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WED 09 SEPTEMBER 2020

FX Options Weekly Report

Macro and Vol Commentary

USDRUB has strengthened once again in recent weeks, even as the dollar index has sold off. As political tensions rise, what is next for the USDRUB?

Economic Data

- Markit PMI has recovered in recent months from the COVID-19 lows. June and July readings were 49.4 and 48.4, respectively. August was expansionary at 51.1 as output was boosted firms returning to business.
- The export market remained weak once again as global consumption is still on the back foot
- Business confidence is expansionary, and we expect output to remain expansionary
- Services and composite PMIs remain firmly in expansionary territory, and August was no different, with final readings at 58.2 and 57.3 respectively
- The construction industry has plateaued in the recent month but failed to break into growth territory. July contracts were down 0.2% y/y after falling to -3.1% in May
- Unemployment reached 6.3% in July, up from 6.2% in June, this is something that President Putin has highlighted in recent weeks
- As of August 31st, there were 3.6m people unemployed. According to the Labour Minister, unemployment has increased by 400% in the last six months
- CPI has been on the has been increasing, partly due to the drop off in the RUB this year. CPI Y/Y reached 3.6% in August, with CORE CPI at 3.1% Y/Y
- We expect inflation to continue to increase in the coming months
- Cases are falling but remain elevated, and we expect the impact on GDP to become more apparent in the coming weeks, surveys suggest a decline of 8.5% in Q2. However, the positive PMIs are a bright spot, and we expect GDP to recover in Q3 but will remain negative for the year as a whole. Preliminary data suggests a decline of 5%
- High-frequency data suggests that electricity demand has become positive, as business look at

restarting operations and output increases

- The trade balance has fallen significantly this year but has remained in surplus. The June surplus was \$5.3bn, and we expect this to start to improve in July and August. The export market does remain weak on a global scale

International Relations

- German Chancellor Angela Merkel is under pressure to inquire into the attempted killing of the Russian opposition leader Alexey Navalny. The Nord Stream 2 pipeline is the tool that may be used as leading German politicians are suggesting the project should be delayed
- This exemplifies a deteriorating of relations between the EU and Russia
- Syria is also seeking investment from Russia, following sanctions from the U.S and a delegation from Russia is in Syria to improve trade relations, in an attempt to help the country rebuild its economy
- With tensions also rising in Belarus after weeks of protests, the Russian Prime Minister has visited Belarus to hold talks with President Lukashenko
- Relations with Russia and the western economies have become more strained, and this presents downside risk to the Ruble

The Russian economy is in recovery; sequential data is expected to remain positive. However, international relations may make investors nervous, and we saw USDRUB weaken even when the dollar index was weakening. As the dollar starts to steady, this presents further downside risk for RUB. Interest rates are expected to remain low in the near term, even as inflation starts to rise, we could see yields steepen. The CBR has suggested there remains room to ease monetary policy, which could mean a 25bp cut in the coming weeks. We expect the USDRUB to strengthen and continue the recent trend, despite a more positive economic outlook amid central bank stimulus, political uncertainty in the near term will likely prevent a significant recovery.

Volatility Commentary

General Comments

We have seen over the last few days a slight strengthening of the USD following two months of weakening; vols are largely holding steady, though US-China relations and the US election could change that, with the first Presidential debate scheduled for the 29th this month. Meanwhile, in the UK, we are seeing vols ticking up and spot coming of its near 1.3500 high, with UK-EU trade negotiations coming back into focus, with the UK Government being willing for a no-deal scenario if an agreement cannot be reached (likely by mid-end October).

