31:05.040 --> 31:13.280
futures, such as quarterly contracts reflecting TONA expectations between IMM dates and the

31:13.280 --> 31:18.040
minimum price fluctuation over quarter basis points.

31:18.040 --> 31:23.360
The contract is also available during the same trading hours as JGB futures, so overseas

31:23.360 --> 31:28.880
investors can trade during European and U.S. time zones.

31:28.880 --> 31:35.320
The third point is securing on-screen market liquidity.

31:35.320 --> 31:42.040
In response to strong interest in Japan's rate market, there are around 15 global market

31:42.040 --> 31:50.440
makers who are committed to starting to quote on the first trading date of TONA futures.

31:50.440 --> 31:58.200
Last but not least, OSE will waive all exchange trading and clearing fees for TONA futures

31:58.200 --> 32:01.920
until the end of March 2024.

32:01.920 --> 32:08.120
We strongly believe that developing the TONA futures in line with Japan's other rate-related

32:08.120 --> 32:13.600
products will enhance the efficiency of the whole rate market ecosystem.

32:13.600 --> 32:16.200
Yes, we're back to you.

32:16.200 --> 32:18.240

Thank you very much.

32:18.240 --> 32:20.800

And just a final question to Iris and Kanzuke.

32:20.800 --> 32:22.240

Iris, over to you first.

32:22.240 --> 32:27.240

On the future environment for interest rate products, what does it look like from your

32:27.240 --> 32:28.240

perspective?

32:28.240 --> 32:29.240

Yeah.

32:29.240 --> 32:30.240

Okay.

32:30.240 --> 32:37.240

Actually, the continued increase of base rate by ECB in Europe, combined with the heightened

32:37.240 --> 32:42.440

market volatility, has brought attention to the short end of the U-curve.

32:42.440 --> 32:48.720

EURX is continuously evaluating opportunities to make further adjustment in our Eurostar

32:48.720 --> 32:49.720

offering.

32:49.720 --> 32:56.720

As we have already got the URTable futures and options listed here, the timing of the

32:56.720 --> 33:01.280

Aster futures launch has coincided with the increased volatility in the short end of the

33:01.280 --> 33:03.200

interest rate market.

33:03.200 --> 33:07.880

The three-month Aster futures is just the first step, and we plan to expand the product

33:07.880 --> 33:13.600

suite and functionalities in coming months to further accommodate the market needs.

33:13.600 --> 33:22.240

So tentatively, this year Q4, we plan to launch a new inter-product spread functionality between

33:22.240 --> 33:25.560

Aster and URTable and Shark's futures.

33:25.560 --> 33:32.320

And we plan to introduce the reduced pricing for stripes, packs, and bundles, and that's

33:32.320 --> 33:37.080

potential launch of serial months for Aster futures as well.

33:37.080 --> 33:44.400

In 2024, what we are planning is that there may be potential launch of one-month Aster

33:44.400 --> 33:50.460

futures, and also potential launch of options on Aster futures as well.

33:50.460 --> 33:56.180

So we are collecting market feedback and comments as well.

33:56.180 --> 34:02.920

So please stay close to EURX offering, which may help you in managing your risk, creating

34:02.920 --> 34:08.080

trading opportunities, and to increase capital efficiency as well.

34:08.080 --> 34:13.880

Because as we said, we have cross-product margining, which can help you to increase

34:13.880 --> 34:21.760

your capital efficiency by the initial margin offset between OTC, IRS, and also the short-term

34:21.760 --> 34:26.520

interest rate futures, and also the listed futures as well.

34:26.520 --> 34:33.080

So if you have any further question, please feel free to reach me out or leave any question

34:33.080 --> 34:34.720

in this Q&A session as well.

34:34.720 --> 34:41.920

We welcome your question and also feedback so as to improve our service and product offerings.

34:41.920 --> 34:43.520

So thank you very much.

34:43.520 --> 34:45.600

And back to you, Will.

34:45.600 --> 34:46.600

Thank you very much, Iris.

