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WED 02 SEPTEMBER 2020

FX Options Weekly Report

Macro and Vol Commentary

The INR has recovered well in the last week against the basket of currencies, despite a weak economic backdrop. However, can this rally continue?

India data

- Indian economy shrank 23.9% q/q in Q2, the most drastic fall ever recorded
 - — Construction, manufacturing and transport, hotel, & trade industries bore the brunt of the decline, with declines of 50.3%, 39.3%, and 47.0% y/y respectively
 - — Agriculture was the only bright spot, growing at 3.4% y/y, vs 3.0% in Q1
- We expect economic activity to trend higher in Q3, as domestic demand and exports are getting stronger, giving rise to the rupee
- Headwinds in Q3 prevail, as businesses seek more financial support from the government, keeping the unemployment levels elevated
- Unemployment picked up to 9.1% on the week ending August 16th, up from 8.67% a week prior
 - — According to CMIE, salaried jobs fell to 67.2m in July, down only slightly from 68.4m in April
 - — The real figure could be much higher due to millions of migrant workers who have lost their jobs
- In late March, India initiated one of the most severe lockdowns globally, shutting down most of the transportation and businesses
- India now has the world's highest number of daily new infections, at 78,512 as of August 31st, as the government continues to lift restrictions
- Additional uncertainty around uneven reopening and lockdown measures across the states complicates the recovery
- Markit PMI slowed down in July as manufacturing was a drag on the economy
 - — Composite PMI 37.2 in July, up from 37.8 the previous month

- _ Services PMI for July was at 34.2, up from 33.7 in June
- _ Manufacturing PMI was at 52.0 in August, up from 46.0 in July
 - _ Indication of stronger PMI in Q3
- The trade balance returned to a deficit of \$4,830m in July, after a rare surplus of \$790m in June
 - _ This could be attributed to increased import level of merchandise and commodities, such as gold and oil
 - _ We expect the deficit to widen even further, as demand for other imports starts to normalise
 - _ According to the Reserve Bank of India, Indian imports of principal commodities were \$1,784.48m in July, more than double from \$608.69m in June
- The rupee has risen to a five-month high of 72.7350
 - _ This could be attributed to RBI refraining from currency intervention
 - _ Additional special market operation announcement by the RBI this Monday are meant to maintain stability during the pandemic
 - _ The benchmark 10-yr yield dropped to 6.109, down 1.56%
- The gloomy outlook around economic recovery puts pressure on the government to deliver more stimulus
 - _ There is limited room to act, as government budget deficit stands at 7.0% of GDP for 2020, twice the original target
 - _ Inflation is forecast to be around 2-6%, keeping interest rates low

India, Japan and Australia supply chain pact

- Trade ministers plan to launch an initiative this year to counter China's trade dominance
- Indian Prime Minister restricted some of the Chinese imports and banned several Chinese apps after a deadly border clash with the country along the Himalayan border
 - _ In 2019, India imported \$70bn worth of goods from China

The economy is starting to open back up; however, this recovery is not uniform, and some states are seen closing down soon after reopening businesses in the area. Activity in the economy also appears to have bottomed out, highlighted by high-frequency economic indicators. Comparing to other global economies, India's economic recovery will struggle, as stringent lockdown measures along with massive job losses in the urban parts of the country will keep the income levels low in the medium-term. New supply chains with Japan and Australia could help the export sector to recover; however, we do not envisage this pact happening in the near future. The growing agriculture sector will support India's return back to normal; however, consumer confidence and spending will be integral to domestic demand recovery. We expect stimulus measures from the government and RBI to remain subdued as the economy emerges from the pandemic.

Volatility Commentary

General Comments

Following the Fed Chairman Powell confirming a shift in the Fed's thinking of inflation to target 2% long term inflation (potentially allowing certain years to run >2% to make up for sub 2% years), we saw further weakness in the USD, with this much looser approach to monetary policy. As such this week, with GBPUSD over 1.3400 and EURUSD trading this week (briefly) over 1.2000 for the first time in 2yrs through FX major pair, vols have remained relatively steady.

