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FX Options Weekly Report

Macro and Vol Commentary

We have seen the EUR strengthen against a basket of currencies, JPY one, but can it continue?

Japan Data

- Annualised GDP for Q1 was finalised at -2.2% q/q, and we expect this to weaken in Q2 to -27% q/q
- The country is in the middle of a second wave; cases have started to fall from their peak of 1,500 per day, and deaths are low, as they have been throughout the whole pandemic
- There are signs of the economy starting to recover, with GDP gaining 2.7% in June, according to Japan Center for Economic Research (JCER)
- The JCER has estimated that the Japanese economy will contract by 7% in 2020
- GDP private consumption is set to decline in Q2 to -7.0%, down from -0.8% in Q1
- After rebounding in Q1 to 1.7% q/q, GDP business consumption will turn negative once again to -4-5%
- From an economic activity perspective, we are seeing some modest improvements in the data on a year-on-year basis. Industrial production for June was -17.7%, an improvement from the previous month of -26.3%. On a month-on-month basis, industrial production was 2.7%, the first positive data point since January
- According to JCER, the recession index stood at 24% for June 2020, down from 24.7% in May
- Their leading index increased by 6.7% to 85% in June as consumer confidence and investment, investment ratio of final demand goods, and M2 improved
- We saw a moderate increase in the Tokyo CPI in July, 0.6% y/y, an increase from 0.3% y/y
- Ex-food and energy also improved in July to 0.4% y/y, from 0.1% y/y the month before
- The labour market in June was marginally better as the unemployment rate reached 2.8%, down from 2.9% in May
- The job-applicants-ratio has been steadily declining since February as unemployment increases. In June, the ratio stood at 1.1, down from 1.2 in May

- The labour force participation rate has increased to 61.9% in June
- The average cash earnings in June were JPY443,875, down -1.7% y/y
- The balance of payments balance increased fell in June to ¥167.bn, down from ¥1,176.8bn

Bank of Japan

- The BOJ kept interest rates at -0.1%; this was a majority vote of 8-1
- The banks stated that they would purchase a necessary amount so that 10yr JGB yields will remain at 0. Their guidelines for JGB purchases suggest that the bank will actively purchase ETFs and J-REITs, so that the outstanding amounts will increase with the upper limits at 12trn and 180bn yen, respectively
- The BOJ injected 1.2bn yen via J-REITs and 1.2bn yen of ETFs in Human and Physical Capex on Tuesday 11th of August
- The bank will continue to finance firms and maintain stability in the financial markets

European stimulus measures have increased risk appetite in the bloc, and we are seeing rising cases in a number of countries, most notably Spain and France. The EURJPY rally has been strong, this week we have seen a selloff in traditional havens assets, with gold and silver notably weaker. Next week is the release of Japan's Q2 GDP data, and a big miss would cause the EURJPY to rally, especially as Japan has seen a significant rise in cases since the end of Q2. However, last time we saw Japanese cases fall, the yen rallied, and if Japan's cases decline while Europe's rise, we could see a correction. This being said, in the near term, we expect the momentum to keep the EURJPY rally intact. However, the economic backdrop, US election, and the US-China relations indicate safe-haven assets will be bid.

Volatility Commentary

General Comments

Last week, we saw USD seemingly stop its weakening for the moment and XAUUSD coming off from a circa 2070 level, following a slightly stronger than expected NFP. In the last week, we also saw US President Trump signing off an executive order to help support the economy whilst Congress was stuck in a deadlock on agreeing on the size of the fully-fledged stimulus package. Despite further escalating tensions with China (looking to ban Chinese apps and both sides putting sanctions on each other's Government officials), Macro FX vols have generally come off since last week.

