

Authors

Geordie Wilkes
Head of Research

Pritesh Ruparel
Head of Options, Origination & Structuring

Justin Huang
OTC Options Structurer

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FX Options Weekly Report

Macro and Vol Commentary

EURSEK has strengthened in recent months, as the Euro area has benefitted from extensive stimulus measures and the reopening of the economies.

Euro Area

- Q2 GDP was predictably weak, declining 12.1% q/q and 15% y/y. We expect GDP to improve in Q3, but the threat of a second wave has become more prevalent in recent weeks, and the lack of tourism revenues is likely to be a big loss
 - _ In 2019, residents and non-residents in the EU during the Spring and Summer periods each accounted for 32% of the year's total overnight stays
 - _ June, July, and August accounted for 11%, 15%, and 17% of the year's total
 - _ For 2018, EU residents contributed to 390m trips, representing 34% of the annual total. During these trips, €170bn was spent
 - _ However, 70% of those trips were within their country of residence, and only 22% were to other European countries. The top destinations were Italy and Spain, followed by France and Germany, which together accounted for 49% of within-EU trips during the spring of 2018
- Manufacturing PMI improved in July to 51.8, as consumer goods demand expanded strongly. New orders increased, but employment continued to remain weak, and until we see the improvements in employment, the recovery will be restrained. The unemployment rate increased to 7.8% in June
- Economic confidence in the Euro area improved in July, and we expect this to continue to recover, but economies are expected to be running at a lower capacity for longer
- The service and construction sectors have improved so far in Q3, and this is in conjunction with an improvement in orders and hiring
- Germany's GDP decline was a shock due to how they handled the pandemic. We expect Germany's activity to improve in the coming months based on stronger-than-expected high-frequency indicators
- The agreement by EU leaders for the recovery fund should aid the recovery, and the latest €750bn will come in the form of grants and loans; 70% of the grants will be allocated in 2021
 - _ The severity of the countries' lockdowns will have a strong impact on the RRF grants as % of GDP in

2019

Sweden

- Sweden's different COVID containment policy of not conducting a full lockdown has kept economic data slightly more supported than some of its peers
 - _ GDP for 2020 will be negative, with estimates at -6.00%
- Unemployment has increased and stood at 9.8% in June. We expect unemployment to remain weak as the economy has already reached its reopening capacity. New cases and deaths are lower than in some of the European countries at the moment, and if herd immunity works, the economy could start to recover in the medium-term
- Consumer spending was weaker due to the increased uncertainty and higher unemployment; Q2 data is expected to decline by 7% q/q.
- Manufacturing PMI in Sweden returned to the expansionary territory of 51.0 in July. New orders and production improved strongly to 51.6 and 55.5 respectively, as job losses started to decrease at a slower rate
- Industrial orders on a month-on-month and year-on-year basis were worse than expected for May, at -13.9% and -20.7% respectively
- The economy will run at a below-capacity level in the long run, and if Europe gets another wave of infections, this would be a big hit for the Swedish export market
- The trade balance in June was positive at SEK4.9bn, an improvement from the previous month of SEK2.4bn
- The Riksbank has cut rates to 0.00%, and has highlighted that, whilst data is improving, the economy is a long way from being out of the woods
 - _ Asset purchases have been extended to SEK500bn, maturities were extended, and the interest rates have been kept low, with the repo rate at 0.00%
 - _ The next step would be turning to negative interest rates, which was done by Sweden in 2009, but politically, negative interest rates are complicated

Euro FX options on near term contracts are marginally in favour of puts, suggesting near-term risk appetite has faded. Call option volume for August on 03/08 was \$318,244,894 vs \$347,671,143. September and October 2020 option breakdown shows appetite for calls at \$490,682,719 and \$294,505,200 respectively, versus \$194,249,531 and \$55,717,200 respectively. This is not specifically EURSEK but gives an indication of Euro sentiment; super derivatives data suggests that volumes for EURSEK have been stronger this week, reaching 439m on August 3rd. Stimulus packages in Europe and Sweden will continue to support the economies, but tourism data suggests that Sweden will take the biggest hit, with 70% of EU residents tending to remain in their own country for holidays in 2018 and 2019. Economies will run at a lower capacity, but Europe needs Germany to recover from their -10.1% GDP decline in Q2. The recent trend has favoured SEK, and their economic hit will be less than one in Europe, and the threat of a second wave in Europe could impact risk appetite in the near term.

