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# FX Options Weekly Report

## Macro and Vol Commentary

Recent economic data from Japan has confirmed the inevitable recession, however as they start to ease lockdown restrictions in some regions, what is next?

### Japan Data

- GDP data for Q1 was -3.4% Q/Q, after Q4 2019's revised figure of -7.3% Q/Q
- Private consumption was -0.7% Q/Q, a slower rate of decline than the previous quarter of -2.8%Q/Q
  - \_ Clearly, the worrying sign is that the economy was not in lockdown in Q1
  - \_ We expect headline GDP figures to weaken in Q2, compounding economic issues
- Capital expenditure fell 0.5% in Q1, a slower decline than Q4 which was -4.8%
- Bankruptcies have also been trending higher to 15.19% y/y as of April 2020, up from 11.78% y/y in March
- Japanese Foreign reserves edged higher in April to \$1368.6bn, an increase from \$1,366.2bn the month prior
- Japan continued to run a current account surplus in March at ¥1,971.0bn, although this was below the previous reading of ¥3,168.8bn
- The trade balance in March was ¥5.4bn, down from ¥1,106.582bn in February, estimates for April suggest a negative balance of ¥503.1bn
  - \_ Exports are set to decline once again to 22.2% y/y due to weak global demand
  - \_ Imports were -5% y/y in March, but haven't been positive since April 2019 suggesting they will be significantly down in April on a y/y basis
- The jobless rate increased in March to 2.5 as the job to applicant ration increased to 1.39

### Government and BOJ

- The government announced a stimulus package of \$1.1trn, in addition to the BOJ's stimulus which has been increasing stimulus in recent and is expected to again
- The government are also set to increase stimulus to help the economy recover from the recession but their approval rating has fallen again, to 33%
- The BOJ has pledged to purchase unlimited government bonds but remain below last year's cap of ¥80trn
- Investment data from the BOJ suggests that Japanese investors sold \$2.3bn European Government Bonds in March, whilst buying \$5bn US treasuries

On Monday, we saw JPY weaken slightly as risk appetite across financial markets saw safe-haven assets retreat slightly. However, there is a busy week on the data front, with Jerome Powell set to speak a number of times. We believe he will continue to outline the downside risks that some investors are managing to ignore for the time being. A brief analysis of the S&P 500 options market suggests more downside is being priced in. Indeed, the backdrop of rising debt to GDP percentages, unemployment, and central bank balance sheets with forecasts of GDP declining >10% in Q2 for some major economies suggest that the recovery road will be long and safe-havens are likely to remain bid. We believe the weakness in the Euro area means we favour a short EURJPY trade, outlined below.

# Volatility Commentary

Over the Coronavirus crisis, we've seen JPY shaken from its previously low vol state, with the currency having generally strengthened over the crisis due to its safe-haven nature, and vols trading higher. Looking specifically at EURJPY (1-month expiry), implied volatility has come off since the March peak, though we do still see it trading higher than pre-Coronavirus levels, and see a slight pickup in realised volatility. With there still being potential for realised volatility to continue to pick up (despite implied vol remaining steady), the re-openings of economies still seem uncertain; we favour slight long EURJPY vol positions and as mentioned above shorty EURJPY spot positions.

# EURJPY Trade Idea

- Priced in 2-month expiries
- Buy EURJPY Put in 10m EUR notional with strike 117.00 for circa 100k EUR premium
- Sell EURJPY Call spread in 10m EUR notional a leg with strikes 119.00 and 121.00 for circa 53k EUR receive premium
- Overall strategy has upfront premium cost of circa 47k EUR premium

# Charts and Tables

## FX Volatility Grid

Time	EURUSD			GBPUSD			USDJPY			EURGBP		
Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	-0.11	0.21	6.48	-1.53	0.34	8.78	-0.51	0.22	6.20	1.26	0.27	7.29
1M	-0.42	0.26	6.76	-2.01	0.41	9.46	-1.06	0.25	6.98	1.53	0.36	7.66
2M	-0.55	0.28	6.71	-2.24	0.46	9.97	-1.46	0.30	7.31	1.65	0.40	8.07
3M	-0.69	0.31	6.78	-2.32	0.50	10.06	-1.77	0.34	7.51	1.70	0.44	8.19
6M	-0.91	0.36	7.16	-2.49	0.57	10.37	-2.30	0.40	8.09	1.79	0.49	8.54
1Y	-1.14	0.41	7.27	-2.64	0.61	10.67	-2.45	0.43	8.08	1.85	0.55	8.93