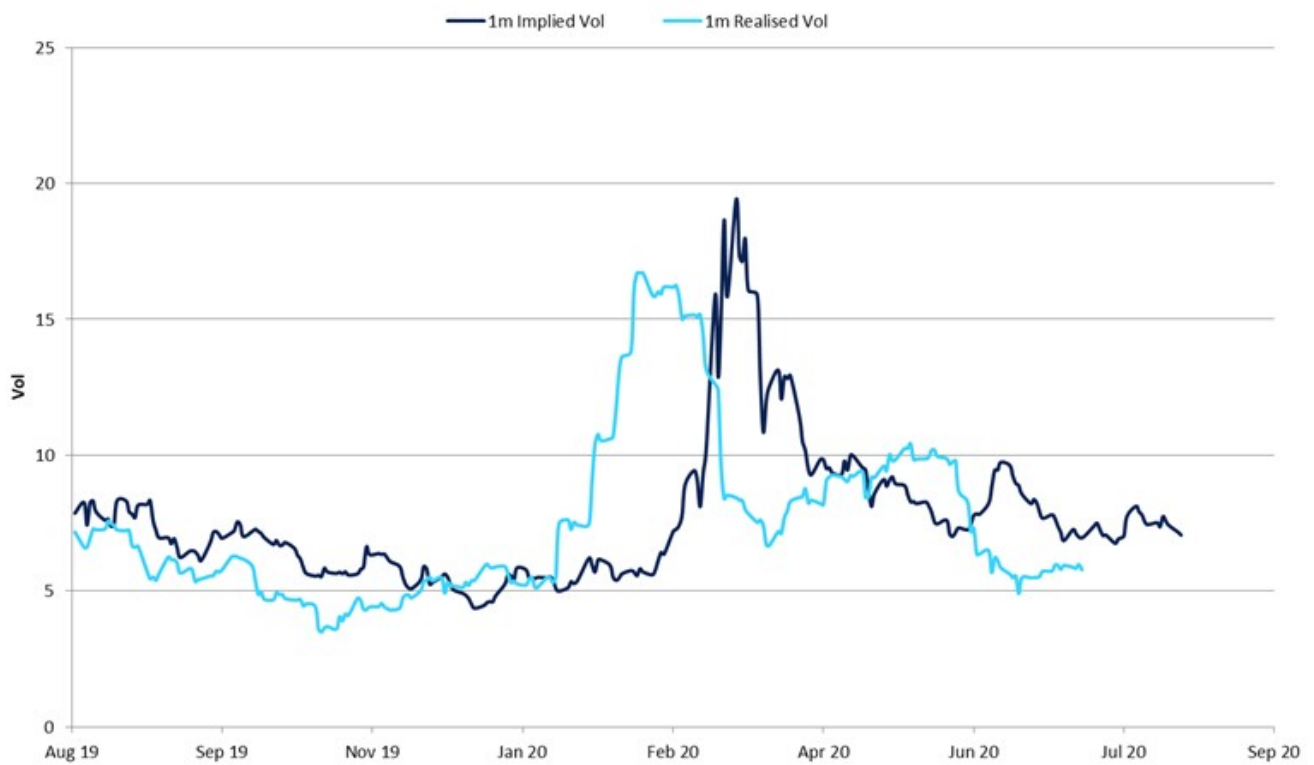
Vol Comments

Over the last month, with the EU having agreed its economic stimulus package, and with the spread of the coronavirus being mostly under control in the bloc, the EUR has generally strengthened against most currencies, JPY as no exception. Japan, meanwhile, is in the middle of a second peak, exceeding the first. However, overall figures are still much lower than in many other countries with similar (or smaller) population sizes, and EURJPY vols haven't spiked on this. Recently, EURJPY vols have realised generally lower than implied. Though in the short term we would expect EURJPY spot to remain/continue strengthening and vols to continue realising lower, especially as Japan catches up in terms of combatting the virus and with US-China relations further worsening (likely to escalate much further closer to the US election), we would favour positions that benefit from spot heading lower in Q4.

EURJPY Trade Idea

- Priced in 10m EUR notional a leg
- Buy 3-month expiry EURJPY KI Put with strike 50 and UP KI barrier 127.50 circa 41k EUR (note vanilla equivalent being circa 76k EUR)
- Sell 1-month expiry EURJPY vanilla Put with strike 50 for circa 18k EUR
- Overall cost circa 23k EUR