Volatility Commentary

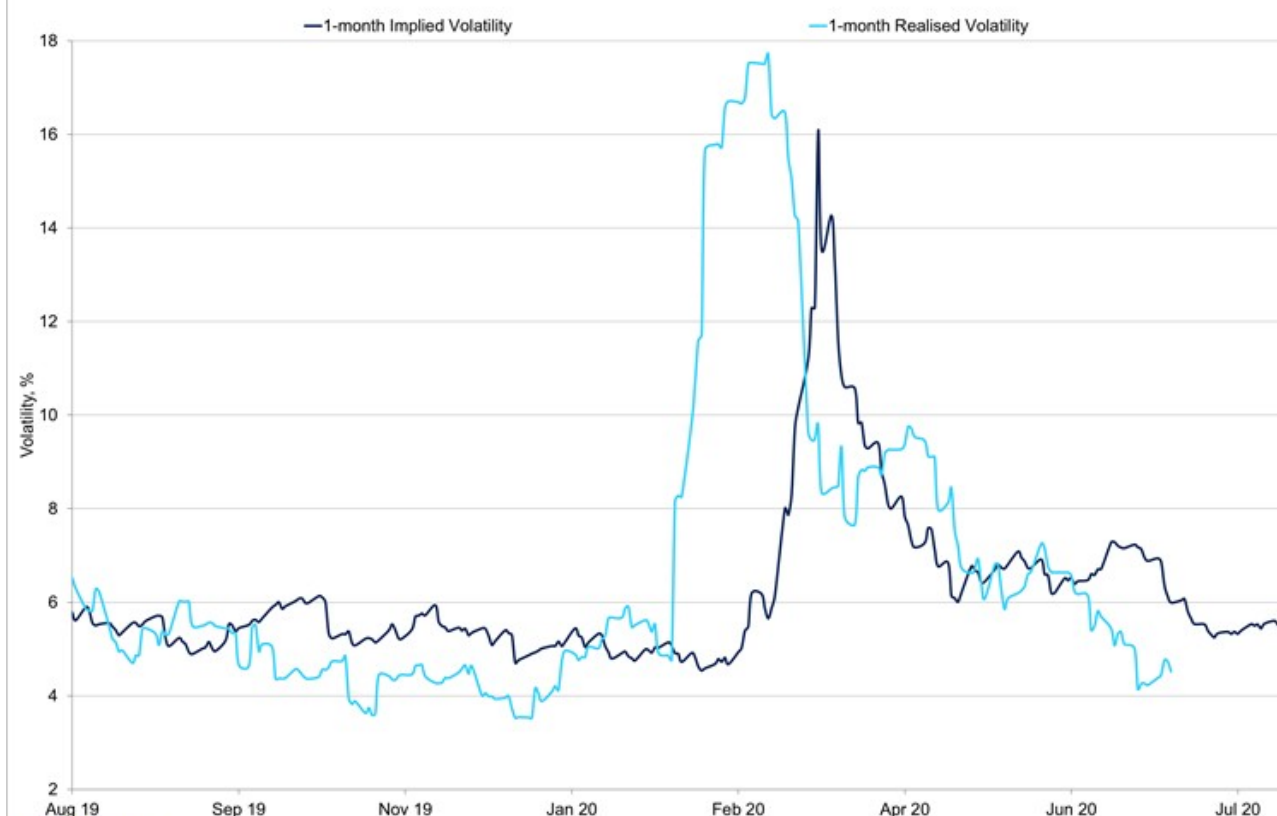
General Vol

With the backdrop of the weak dollar, we see haven asset XAUUSD continue to rally, and alongside FX Macro vols, continue to creep up (despite equity indices returning to near Pre-CV19 levels) with uncertainty still being priced in with the world's biggest economy the US still in the midst of a CV19 second peak and continuing ramping up of US-China tensions hanging over the global economic recovery.

EURSEK Vol

Coming off the height of the CV19 crisis, we're seeing EURSEK vol has been realising lower than implied, with the EUR offering seeming stability with its recent stimulus package passed and the virus seemingly being under control in a majority of European countries. Sweden's economy has been less drastically hit than the EU on the whole with Sweden's economy shrinking 8.6% across Apr-June vs the overall EU of 11.9% for the same period, and SEK has strengthened since the height of the crisis with EURSEK currently lower than pre-CV19 levels. With Sweden and the wider EU having the virus under control we're expecting both the Eurozone and Sweden (EU but not Eurozone member) to continue to display stability and favour slight short vol positions on this pair.