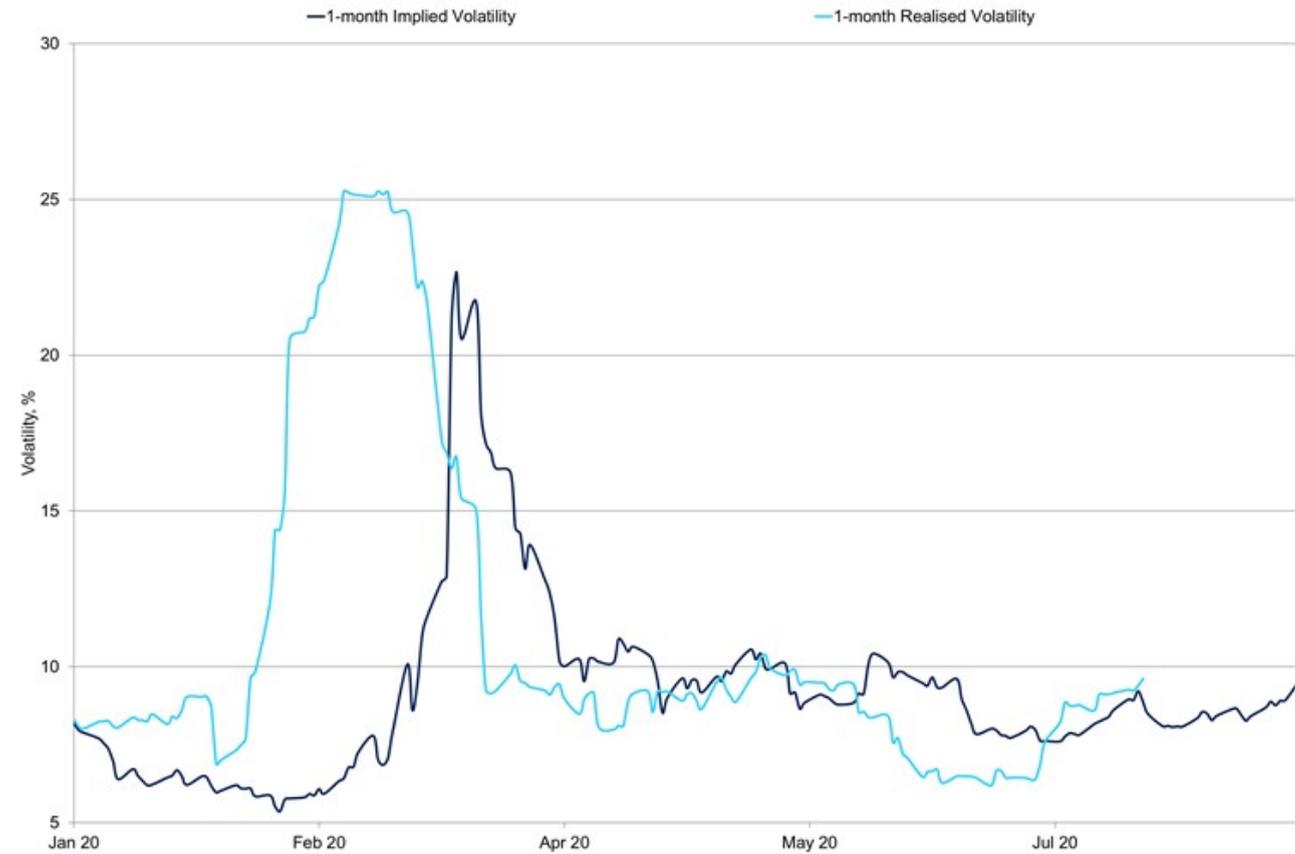
USDRUB Vol Comments

As mentioned above, we have seen USDRUB strengthen on both sides, with macro USD weakness seeming to have reached an end for the moment and RUB weakening, with the above-mentioned decline of West vs Russian relations following the poisoning of Alexey Navalny. USDRUB implied & realised vols have ticked up and we expect to see them continue higher with potential for further Western measures against Russia that may further damage Russia's economy/Ruble (in focus right now the Nord Stream 2 pipeline). As mentioned in previous weekly comments, we expect USD weakness to revert and have already seen in the last few days a strengthening in the currency and on the RUB side would expect to see continuing weakness. As such, we favour positions which benefit from USDRUB volatility and spot rising.