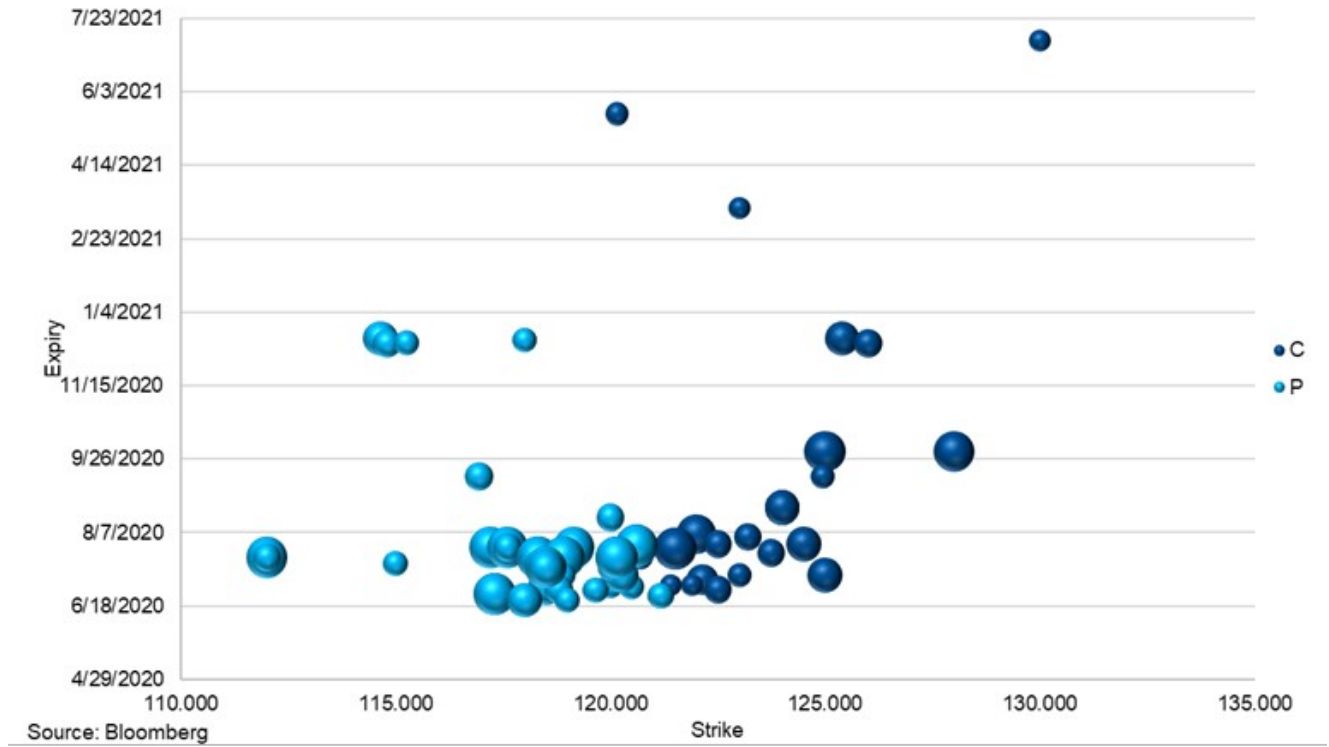
EURJPY Implied vs Realised Volatility



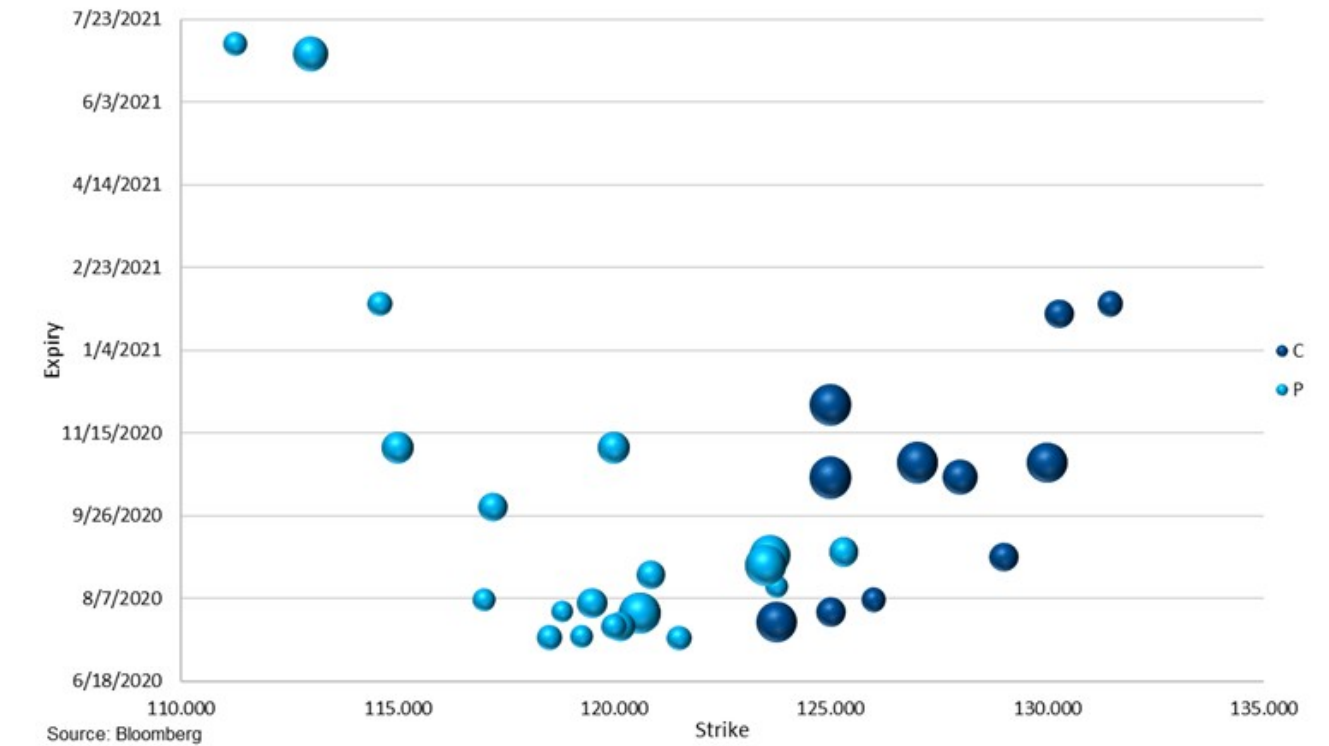
Source: Bloomberg

Positioning Charts

EURJPY June-July >\$50m Notional



EURJPY July-August >\$50m Notional



FX Expiries

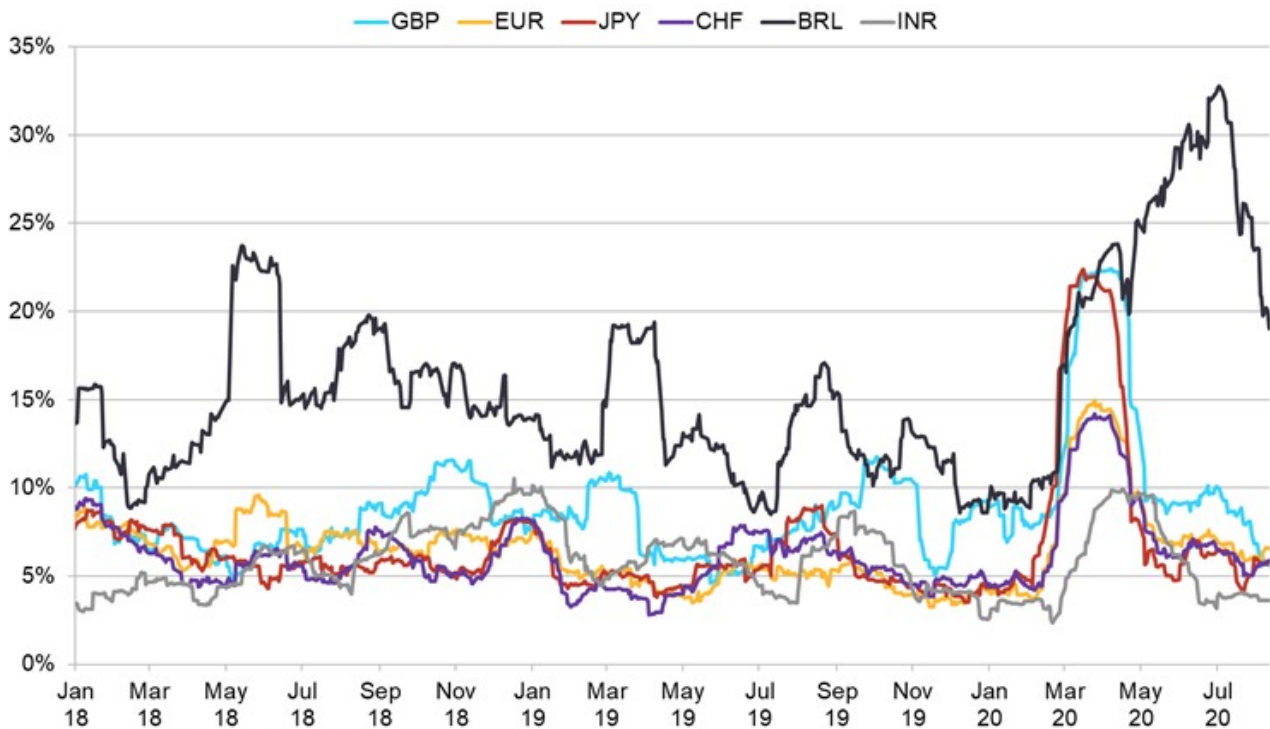
Currency Pair	Thursday 13 th	Friday 14 th	Monday 17 th	Tuesday 18 th	Wednesday 19 th
GBP/USD	600mio @ 1.3				
USD/JPY	1.13bio @ 104.5 600mio @ 105 550mio @ 106				800mio @ 105 900mio @ 107
EUR/USD	649.3.5mio @ 1.155 1.28bio @ 1.17	534.49mio @ 1.16 806.72mio @ 1.19 627.63 @ 1.195		791.5mio @ 1.175	823.52mio @ 1.19
EUR/GBP					
USD/BRL					
AUD/USD	500mio @ 0.71 220.98mio @ 0.715 135.55mio @ 0.723 100.69mio @ 0.725	253.52mio @ 0.71		100.35mio @ 0.7075 467.6mio @ 0.71	
USD/ZAR				250mio @ 17.75	
USD/INR		150mio @ 74.6			