EURSEK 1-month Realised and Implied Volatility



Source: Bloomberg

EURSEK Trade Idea

- Priced in 10m EUR a leg
- Short EURSEK straddle with 1 month expiry and delta hedge short gamma position
- Sell for circa 5.3 vols, trade gives short vega of approx. 23k EUR
- Note this strategy is only suitable for investors who are set up and capable to dynamically delta hedge short vega/gamma positions

Charts and Tables

FX Expiries

Currency Pair	Thursday 6 th	Friday 7 th	Monday 10 th	Tuesday 11 th	Wednesday 12 th
GBP/USD					
USD/JPY	530mio @ 103.65	530mio @ 103.65	1.33bio @ 105.5		
EUR/USD	808.71mio @ 1.15 1.61mio @ 1.16 547.91mio @ 1.17 1.06bio @ 1.1725 503.15mio @ 1.1925		1.51bio @ 1.18		506.34mio @ 1.185 1.63bio @ 1.1875
EUR/GBP					
USD/BRL					
AUD/USD	506.3mio @ 0.715 151.72mio @ 0.725	100mio @ 0.71 249.31mio @ 0.722	200.28mio @ 0.729	277.78mio @ 0.72	
USD/ZAR	840mio @ 16.4				
USD/INR	210mio @ 73.6 100mio @ 75.19 100mio @ 75.2 100mio @ 75.25	100mio @ 75.35 130mio @ 75.65			