USDINR Comments

As mentioned above, we have seen in the last week INR strengthening slightly, paired with across the board USD weakness, we are seeing USDINR at levels not seen since March. As mentioned above, India and China having border skirmishes, and with India still struggling with its CV19 management, we are seeing USDINR implied and realised volatility pick up. Given the CV19 situation in India, we would expect the potential for INR to strength to reverse and we expect that, though USD weakness may continue in the short term, we would expect longer-term a reversion to this. Noting that we also see an inversion in the volatility surface, we suggest being short shorter date vol circa 1m expiry and long longer date vol circa 2-3m expiries.

USDINR 1-month Implied and Realised Volatility



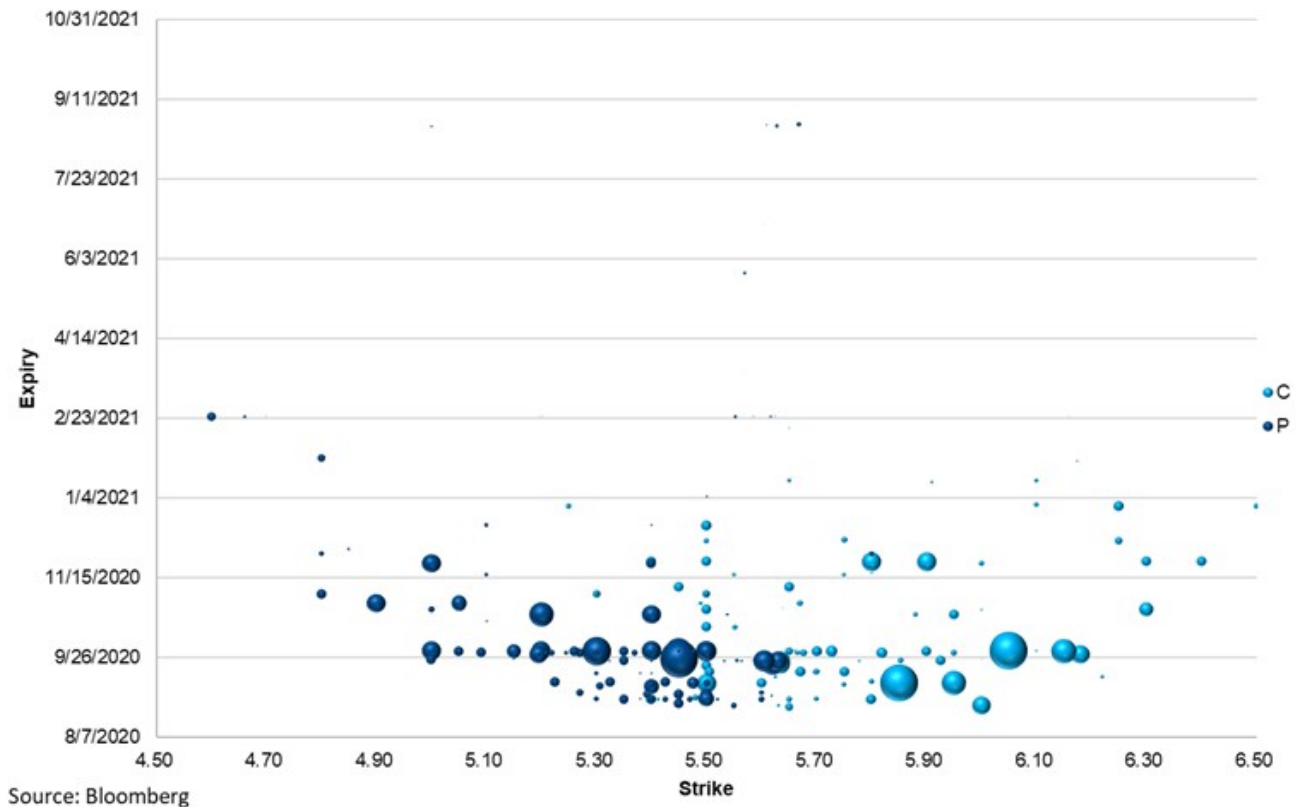
USDINR Trade Idea

- Sell 1-month USDINR Call 74.50 strike in 10m USD for circa 28k USD
- Buy 3-month USDINR Call Spread 74.00 and 75.50 strike in 10m USD a leg for circa 66k USD
- Total cost overall circa 38k USD

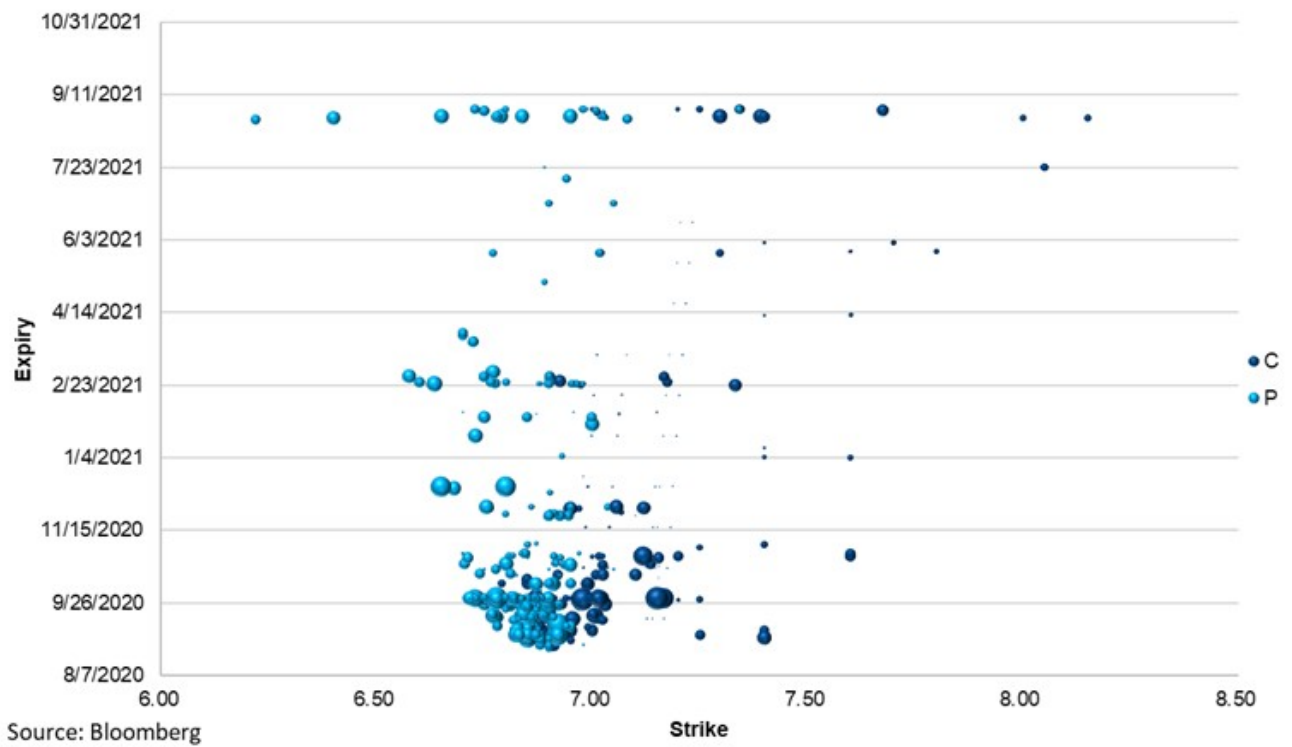
Positioning Data

The recent dominating headline in the FX market over the last few weeks is the recent USD weakness; this furthered last week with the Fed changing its inflation targeting. Unsurprisingly, we are seeing a slight tilt in the positioning data for short-term furthering of USD weakness here, though, with the CV19 situations in Brazil and India being far from under control, we could see a reversal of this.