Source: Bloomberg DTCC Data 2% from spot levels as of 11/08/2020

FX Volatility Grid												
Time Period	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	0.47	0.16	8.23	0.21	0.17	8.12	-0.56	0.20	6.27	0.34	0.16	6.57
1M	0.59	0.18	7.51	-0.15	0.22	8.06	-0.84	0.21	6.27	0.59	0.19	6.60
2M	0.59	0.22	7.50	-0.57	0.27	8.58	-1.11	0.27	6.61	0.80	0.22	7.01
3M	0.62	0.25	7.99	-0.82	0.33	9.18	-1.67	0.29	7.99	0.95	0.26	7.26
6M	0.64	0.33	7.51	-1.24	0.43	9.19	-1.92	0.36	7.54	1.23	0.33	7.45
1Y	0.61	0.42	7.46	-1.59	0.49	9.28	-2.22	0.41	7.49	1.56	0.41	7.65
Time Period	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	0.33	0.18	4.16	7.70	1.55	23.97	1.39	0.44	23.65	-0.43	0.27	9.92
1M	0.45	0.22	4.83	9.21	1.71	22.52	2.37	0.50	20.83	-0.71	0.33	9.66
2M	0.58	0.25	5.36	9.36	1.73	22.01	2.77	0.56	20.22	-0.99	0.37	9.97
3M	0.74	0.31	6.22	9.59	1.81	22.39	3.11	0.62	20.39	-1.28	0.40	10.74
6M	0.93	0.38	6.33	9.49	1.84	22.27	3.81	0.72	18.75	-1.47	0.45	10.28
1Y	1.10	0.44	6.56	10.08	2.16	22.81	4.42	0.82	17.57	-1.73	0.49	10.23

Source: Sueden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sueden Financial, Bloomberg