34:46.600 --> 34:52.720

Kenzuki, your final thoughts on the future environment for products in Japan?

34:52.720 --> 34:54.480

Yep.

34:54.480 --> 34:58.040

So we will just launch this three-month tonneau futures.

34:58.040 --> 35:02.160

So we should more focus on developing this product.

35:02.160 --> 35:07.960

But I think the biggest catalyst will be no doubt the big changes in the monetary policy.

35:07.960 --> 35:10.920

Of course, we cannot predict when the change will happen.

35:10.920 --> 35:16.280

And the path to normalization will inject much-needed volatility into Japan's rate

35:16.280 --> 35:21.800

markets, including cash GGBs, OTC swaps, and listed derivatives.

35:21.800 --> 35:29.360

So thereby reviving the market function, moving away from fixed-to-yield, and enabling investors

35:29.360 --> 35:33.400

to take advantage of the structural market moves.

35:33.400 --> 35:38.600

Three-month tonneau futures will be traded actively with different types of investors

35:38.600 --> 35:41.480

under this normalization process.

35:41.480 --> 35:46.920

And the success of the product could lead to further constellation of additional series

35:46.920 --> 35:52.000

of tonneau products, such as one-month tonneau futures and options on three-month tonneau

35:52.000 --> 35:53.840
futures.

35:53.840 --> 35:59.840
On the trading side, as off-screen block trading is commonly utilized for software features

35:59.840 --> 36:06.240
in the US, we are also discussing with the inter-data brokers to provide further off-screen

36:06.240 --> 36:12.080
trading solutions with dealers and brokers who trade tonneau futures together with OTC

36:12.080 --> 36:15.320
interest rate swaps, for example.

36:15.320 --> 36:21.560
The scheme will contribute to increasing off-screen matching opportunities, particularly in cases

36:21.560 --> 36:26.640
conducting parts and banders transactions.

36:26.640 --> 36:31.280
On the clearing side, as I mentioned earlier, we will offer cross-margining between tonneau

36:31.280 --> 36:37.520
futures and OIS cleared at JCC in the first quarter of next year.

36:37.520 --> 36:41.920
Our product launch day is May 29th, next Monday.

36:41.920 --> 36:49.720
So the Bloomberg ticker is JOAA, so glancing at the order book or your trading is much

36:49.720 --> 36:50.720
appreciated.

36:50.720 --> 36:56.040
Feel free to contact me if you have any questions about the products or markets.

36:56.040 --> 36:57.040
So thank you very much.

36:57.040 --> 36:58.880
So we're back to you.

36:58.880 --> 36:59.880

Thank you very much.

36:59.880 --> 37:05.320

And that brings to an end this section of the webinar.

37:05.320 --> 37:11.400

We now go over to an interview with Alexis Stemfors, a Reader in Economics and Finance

37:11.400 --> 37:13.720

at the University of Portsmouth.

37:13.720 --> 37:18.920

But I just want to take the opportunity to thank Iris, Konzuki, Elad, and Shun for their

37:18.920 --> 37:22.040

contribution to what's been a fascinating discussion.

37:22.040 --> 37:26.920

Thank you all, and thank you for your time, and thank you for listening.

37:26.920 --> 37:28.120

Welcome Alexis.

37:28.120 --> 37:32.840

So we've just heard about the development of the risk-free rate futures contracts in

37:32.840 --> 37:35.920

Japan and Europe.

37:35.920 --> 37:42.120

But now let's turn to you for your views as an economist on the outlook for rates.

37:42.120 --> 37:47.480

So just from a headline view, what do you see as the outlook for interest rates in Europe

37:47.480 --> 37:48.480

and Japan?

37:48.480 --> 37:49.960

Thanks for having me.

37:49.960 --> 37:53.360

Well, I think it's sort of very different.

37:53.360 --> 37:58.760

On the one side, we're going through exactly the same in Europe as in Japan when it comes

37:58.760 --> 38:05.960

to inflation is going higher, the Ukraine issue is still going on, and a string of issues

38:05.960 --> 38:07.600

that are similar.

