Sucden Financial

Non-independent Research

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FX Options Weekly Report

Macro and Vol Commentary

This week we take a look at the Indian economy and how it has dealt with the Coronavirus, and what to make of the conflict with China.

India data

- Markit PMIs improved in May on a month-on-month basis but were still in contraction territory.
    - _ Composite PMI 14.8, up from 7.2 the previous month
    - _ Services PMI 12.6, up from 5.4
    - _ Manufacturing PMI 30.8, up from 27.4
- Further analysis of the PMI outlines that there was a persistent weakness for new orders, export orders, lower production requirements, and reduced capacity at manufacturers. There was some optimism surrounding business conditions in a years' time
- The trade deficit did narrow in May to -$3,150m from -$6,760m in April; the reading beat estimates
    - _ The improvement was predominately due to an improvement in export orders
    - _ Imports were significantly reduced due to the lockdown, and as restrictions are being eased, we would expect the trade balance to worsen as gold and oil imports rise again
    - _ According to the Ministry of Petroleum and Natural Gas, Indian imports were 12,179.3 (000) metric tons in May, down from 23,430.8 (000) metric tons in March
    - _ According to the RBI, India imports of Principle commodities equalled $76.3m in May, up from $2.83m the previous month but a far cry from $1,227.88m in March
    - _ Exports were down -36.5%y/y in May while imports declined -51.1%y/y, a modest improvement from the previous month of -60.3%y/y and 58.7%y/y respectively
- GDP y/y for Q1 was 3.1%, but this is expected to fall significantly in Q2, with some estimates at a -25% decline

- We expect economic activity to trend higher helping foreign investors confidence improve, giving rise to the rupee
- Weak demand conditions are a considerable headwind to the economy at this time, but that may cap imports in the near term, helping the trade deficit
- Exchange data suggests that we did start to see an inflow of about $2.7bn into Indian stocks in June, and $4.4bn QTD
- Domestic Funds sold net 12.9bn INR of Indian stocks, but globally funds bought 4.24bn of Indian stocks on Monday, according to NSE
- We also saw some bond purchases from state-run banks of about 32.6bn INR; foreign banks sold 11.2bn INR
- Rates have started to firm
    - The 2-year is at 4.31%
    - 5-year at 5.38%
    - 10-year at 5.89%

RBI – Rate cuts on the Agenda?

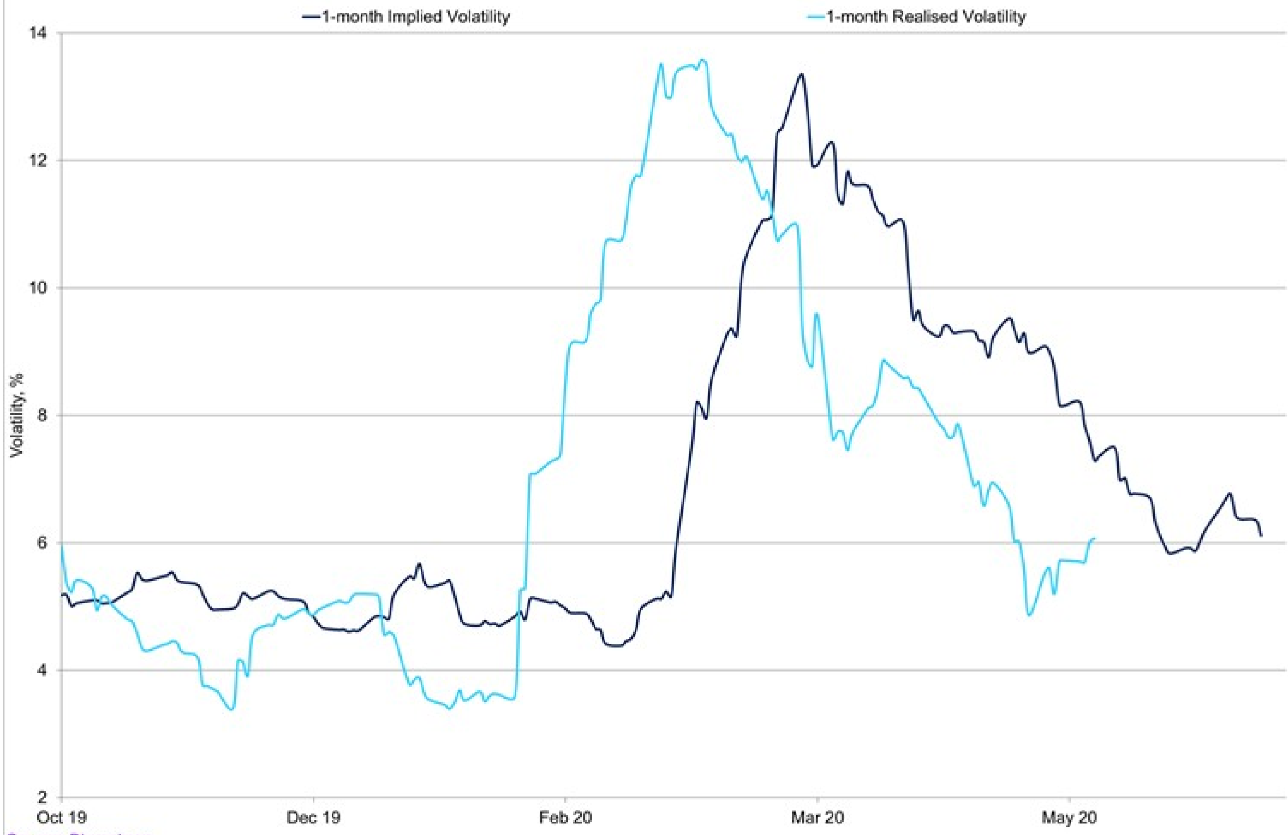
- The lack of consumer demand and lower energy prices are likely to constrain inflation. The majority of the MPC was dovish, and we look at consumer demand closely to assess if we could have more cuts in the near term
    - Interest rates stand at 4% at the time of writing
- Repo rates stayed at 3.5%
- There are suggestions that the RBI bought $3.8bn to the week ending June 12th
- We saw liquidity measures of about 8,016bn INR (3.9% of GDP) by the RBI; this included repo operations and mutual funds
- Total stimulus reached 20,971bn INR which equates to 10.2% of GDP and included credit facilities and guarantees, direct spending, and long term capacity building