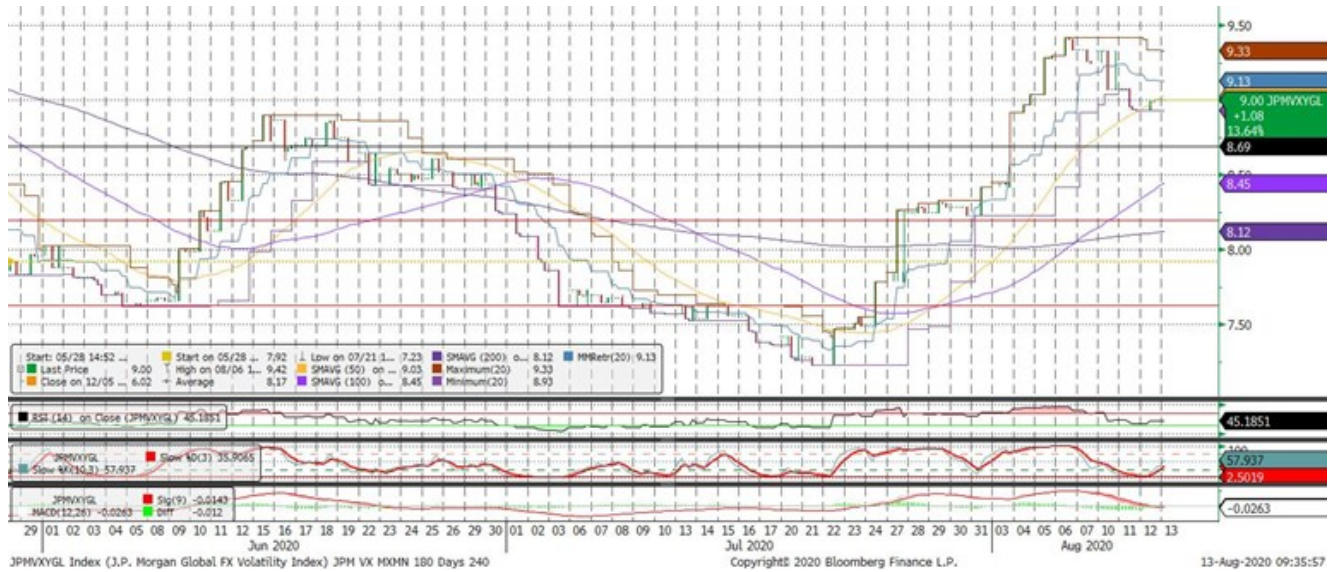
Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
US	12/8	12:00	MBA Mortgage Applications	Aug 7		-5.1%
US	12/8	13:30	CPI YoY	Jul	0.7%	0.6%
US	12/8	19:00	Monthly Budget Statement	Jul	-\$137.5bn	-\$119.7bn
JP	13/8	00:50	PPI YoY	Jul	-1.1%	-1.6%
US	13/8	13:30	Initial Jobless Claims	Aug 8	1100k	1186k
CN	14/8	03:00	Industrial Production YoY	Jul	5.1%	4.8%
CN	14/8	03:00	Retail Sales YoY	Jul	0.1%	-1.8%
EU	14/8	10:00	GDP YoY	2Q	-15.0%	-15.0%
US	14/8	13:30	Retail Sales Advance MoM	Jul	2.1%	7.5%
US	14/8	14:15	Industrial Production MoM	Jul	3.0%	5.4%
US	14/8	15:00	U. of Mich. Sentiment	Aug	72.0	72.5
JP	17/8	00:50	GDP QoQ	2Q	-7.6%	-0.6%
JP	17/8	05:30	Industrial Production MoM	Jun		2.7%
US	17/8	13:30	Empire Manufacturing	Aug	14.5	17.2
US	18/8	13:30	Housing Starts	Jul	1230k	1186k

Source: Bloomberg

Technical Analysis

JP Morgan Global FX Volatility Index



The global volatility index has increased in the last week, after breaking above resistance at 8.69. The indicators are rising as the stochastics move into positive territory, the gap between the stochastics suggests momentum is on the upside. The MACD diff is negative but lacks conviction, the market has failed into 9.35 and this could trigger a correction to test support at 8.69. The moving averages are rising and the 100 DMA has crossed above the 200 DMA, the 50 DMA crossed above both the 100 and 200 DMA which is a golden cross. In order to confirm the outlook on the upside, the index we need to break above 9.50. On the downside, a break below 8.69 would bring into play the 100 DMA, this would help confirm the bearish engulfing candle. Reaffirmation of support at 8.69 would improve the outlook of higher prices in the longer run.

Dollar Index



The dollar has consolidated between 92.50 and 94 in recent sessions. Momentum is still on the downside and we expect this to continue in the long run. The indicators are negative as the stochastics fall further into oversold territory, the gap between the indicators suggest momentum is strong on the downside and the MACD diff is negative and diverging. We expect prices to break through support at 93 and then target the double bottom at 92.50, a break of this level would help confirm the reaffirmation of resistance at the 100DMA. On the upside,

appetite at 93 could trigger a test of the 100 DMA. The index needs to breach this level and then target trend resistance around 95 in order to confirm an improvement in market sentiment on the upside.

EURJPY



The EUR has rallied in recent months as resistance has been broken repeatedly forming the recent trend. The stochastics are rising and are in overbought territory. The MACD diff is positive and is diverging suggesting higher prices in the near term. The reaffirmation of near term trend support, the three white soldiers, and the bullish engulfing candles suggest a continuation of the recent trend. The break of resistance at 126 has confirmed the trend. Near term, resistance stands at 126.80 at the 123.6 fib level before targeting 126.50 and then 127. On the downside, if prices fail into 126.80 this may prompt a challenge of support at 126 before targeting trend support at 124.86, tertiary support stands at 124.44. To suggest a change of trend, prices need to take out-trend support and then target 61.8%. We expect the trend to continue in the near term.

Risk warning

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