USDRUB Trade Idea

- Buy 2-month Call Spread in 10m a leg with strikes 77 & 80 for circa cost 102k USD
- Sell 2-month Put Spread in 10m a leg with strike 74 & 72 for circa rec 74k USD
- Overall structure upfront cost circa 28k USD

USDRUB 1-month Implied and Realised Volatility

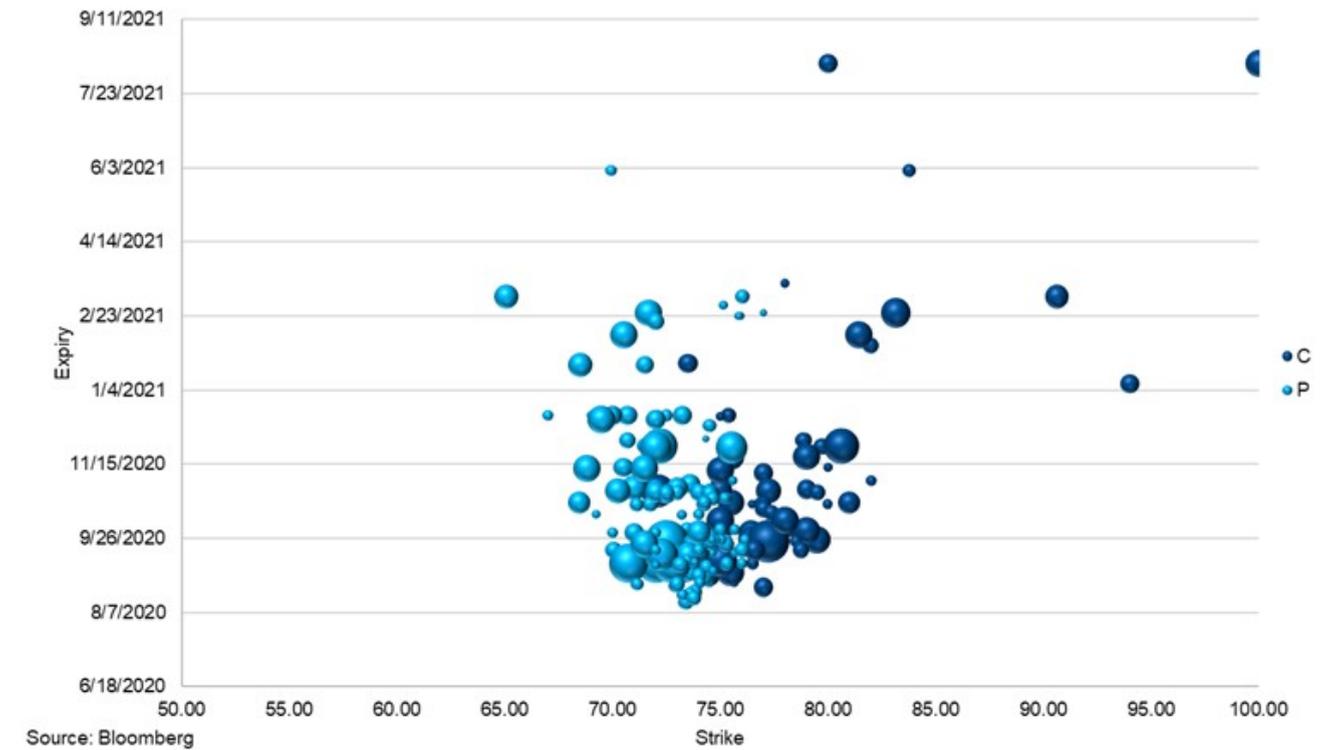


Source: Bloomberg

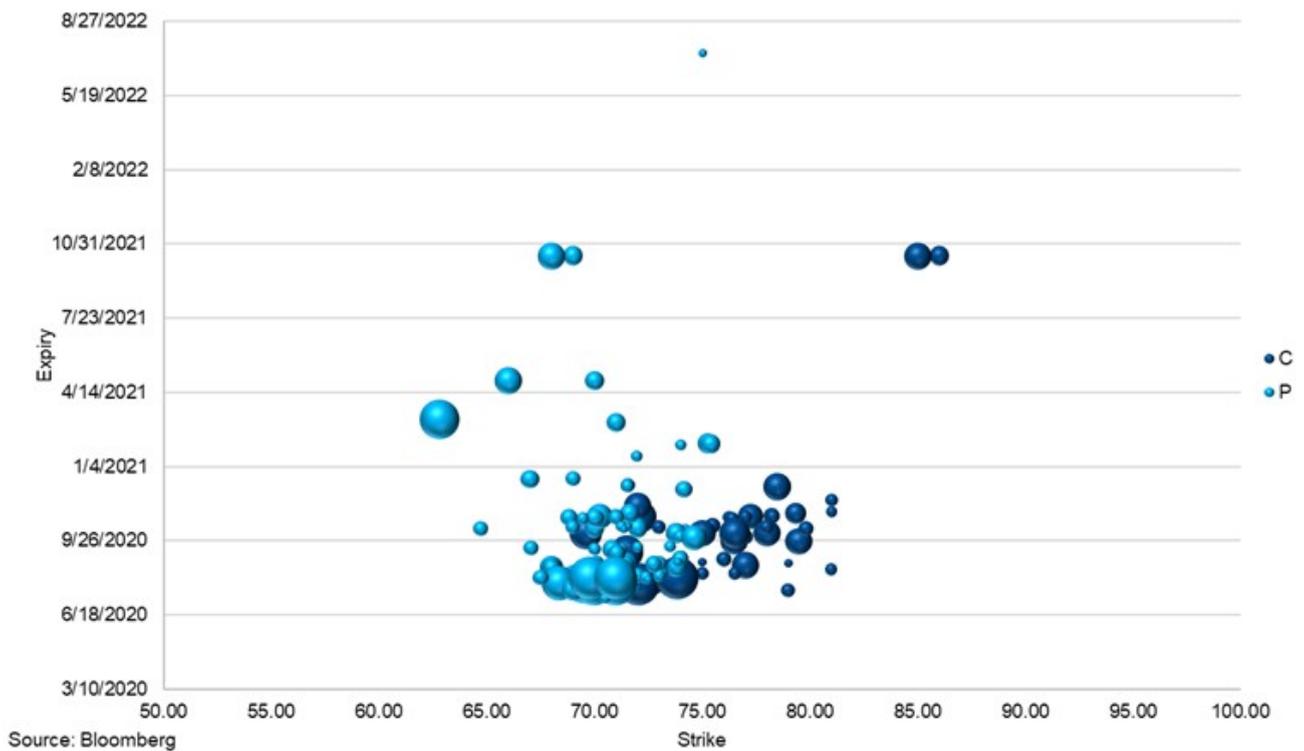
Positioning Charts

USDRUB August 8th - September 8th >\$5m Notional

Option execution in the month to September 8th was more sporadic than the previous month. As spot moved higher, so did the options market. However, we also more of an appetite for options after September 2020. The first chart below shows that a moderate downside bias in the near term and out to January 2021, with the range of put options between 70-75, with some at 69. This suggests some strength from the Ruble in the coming months but options remain in a tight range with little upside cover above 80 or downside cover below 69.