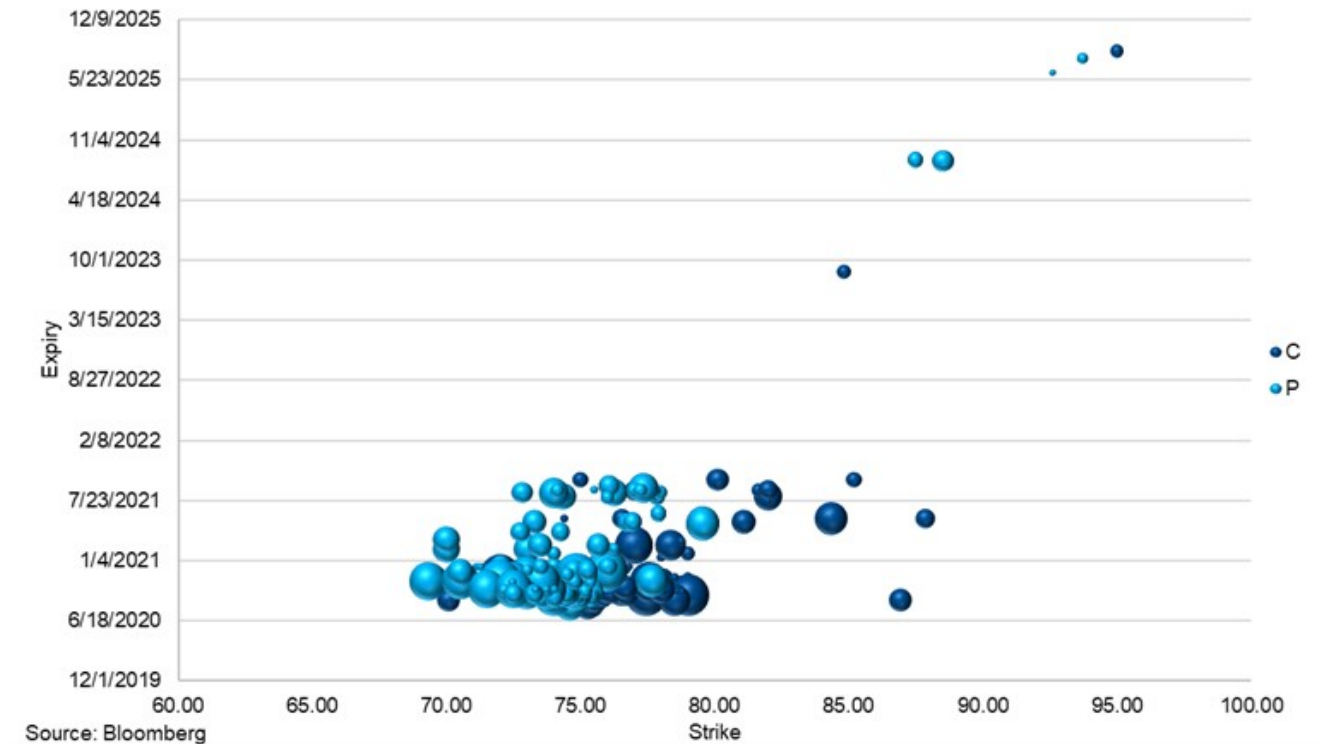
USDBRL Option Positioning Data 25/08/2020 - 01/09/2020