38:07.600 --> 38:13.680

But it's quite clear that for Europe, Europe has raised, or at least DCB has raised interest

38:13.680 --> 38:17.280

rates quite a few times over the last 12 months.

38:17.280 --> 38:21.960

And that is probably going to continue for another three to six months.

38:21.960 --> 38:28.280

So we will see even higher rates from about 3.75, maybe another 25 or 50 basis points

38:28.280 --> 38:32.440

until it sort of stops, or then here people disagree.

38:32.440 --> 38:37.880

The market thinks this will turn around pretty quickly in 2024.

38:37.880 --> 38:42.560

But it's sort of definitely that is where rates are heading.

38:42.560 --> 38:43.840

Japan is very different.

38:43.840 --> 38:47.960

Japan has, of course, a negative interest rate still, yield curve control.

38:47.960 --> 38:53.920

The 10 year segment is pegged around 0%.

38:53.920 --> 38:58.600

And it seems like that is not going to change in the near term, it might change, but the

38:58.600 --> 39:03.720

last meeting, sort of signal that there is possibility that this might change in the

39:03.720 --> 39:04.720

future.

39:04.720 --> 39:09.360

But it's definitely not on the cards anytime soon.

39:09.360 --> 39:12.120

So short term rates will stay low in Japan.

39:12.120 --> 39:14.800

And in Europe, it's continued to go up.

39:14.800 --> 39:15.800

Interesting.

39:15.800 --> 39:25.240

And what factors are driving those rate moves or lack thereof in Europe and Japan?

39:25.240 --> 39:27.200

In Europe, it's definitely inflation.

39:27.200 --> 39:29.640

Inflation is a big, big problem.

39:29.640 --> 39:36.480

The ECB is a fairly strict inflation target, which means that if they don't have inflation

39:36.480 --> 39:40.280

under control, they have to raise interest rates by law.

39:40.280 --> 39:42.280

There's no sort of there's no discussion here.

39:42.280 --> 39:47.900

It's really a matter of will this inflation stay or is it just a temporary thing?

39:47.900 --> 39:53.760

I think initially, most economists believe that this was a temporary shock last year

39:53.760 --> 39:57.960

that started before the invasion of Ukraine.

39:57.960 --> 39:59.960

But there was a temporary shock now.

39:59.960 --> 40:04.320

I think most economists and central bankers realize that this is more serious.

40:04.320 --> 40:11.600

So inflation is sort of spreading from initially the commodity prices to food.

40:11.600 --> 40:13.560

And there's also higher wage pressure.

40:13.560 --> 40:17.640

So that is the main thing in Europe.

40:17.640 --> 40:22.720

So inflation, if inflation is going to keep going up, or if not going down, they will

40:22.720 --> 40:24.640

continue to hike interest rates.

40:24.640 --> 40:26.560

So that is definitely the main thing.

40:26.560 --> 40:32.360

And the economy, the European economy is sort of decent, it's not a disaster.

40:32.360 --> 40:39.080

Europe doesn't have the banking issues as in maybe California, that is sort of causing

40:39.080 --> 40:42.220

the stress in the financial system.

40:42.220 --> 40:47.240

So it's going to be all eyes on the inflation rates.

40:47.240 --> 40:55.560

Japan, inflation has gone up, and thankfully, because it has been very, very low for decades.

40:55.560 --> 41:01.320

But it doesn't seem to be enough for the Bank of Japan to change the path.

41:01.320 --> 41:06.560

I think what we saw last meeting was that the sort of easing bias was lifted.

41:06.560 --> 41:11.900

So they have a fairly neutral stance, but the inflation is just about 2%.

41:11.900 --> 41:17.360

The core inflation is not necessarily enough for them to raise interest rates.

41:17.360 --> 41:21.620

And we don't see that sort of the economy is still a little bit choppy.

41:21.620 --> 41:26.040

So they are not going to rush in raising interest rates.

41:26.040 --> 41:31.600

So the more interesting part is the 10 year segment, will they keep the yield curve control

41:31.600 --> 41:32.600
intact?