Time	USDINR			USDTRY			USDJPY			AUDUSD		
Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	ATM	25d RR	25d BF	ATM	
1W	1.59	0.38	8.34	7.39	1.21	18.58	4.29	0.58	26.05	-1.64	0.49	12.58
1M	1.91	0.49	8.92	9.16	1.59	21.14	4.96	0.67	24.47	-2.54	0.57	12.48
2M	2.02	0.51	8.85	9.34	1.64	21.55	5.24	0.71	23.02	-2.88	0.62	12.19
3M	2.11	0.53	8.74	9.55	1.67	22.45	5.51	0.75	21.96	-3.10	0.66	12.01
6M	2.27	0.56	8.67	9.86	1.77	23.20	5.66	0.83	20.46	-3.45	0.72	12.02
1Y	2.41	0.56	8.31	10.16	1.94	23.76	5.82	0.91	19.00	-3.63	0.75	11.62

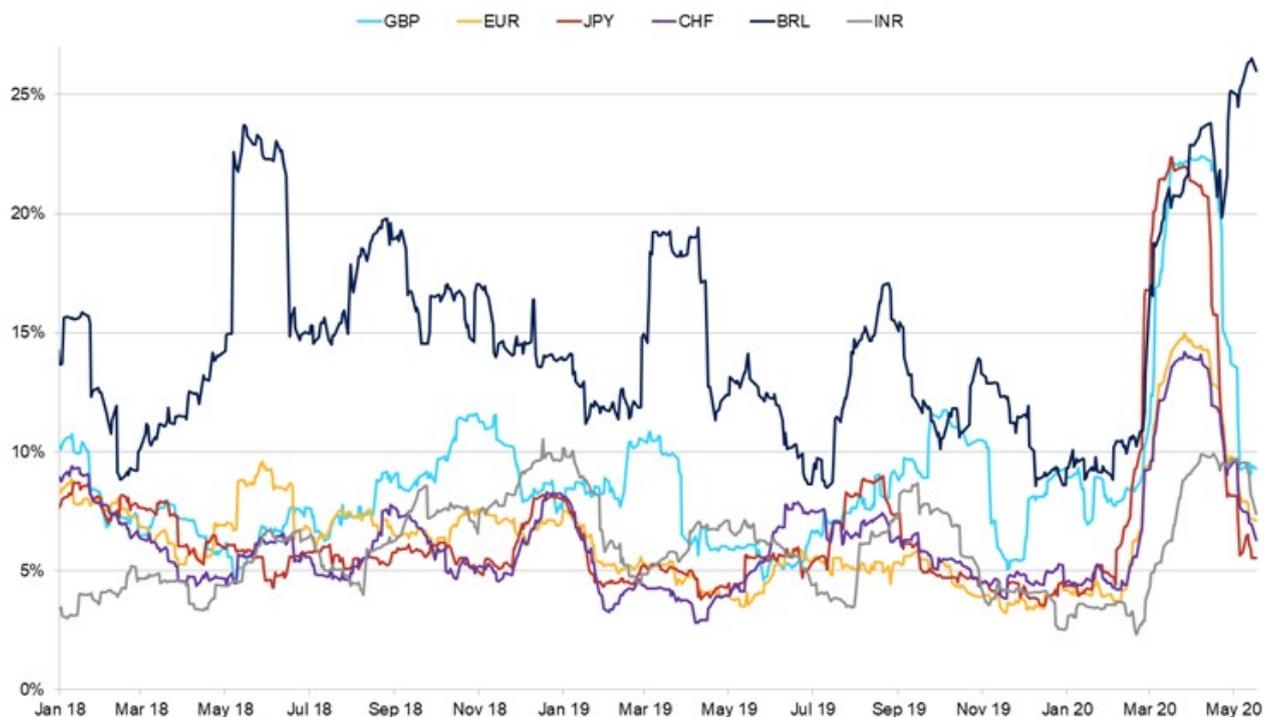
Source: Sucden Financial

## FX Expiries

Currency Pair	Wednesday 20 <sup>th</sup>	Thursday 21 <sup>th</sup>	Friday 22 <sup>nd</sup>	Monday 25 <sup>th</sup>	Tuesday 26 <sup>th</sup>
GBP/USD					
USD/JPY	500mio @ 106.89 500mio @ 108.7		1.1bio @ 106 630mio @ 106.75 600mio @ 106.85 1.33bio @ (109) 1.08bn @ 1.0855		
EUR/USD		740mio @ 1.108	570.12mio @ (1.0875)		
EUR/GBP					
USD/BRL	150mio @ 5.65				100mio @ 5.663
AUD/USD	120mio @ 0.65 300mio @ 0.66		171.34mio @ 0.642 108.7mio @ 0.644 108.28mio @ 0.6465 270.48mio @ 0.647	301.54mio @ 0.65	
USD/ZAR					
USD/INR	100mio @ 75 230mio @ 75.5	200mio @ 75	200mio @ 75.1 100mio @ 76.26 100mio @ 77		