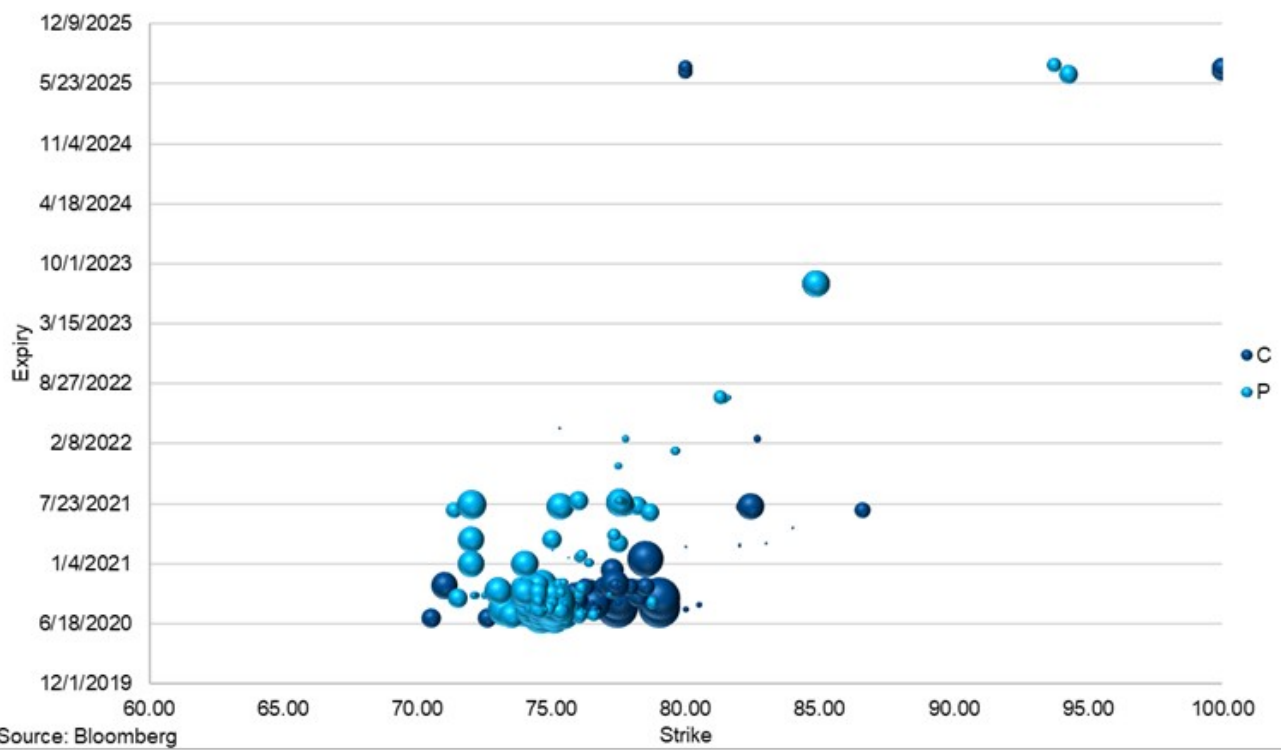
USDCNY Option Positioning Data 25/08/2020 - 01/09/2020



USDINR Option Positioning Data August 1st - September 1st



USDINR Option Positioning Data July 1st - August 1st



Charts and Tables

FX Expiries

Currency Pair	Wednesday 2 nd	Thursday 3 rd	Friday 4 th	Monday 7 th	Tuesday 8 th
GBP/USD					
USD/JPY	550mio @ 104 600mio @ 106.5		900mio @ 104 600mio @ 106 560mio @ 106.65 500mio @ 106.95		1.3bio @ 107 850mio @ 107.5
EUR/USD	529.92mio @ 1.17 564.21mio @ 1.1875		521.01mio @ 1.19 1.6bio @ 1.2 760.32mio @ 1.21		1.37bio @ 1.19 716.66mio @ 1.2
EUR/GBP					
USD/BRL		220mio @ 5.345			100mio @ 5.3 440mio @ 5.43
AUD/USD	300.75mio @ 0.7315 250.34mio @ 0.735		202.7mio @ 0.74		119.89mio @ 0.734 100mio @ 0.75 180mio @ 16.72
USD/ZAR					
USD/INR	200mio @ 73		400mio @ 74		