The conflict on the Chinese – Indian border has reportedly ceased, as both militaries have agreed to disengage. We continue to watch this closely. The economy is starting to open back up, but cases have also started to rise. The lack of income has caused demand to fall off a cliff, and we are tentative that this will recover quickly. There are potentially hundreds of millions of people that have been reliant on food and medical aid during the lockdown. Kerala state government was able to act responsibly and quickly, but the lockdown extensions have increased pressure on food systems as well. Manual labour is a large employer in India, and this was significantly affected, but if these sectors can recover quickly, and demand can return to the economy, we expect to see economic data improving. We expect stimulus measures from the government and RBI to remain accommodative and support the economy, improving risk appetite for INR.

Volatility Commentary

As the Coronavirus crisis is appearing to ease off, we've seen both implied and realised volatility in USDINR come down, with vols generally realising below implied. Though USDINR spot remains elevated at levels from March when the crisis first escalated. We have seen a slight move up in USDINR vol, with recent skirmishes across the border with China, as mentioned above, which we will continue to keep an eye on but do not expect to see large scale escalation over. Overall, we expect the Indian economy to recover and favour positions which see USDINR coming back down. We also note the vol curve is relatively flat and favouring selling shorter-term gamma/vega to fund a slightly longer date gamma/vega.

USDINR 1-month Implied and Realised Volatilities



Source: Bloomberg

USDINR Trade Idea

- Priced in 10m USD notionals a leg
- Sell 1-month expiry USDINR put with 75.00 Strike for circa 22k USD premium
- Buy 3-month expiry USDINR put with 75.00 Strike for circa 48k USD premium
- Total cost circa 26k USD Premium

Charts and Tables

FX Expiries

Currency Pair	Wednesday 24th	Thursday 25th	Friday 26th	Monday 29th	Tuesday 30th
GBP/USD					
USD/JPY		500mio @ 105.78 500mio @ 108			
EUR/USD		758.93mio @ 1.12	572.43mio @ 1.12		506.32mio @ 1.106 1.09bio @ 1.1185
EUR/GBP					
USD/BRL	200mio @ 5.22	200mio @ 5.22	600mio @ 5.15	150mio @ 5.3	150mio @ 5.2 100mio @ 5.3
AUD/USD	147.71mio @ 0.677	100.51mio @ 0.6865 100.57mio @ 0.696	100mio @ 0.68 200.72mion @ 0.6875 100.57mio @ 0.696	100.73mio @ 0.685 145.45mio @ 0.6875 420mio @ 0.69	
USD/ZAR		100mio @ 17 130mio @ 17.5	150mio @ 17.4		
USD/INR				200mio @ 76	