Source: Bloomberg DTCC Data 2% from spot levels as of 03/08/2020

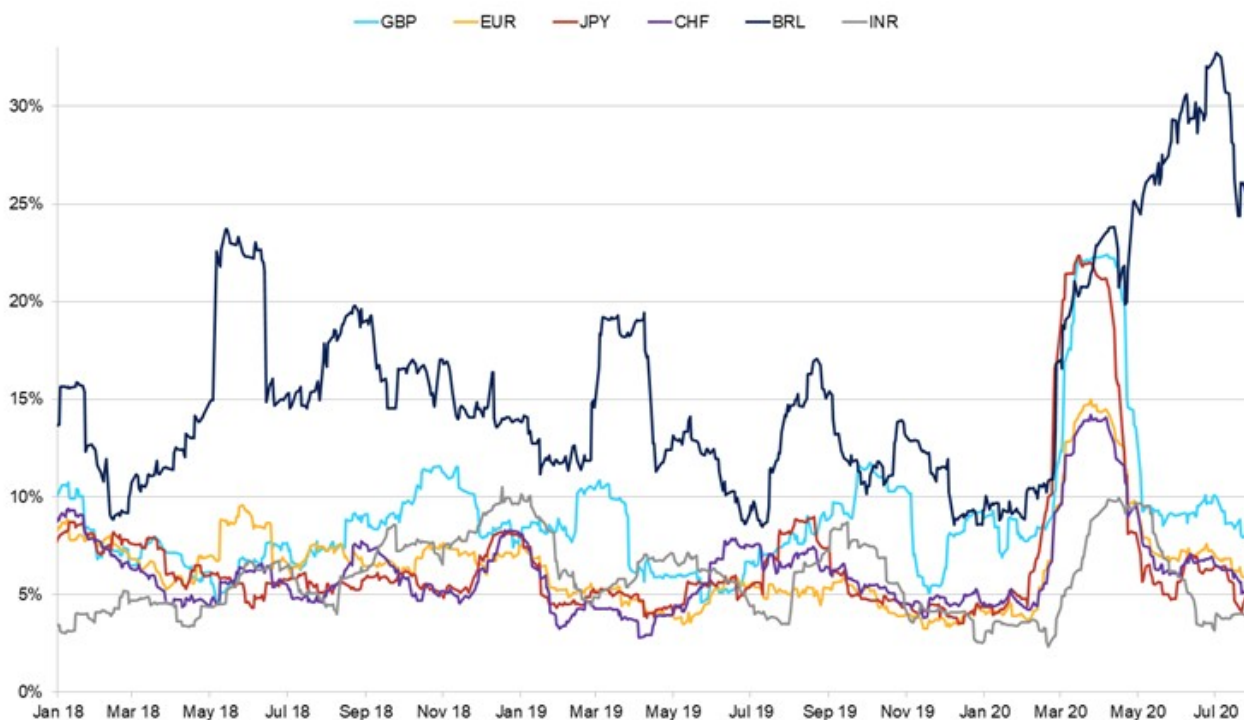
FX Volatility Grid

Time	EURUSD			GBPUSD			USDJPY			EURGBP		
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	0.68	0.18	9.33	0.37	0.18	9.76	-1.01	0.22	7.93	0.31	0.17	7.75
1M	0.72	0.24	8.07	-0.18	0.21	8.91	-1.24	0.24	7.31	0.63	0.20	7.34
2M	0.72	0.28	8.05	-0.58	0.28	9.18	-1.45	0.30	7.40	0.84	0.24	7.60
3M	0.70	0.32	8.47	-0.85	0.33	9.64	-1.85	0.33	8.47	0.99	0.28	7.82
6M	0.66	0.41	8.01	-1.33	0.44	9.51	-2.05	0.37	7.96	1.31	0.35	7.84
1Y	0.57	0.47	7.92	-1.73	0.49	9.52	-2.31	0.40	7.75	1.61	0.42	7.98

Time	USDINR			USDTRY			USDJPY			AUDUSD		
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	0.35	0.19	5.33	9.63	1.71	25.74	1.25	0.52	22.60	-0.36	0.29	11.26
1M	0.48	0.23	5.63	8.84	1.70	22.81	2.26	0.55	20.19	-0.75	0.34	10.34
2M	0.63	0.26	6.01	8.96	1.79	22.51	2.69	0.58	19.66	-1.02	0.39	10.46
3M	0.73	0.30	6.69	9.26	1.84	22.75	3.19	0.64	19.77	-1.33	0.41	11.08
6M	0.92	0.38	6.65	9.50	1.89	22.57	3.84	0.73	18.22	-1.56	0.46	10.49
1Y	1.09	0.44	6.82	10.08	2.08	23.00	4.43	0.82	17.14	-1.83	0.50	10.34

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: SucdenFinancial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3160	1.1848	0.0095	1.0988	0.7529	0.7213	0.6663
GBP	0.7598	-	0.9003	0.7209	0.8347	0.5720	0.5481	0.5063
EUR	0.8440	1.1107	-	0.8007	0.9271	0.6354	0.6087	0.5624
JPY	105.4000	138.7060	124.8800	-	115.7910	79.3480	76.0190	70.2280
CHF	0.9103	1.1979	1.0785	0.8636	-	0.6853	0.6565	0.6065
CAD	1.3283	1.7481	1.5738	0.0126	1.4593	-	0.9580	0.8851
AUD	1.3860	1.8246	1.6427	1.3154	1.5231	1.0437	-	0.9238
NZD	1.5006	1.9751	1.7782	0.0142	1.6487	1.1298	1.0825	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.49	0.01	-0.62	-0.13	1.06	0.25	-0.54
GBP	-0.50	-	-0.48	-1.12	-0.64	0.54	-0.24	-1.04
EUR	-0.01	0.49	-	-0.66	-0.16	1.05	0.23	-0.55
JPY	0.64	1.14	0.65	-	0.50	1.70	0.89	0.09
CHF	0.15	0.64	0.15	-0.50	-	1.20	0.41	-0.41
CAD	-1.04	-0.55	-1.04	-1.68	-1.18	-	-0.80	-1.58
AUD	-0.28	0.24	-0.25	-0.88	-0.40	0.79	-	-0.79
NZD	0.54	1.04	0.55	-0.07	0.41	1.61	0.80	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
US	06/8	13:30	Initial Jobless Claims	Jul 31	14515k	1434k
CN	07/8	03:00	Trade Balance USD	Jul	\$42bn	\$46.42bn
JP	07/8	06:00	Leading Economic Index	Jun	78.8	78.4
US	07/8	13:30	Nonfarm Payrolls	Jul	1600k	4800k
US	07/8	13:30	Average Hourly Earnings MoM	Jul	-0.5%	-1.2%
US	07/8	13:30	Unemployment Rate	Jul	10.5%	11.1%
CN	10/8	02:30	CPI YoY	Jul	2.3%	2.5%
UK	11/8	09:30	ILO Unemployment Rate 3M	Jun	3.9%	3.9%
EU	11/8	10:00	Economic Sentiment	Aug	59.9	59.6
UK	12/8	07:00	GDP YoY	Q2	-1.6%	-1.7%
SEK	12/8	08:30	CPI MoM	Jul	0.6%	0.6%
EU	12/8	10:00	Industrial Production MoM	Jun	14.3%	12.4%
US	12/8	12:00	MBA Mortgage Applications	Aug 7		-5.1%
US	12/8	13:30	Core YoY	Jul	1.1%	1.2%

Source: FX Street

Risk warning

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