Source: Bloomberg DTCC Data 2% from spot levels as of 01/09/2020

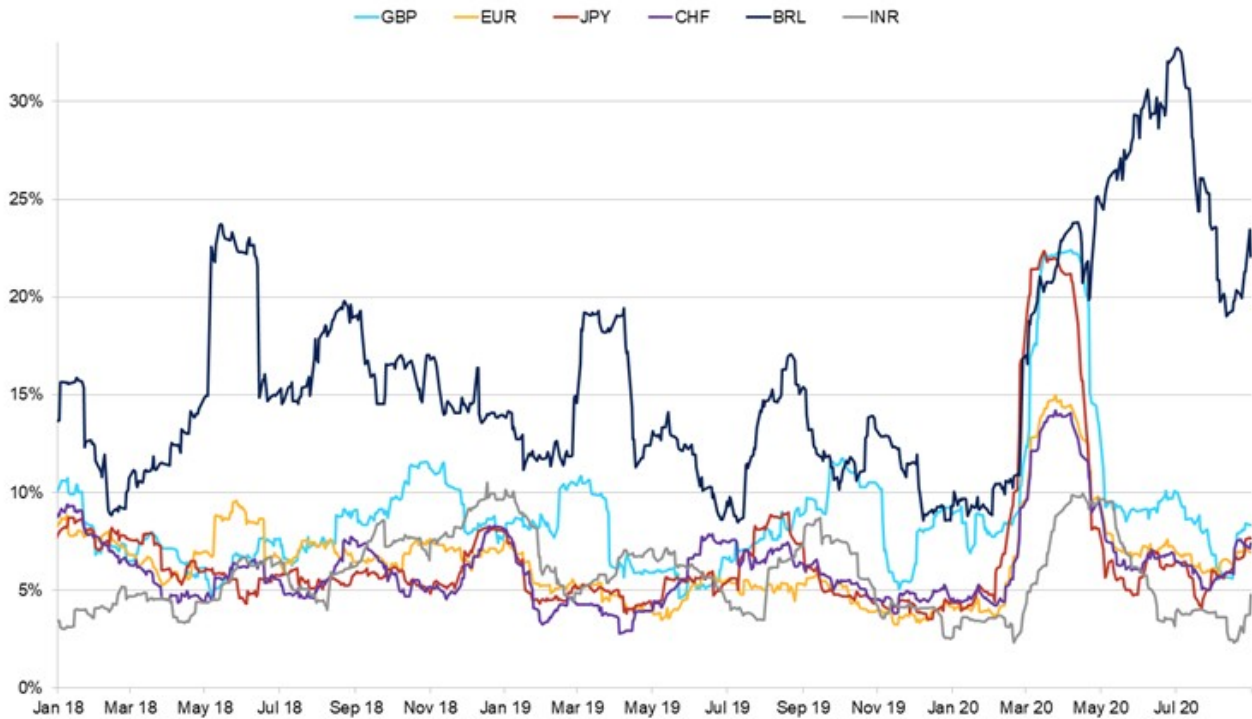
FX Volatility Grid

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	0.43	0.14	7.32	0.35	0.18	8.50	-0.77	0.17	6.36	0.33	0.16	5.49
1M	0.54	0.16	7.49	0.04	0.23	8.76	-1.02	0.19	6.93	0.59	0.20	6.70
2M	0.56	0.20	7.28	-0.29	0.28	8.81	-1.29	0.22	7.11	0.76	0.23	7.07
3M	0.61	0.23	7.87	-0.60	0.33	9.32	-1.79	0.30	8.27	0.95	0.27	7.35
6M	0.63	0.31	7.42	-1.00	0.41	9.21	-2.06	0.36	7.82	1.20	0.34	7.47
1Y	0.67	0.38	7.30	-1.39	0.48	9.20	-2.33	0.39	7.77	1.52	0.42	7.61