Source: Bloomberg DTCC Data 2% from spot levels as of 22/06/2020

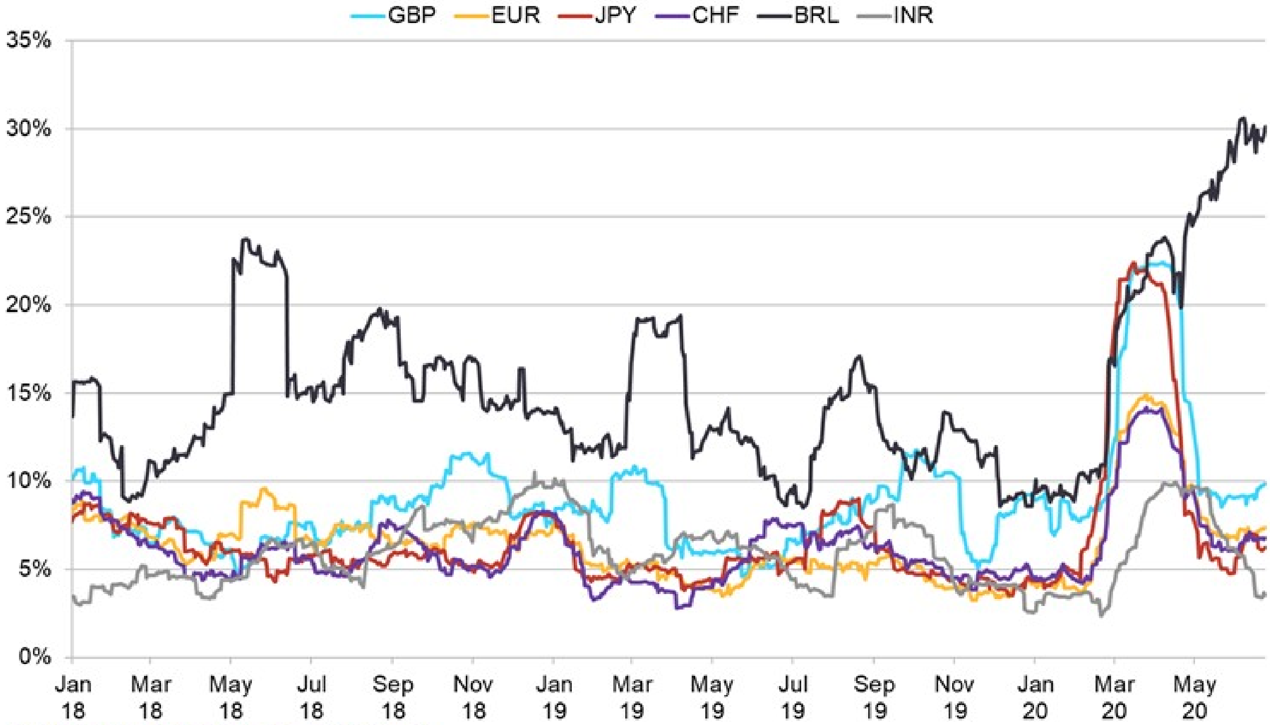
FX Volatility Grid

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	0.54	0.15	8.34	-0.93	0.22	8.91	-0.82	0.32	6.27	1.04	0.20	6.93
1M	0.20	0.16	7.90	-1.48	0.27	9.51	-1.18	0.35	6.29	1.55	0.25	7.51
2M	0.07	0.20	7.68	-1.75	0.32	9.72	-1.72	0.39	6.61	1.65	0.28	7.70
3M	-0.03	0.23	7.57	-1.90	0.36	9.76	-2.06	0.41	6.70	1.72	0.32	7.79
6M	-0.29	0.32	7.68	-2.42	0.47	10.40	-2.84	0.46	7.59	1.94	0.40	8.24
1Y	-0.51	0.37	7.40	-2.68	0.53	10.40	-2.86	0.48	7.45	2.04	0.47	8.42

Time	USDINR			USDTRY						AUDUSD		
Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	USDJPY	ATM	25d RR	25d BF	ATM
1W	0.92	0.25	5.67	3.18	0.82	10.96	3.15	0.56	27.86	-1.37	0.35	13.32
1M	1.20	0.29	6.05	5.75	1.02	13.50	3.91	0.63	24.15	-2.01	0.43	12.77
2M	1.30	0.32	6.20	6.54	1.12	14.99	4.21	0.68	22.12	-2.31	0.48	12.43
3M	1.32	0.34	6.25	6.97	1.18	15.71	4.29	0.71	20.71	-2.46	0.48	12.01
6M	1.49	0.42	6.55	7.73	1.32	17.30	4.60	0.77	19.16	-2.73	0.52	11.86
1Y	1.61	0.48	6.58	8.42	1.50	18.94	4.98	0.86	17.47	-2.79	0.54	11.18