41:32.600 --> 41:42.640
And of course, the band of minus 0.25 plus 0.25 was widened to 50 basis points on each

41:42.640 --> 41:43.640
side.

41:43.640 --> 41:49.640
And many thought that this was sort of the starting point of maybe removing it altogether.

41:49.640 --> 41:51.360
And that was, of course, a mistake.

41:51.360 --> 41:57.860
It was purely to sort of allow the market to sort of regain some liquidity.

41:57.860 --> 42:02.160
But surely, I mean, it's trading at the upper end of that band.

42:02.160 --> 42:09.560
But as long as that stays, it's hard to see Japanese rates moving much higher.

42:09.560 --> 42:10.560
Interesting.

42:10.560 --> 42:13.400
And there's the divergence in inflation.

42:13.400 --> 42:17.160
That is the key issue, as you point out.

42:17.160 --> 42:21.720
Do we expect inflation to continue to rise in Japan?

42:21.720 --> 42:24.400
You seem to think it's more embedded in Europe.

42:24.400 --> 42:27.640
Is Japan going to see an uptick as well?

42:27.640 --> 42:29.360
I think there are two important things.

42:29.360 --> 42:31.320
One is, of course, wages.

42:31.320 --> 42:39.320

Wages have been sort of stubbornly sort of stuck for a very long period of time in Japan.

42:39.320 --> 42:43.240

Businesses aren't really keen to raise prices.

42:43.240 --> 42:46.560

What is going to be interesting is, of course, the important inflation.

42:46.560 --> 42:51.840

The Japanese yen is incredibly weak and has been so for a long period of time now.

42:51.840 --> 42:58.520

And that is sort of, if that continues, it's obvious that inflation is going to pick up.

42:58.520 --> 43:00.320

I think the yen is so weak.

43:00.320 --> 43:06.680

We've seen a little bit of a rebound in the dollar against the Japanese yen, but that's

43:06.680 --> 43:11.040

mainly because of the Federal Reserve or what's going on in the US.

43:11.040 --> 43:17.400

But if you look at other exchange rates, like sterling yen, Swiss yen and euro yen, they

43:17.400 --> 43:19.240

are still at very, very high levels.

43:19.240 --> 43:25.080

So they're indicating that there is definitely going to be important inflation coming in.

43:25.080 --> 43:26.080

Interesting.

43:26.080 --> 43:30.920

And there's obviously this divergence creates opportunity.

43:30.920 --> 43:34.760

Where do you see the opportunity for traders in the current market?

43:34.760 --> 43:35.760

For traders?

43:35.760 --> 43:40.360

If I had been sort of back in the markets, I used to trade, you know, your RIBO futures,

43:40.360 --> 43:43.960

TIBO, LIBO spreads and what have you and FX.

43:43.960 --> 43:52.200

I think in Europe, definitely I would sort of look at the short term interest rates.

43:52.200 --> 43:56.840

I mean, that is where the opportunities have been during the last six to nine months.

43:56.840 --> 44:04.480

And I think still, though, that's sort of the main most interesting part is to bet on

44:04.480 --> 44:06.720

what ECB is going to do next.

44:06.720 --> 44:10.000

And what are we going to do the meeting after?

44:10.000 --> 44:17.000

So these various contracts and €STR OIS contracts, I don't know how much of an expert you are

44:17.000 --> 44:24.120

in a detailed context that exists, but it's really about betting on the exact movements

44:24.120 --> 44:27.840

by the ECB over the next six to nine months.

44:27.840 --> 44:32.200

And I think that's going to be personally, now, of course, I'm not a trader.

44:32.200 --> 44:33.680

I'm completely independent.

44:33.680 --> 44:42.640

But what I see is an interesting segment is the we do price in a pretty rapid reversal

44:42.640 --> 44:49.760

of these rate hikes in the Eurozone, which means that somehow the market thinks that

44:49.760 --> 44:54.400

ECB will continue to raise interest rates and then gradually or pretty quickly turn

44:54.400 --> 44:56.520

around and begin to cut.