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	0.17	0.22	7.17	6.02	1.24	15.57	0.96	0.38	21.53	-0.11	0.27	10.20
1M	0.28	0.27	6.89	7.65	1.54	17.86	1.93	0.44	21.60	-0.38	0.32	10.16
2M	0.43	0.28	6.68	7.92	1.62	18.50	2.34	0.52	20.75	-0.58	0.36	10.02
3M	0.59	0.32	7.16	8.31	1.69	19.45	2.71	0.59	20.74	-0.80	0.40	10.73
6M	0.81	0.36	7.00	8.65	1.82	20.07	3.47	0.73	19.13	-1.02	0.44	10.27
1Y	1.07	0.43	7.06	9.16	2.03	21.36	4.08	0.84	17.99	-1.31	0.50	10.19

Source: Sueden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3350	1.1858	0.0094	1.0979	0.7654	0.7335	0.6760
GBP	0.7491	-	0.8882	0.7049	0.8224	0.5733	0.5495	0.5063
EUR	0.8433	1.1258	-	0.7937	0.9259	0.6455	0.6186	0.5700
JPY	106.2600	141.8550	126.0000	-	116.6610	81.3270	77.9440	71.8290
CHF	0.9108	1.2160	1.0800	0.8572	-	0.6971	0.6681	0.6157
CAD	1.3066	1.7443	1.5493	0.0123	1.4345	-	0.9584	0.8832
AUD	1.3633	1.8200	1.6166	1.2830	1.4967	1.0434	-	0.9215
NZD	1.4795	1.9749	1.7542	0.0139	1.6241	1.1323	1.0851	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.06	0.24	-0.25	-0.28	0.60	1.41	2.10
GBP	-1.04	-	-0.82	-1.30	-1.32	-0.45	0.35	1.02
EUR	-0.24	0.82	-	-0.48	-0.52	0.36	1.18	1.84
JPY	0.25	1.31	0.49	-	-0.02	0.86	1.67	2.35
CHF	0.28	1.35	0.51	0.04	-	0.88	1.69	2.38
CAD	-0.59	0.45	-0.36	-0.85	-0.87	-	0.80	1.48
AUD	-1.39	-0.34	-1.16	-1.63	-1.66	-0.80	-	0.67
NZD	-2.04	-1.02	-1.82	-2.32	-2.32	-1.45	-0.66	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
UK	02/9		Inflation Report Hearings			
US	02/9	13:15	ADP Employment Change	Aug		167k
US	02/9	15:00	Factory Orders MoM	Jul	5.0%	6.2%
US	02/9	19:00	Fed's Beige Book			
CN	03/9	02:45	Caixin Services PMI	Aug	50.4	54.1
EU	03/9	10:00	Retail Sales YoY	Jul	-0.5%	1.3%
US	03/9	13:30	Continuing Jobless Claims	Aug 21		14.54m
US	03/9	14:45	Markit Services PMI	Aug	54.8	54.8
INR	04/9	12:30	FX Reserves, USD	Aug 24		
US	04/9	13:30	Nonfarm Payrolls	Aug	1550k	1763k
US	04/9	13:30	Unemployment Rate	Aug	9.9%	10.2%
CN	07/9	03:00	Trade Balance USD	Aug		\$62.33bn
JPY	07/9	06:00	Leading Economic Index	Jul		84.4
JPY	08/9	00:30	Household Spending YoY	Jul		-1.2%
JPY	08/9	00:50	GDP QoQ	Q2		-7.8%
EU	08/9	10:00	GDP YoY	Q2		-15.0%

Source: FX Street

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