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	**1.2458**	**1.1260**	**0.0094**	**1.0552**	**0.7361**	**0.6888**	**0.6419**
GBP	0.8026	-	0.9039	0.7507	0.8469	0.5908	0.5529	0.5153
EUR	**0.8881**	**1.1063**	-	**0.8306**	**0.9371**	**0.6537**	**0.6117**	**0.5700**
JPY	106.9200	133.1970	120.3900	-	112.8230	78.7040	73.6470	68.6320
CHF	**0.9477**	**1.1806**	**1.0671**	**0.8864**	-	**0.6976**	**0.6528**	**0.6083**
CAD	1.3585	1.6923	1.5297	0.0127	1.4335	-	0.9357	0.8720
AUD	**1.4517**	**1.8086**	**1.6348**	**1.3577**	**1.5318**	**1.0687**	-	**0.9318**
NZD	1.5578	1.9408	1.7542	0.0146	1.6439	1.1468	1.0731	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.73	0.16	0.09	0.11	-0.12	0.09	-0.57
GBP	0.74	-	0.91	0.86	0.88	0.63	0.83	0.17
EUR	-0.17	-0.90	-	-0.07	-0.05	-0.27	-0.08	-0.75
JPY	-0.10	-0.83	0.07	-	0.01	-0.22	-0.01	-0.67
CHF	-0.12	-0.84	0.06	0.01	-	-0.21	-0.03	-0.67
CAD	0.12	-0.62	0.29	0.22	0.23	-	0.20	-0.47
AUD	-0.06	-0.82	0.08	0.02	0.03	-0.21	-	-0.65
NZD	0.59	-0.16	0.74	0.69	0.69	0.46	0.67	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JP	24/6	06:00	Leading Economic Index	Apr	76.2	76.2
US	24/6	12:00	MBA Mortgage Applications	Jun 19		8.0%
JP	25/6	05:30	All Industry Activity Index MoM	Apr		-3.8%
US	25/6	13:30	Core PCE QoQ	Q1	1.6%	1.6%
US	25/6	13:30	Initial Jobless Claims	Jun 19	1,300k	1,508k
US	25/6	13:30	GDP Annualised	Q1	-5.0%	-5.0%
US	26/6	15:00	Mich. Consumer Sentiment Index	Jun	79.0	78.9
GE	29/6	13:00	Harmonised Index of Consumer Prices YoY	Jun	0.5%	0.5%
JP	30/6	00:50	Industrial Production YoY	May	-11.3%	-15.0%
CN	30/6	02:00	NBS Mfg PMI	Jun	51.0	50.6
UK	30/6	07:00	GDP YoY	Q1	1.1%	-1.6%
EU	30/6	10:00	Core CPI YoY	Jun		0.9%
IT	30/6	10:00	CPI YoY	Jun		-0.2%
INR	30/6	12:30	Infrastructure Output YoY	May		-38.1%
US	30/6	14:45	Chicago PMI	Jun	43.9	32.3

Source: FX Street

Technical Charts

JP Morgan FX Volatility Index

The index has continued to consolidate this week and remained above the 200 DMA at 8.43. The index has, however, failed to gain a footing above 8.50, but the stochastics are starting to improve on the upside. The MACD diff lacks conviction suggesting uncertain sentiment. The reaffirmation of support at the 200 DMA could set the scene for a test of resistance at 8.75 before, a breach of this level would improve upside momentum. Conversely, a break below the 200 DMA would bring into play the 100 DMA before the more robust support level at 7.63. This level has remained firm in recent months and a break of 7.63 would confirm the long term trend.

USDINR

In Q2 the pair has consolidated gains in Q1 2020, the pair has failed above 76 in recent months but remains supported around 75. The indicators are falling towards neutral territory but the gap between the %k and %D suggests improving momentum on the downside. The MACD diff lacks conviction but if prices can break through robust resistance at 75 and trend support. This would help confirm the rejection of trend resistance and a rejection of the pennant continuation pattern. In order to confirm a change in trend, prices need to break through the 38.2% fib level at 73.61. Alternatively, if support at 75 holds firm we could see a breach of trend resistance. In order to confirm the pennant and long term bullish trend, prices need to break through 77.

DXY Index

The dollar index failed into resistance at the 61.8% fib level this week but found support below the 76.4% fib level. The indicators are improving as the stochastics emerge out of oversold territory and the MACD diff is converging on the downside. If the index can break above the 50 DMA in the near term and then the 61.8% fib level, this would confirm the bullish candle and suggest a change in trend. However the tertiary resistance level at the 200 DMA remains the key level, and we expect this to provide robust resistance in the longer term. Conversely, if immediate resistance at the 50 DMA holds firm this could trigger losses back through support at 96.431 to 96. The recent trend is on the downside and if prices continue to reaffirm resistance the trend will be strengthened