44:56.520 --> 44:58.200
I'm sceptical about that.

44:58.200 --> 44:59.520
I'm very sceptical about that.

44:59.520 --> 45:04.960
And I sort of putting on my trader mentality, I would sort of go against that and ride that

45:04.960 --> 45:13.800
deal, believing that ECB will not cut rates as quickly as the market thinks.

45:13.800 --> 45:14.880
In Japan, it's harder.

45:14.880 --> 45:15.880
I think it's very hard.

45:15.880 --> 45:21.960
Like traders have sort of started or always bet against the Bank of Japan, sort of saying

45:21.960 --> 45:24.320
one day they have to raise interest rates.

45:24.320 --> 45:27.960
And we've seen this this year as well.

45:27.960 --> 45:32.920
I do think, though, that the segment sort of around two to five years segment looks

45:32.920 --> 45:39.000
interesting, because at the end of the day, I do think that the Bank of Japan will will

45:39.000 --> 45:40.720
abandon yield curve control.

45:40.720 --> 45:42.040
I do think so.

45:42.040 --> 45:44.560
Maybe not this year, but but sooner or later.

45:44.560 --> 45:53.560
And that some people say the artificial 10 year point that is sort of due to the Bank

45:53.560 --> 45:57.880
of Japan intervention has to be lifted at some point, and I think it will be lifted.

45:57.880 --> 46:03.920

And then that segment due to five years looks way too low on a yield basis.

46:03.920 --> 46:04.920

Interesting.

46:04.920 --> 46:10.880

So, so you're so you're bullish on long term rates and how long how long do you at some

46:10.880 --> 46:16.200

point you do expect the ECB will have to reduce rates, but how long do you expect rates to

46:16.200 --> 46:17.920

be elevated in Europe?

46:17.920 --> 46:23.040

And if rates indeed do go up in Japan, as you as you suggest, what's your timeframe

46:23.040 --> 46:28.920

before we return to the, I guess, historical average of 3% or thereabouts?

46:28.920 --> 46:31.600

I'm not sure I actually think this time is different.

46:31.600 --> 46:33.360

Like I'm generally a hawk.

46:33.360 --> 46:36.040

I'm a hawkish person when it comes to interest rates.

46:36.040 --> 46:39.800

So I believe rates are always going to go up now.

46:39.800 --> 46:44.240

It has has been a hard like, it's hard to sort of convince other people it has been

46:44.240 --> 46:47.280

hard because rates have been at 0% for such a long period of time.

46:47.280 --> 46:51.000

But I think you have to remember that the ECB is an inflation target.

46:51.000 --> 46:55.400

They have to target an inflation rate of 2% in two years time.

46:55.400 --> 47:00.240

If these rates are going to be embedded in the economy in inflation expectations going

47:00.240 --> 47:05.200

forward, which I think they will, it's going to be very hard for them to cut interest rates.

47:05.200 --> 47:08.240

I think so.

47:08.240 --> 47:09.240

Japan is different.

47:09.240 --> 47:13.920

Japan, of course, since the banking crisis 30 years ago, you know, Japan will definitely

47:13.920 --> 47:21.480

not be quick out of the sort of the quick in raising interest rates.

47:21.480 --> 47:30.400

But I do think that the yield control segment, that policy will be lifted next year but later.

47:30.400 --> 47:34.520

So great opportunity for traders in the market and lots of different views and different

47:34.520 --> 47:42.120

opinions, which is always good for volatility and opportunity for trading firms.

47:42.120 --> 47:43.960

So thank you very much, Alexis.

47:43.960 --> 47:47.200

And that brings to an end this webcast.

47:47.200 --> 47:51.720

So as mentioned, if you do have any questions, please do put them into the question portal

47:51.720 --> 47:53.320

and they will be answered after the webinar.

47:53.320 --> 47:58.680

But thank you to Alexis and thank you to our earlier panelists and thank you for listening.

47:58.680 --> 48:15.800

Thank you.