Source: Bloomberg DTCC Data 2% from spot levels as of 18/05/2020

## Historical Spot FX Volatility (30D Rolling)



Source: SucdenFinancial, Bloomberg

## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2276	1.0969	0.0093	1.0353	0.7205	0.8577	0.6136
GBP	0.8146	-	0.8936	0.7574	0.8433	0.5870	0.5358	0.4998
EUR	0.9117	1.1191	-	0.8477	0.9437	0.6569	0.5996	0.5594
JPY	107.5500	132.0190	117.9700	-	111.3310	77.4990	70.7390	65.9920
CHF	0.9660	1.1858	1.0597	0.8982	-	0.6961	0.6354	0.5927
CAD	1.3877	1.7035	1.5222	0.0129	1.4366	-	0.9128	0.8515
AUD	1.5203	1.8664	1.6677	1.4137	1.5739	1.0956	-	0.9329
NZD	1.6297	2.0006	1.7876	0.0152	1.6872	1.1744	1.0719	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.37	1.41	-0.48	0.64	1.62	1.91	2.42
GBP	-0.32	-	1.04	-0.82	0.33	1.24	1.54	1.98
EUR	-1.37	-1.00	-	-1.86	-0.76	0.21	0.49	0.97
JPY	0.49	0.86	1.89	-	1.13	2.11	2.39	2.92
CHF	-0.63	-0.28	0.76	-1.11	-	0.97	1.26	1.72
CAD	-1.58	-1.22	-0.20	-2.06	-0.95	-	0.30	0.76
AUD	-1.86	-1.51	-0.49	-2.35	-1.22	-0.29	-	0.44
NZD	-2.27	-2.00	-1.00	-2.82	-1.64	-0.71	-0.50	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
CN	20/5	02:30	PBoC Interest Rate Decision			3.85%
UK	20/5	07:00	Core CPI YoY	Apr	1.5%	1.6%
EU	20/5	10:00	CPI MoM	Apr	0.3%	0.5%
US	20/5	12:00	MBA Mortgage Applications	May 15		0.3%
EU	20/5	15:00	Consumer Confidence	May	-24.0	-22.7
JP	21/5	00:50	Merchandise Trade Balance Total	Apr	¥67.4bn	¥4.9bn
JP	21/5	00:50	Imports YoY	Apr	-12.9%	-5.0%
JP	21/5	01:30	Jibun Bank Mfg PMI	May		41.9
GE	21/5	08:30	Markit Mfg PMI	May	39.2	34.5
EU	21/5	09:00	Markit Manufacturing PMI	May	38.0	33.4
UK	21/5	09:30	Markit Mfg PMI	May	36.0	32.6
US	21/5	13:30	Initial Jobless Claims	May 15	2,400k	2,981k
US	21/5	14:45	Markit Manufacturing PMI	May	38.0	36.1
US	21/5	14:45	Markit Services PMI	May	30.0	26.7
JP	22/5		BoJ Interest Rate Decision			-0.1%
UK	22/5	07:00	Retail Sales YoY	Apr	-22.2%	-5.8%
JP	26/5	05:30	All Industry Activity Index MoM	Mar		-0.6%
US	26/5	13:30	Core PCE QoQ	Q2		1.8%
US	26/5	15:00	Consumer Confidence			

Source: FX Street

# Technical Charts

## JPM Global FX Volatility Index



The index has tracked sideways in recent weeks, the stochastics are oversold and the MACD diff lacks conviction. The index has been supported at 8.70 in recent sessions but hasn't been able to break above 9.50. The descending triangle remains intact, to confirm the pattern the index needs to break through 8.70 and 8 before targeting 7.65. On the upside, the index needs to take out the 200 DMA at 9.42 and then 10 to regain upside conviction. We anticipate the index to consolidate in the near term.

## The Dollar Index



The index has consolidated in recent weeks as prices oscillate within the trend channel. The stochastics are starting to improve but remain in oversold territory, but to confirm the buy signal the indicator needs to break above 50. The MACD diff lacks conviction, however, the index has been well supported at the lower trend channel around 98.78 triggering a test of appetite at 100.500. Where the index has found resistance, to confirm upside momentum prices need to take out 101. On the downside, the index needs to break the lower trend channel and then the 61.8% fib level to regain downside conviction.

# EURJPY



EURJPY has rallied in recent weeks after testing appetite below 114.50, the pair tests appetite at 118.14. The indicators favour the upside but the MACD diff has converged in recent sessions and the stochastics are overbought. If the upper trend channel holds firm, we could see the pair weaken back towards the 200 DMA at 116.72. Secondary support stands at 115.62. On the upside, firm indicators and the three white soldiers suggest higher prices but the pattern needs to be confirmed. A breakthrough 118.20 could trigger gains to 119.72.

## Risk warning

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