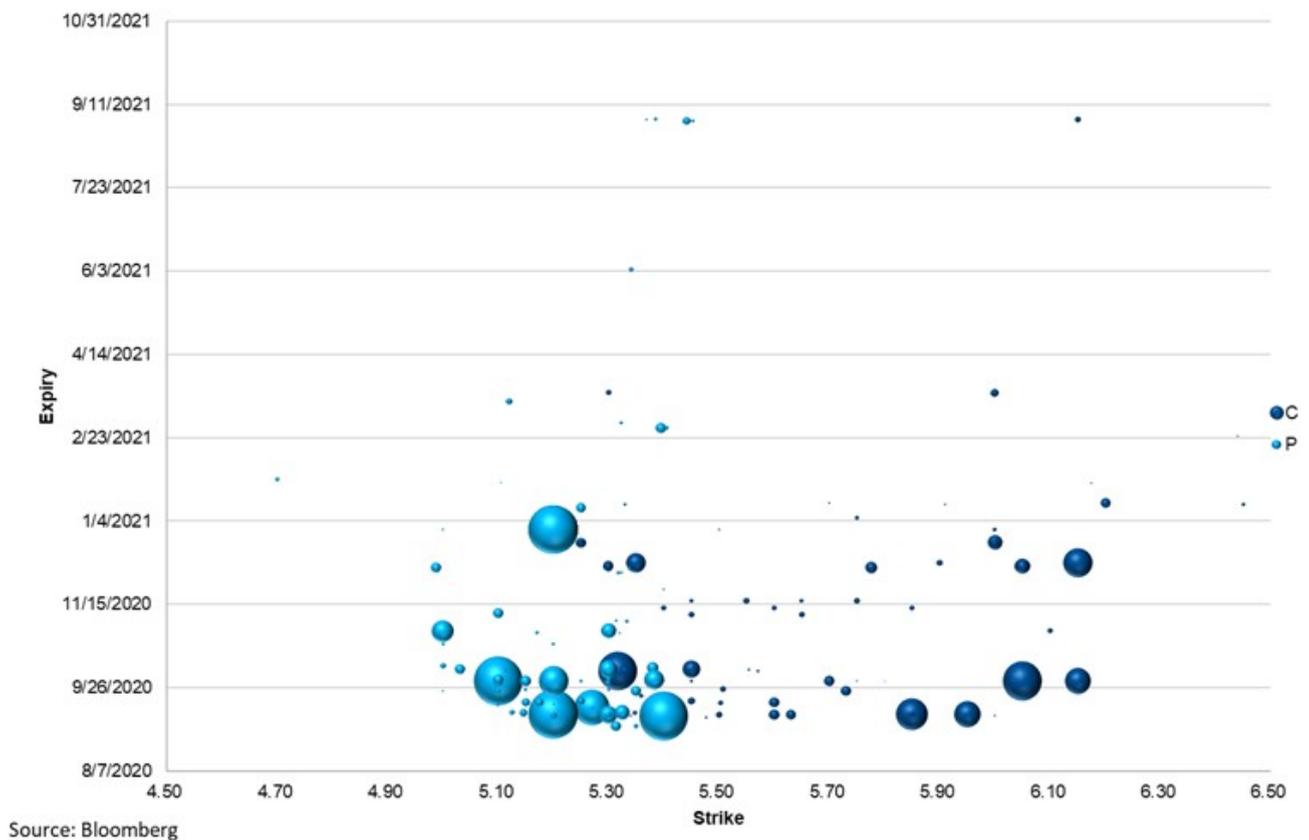


USDRUB July 8th - August 7th >\$5m Notional



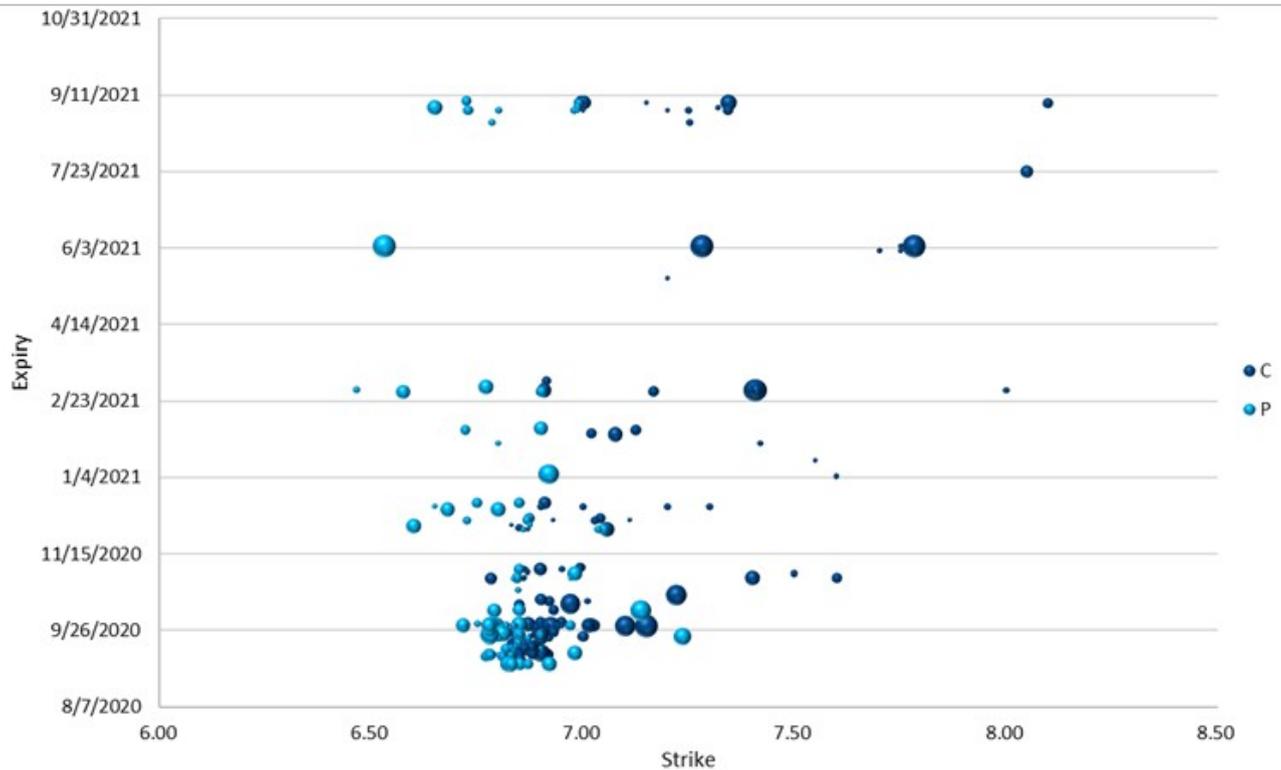
USDBRL NDO Positioning Data 01/09/2020 - 08/09/2020

This week we saw an interesting pattern for USDBRL NDOs, a clear split in sentiment. We have seen an increase in options considerably above the market >5.90. The majority of options executed this week suggest we could see some BRL strength in weeks to the end of September. Near dated put options have a large notional and while this could be traders who favour the upside hedging their position, we could see USDBRL weaken.



USDCNY Vanilla Options Positioning Data 01/09/2020 -08/09/2020

There was less appetite for options this week for USDCNY this week, with volumes down slightly. As expected we continue to see a cluster of options executed around spot but there was notably less near dated put options traded, this suggests a waning appetite for the downside. There remains a cluster of activity after the U.S. election and we expect this to become more prevalent as the weeks go on. The options data indicates we could see the market consolidate inline with the recent USD index stabilisation.



Charts and Tables

FX Expiries

Currency Pair	Wednesday 9 th	Thursday 10 th	Friday 11 th	Monday 14 th	Tuesday 15 th
GBP/USD					
USD/JPY		660mio @ 105.8 540mio @ 105.85 1.02bio @ 106 1.21bio @ 107.11	750mio @ 107.15 500mio @ 107.65 500mio @ 108		
EUR/USD	536.69mio @ 1.1925 533.33mio @ 1.2 506.23mio @ 1.205			1.29bio @ 1.1665 840.322mio @ 1.19	1.02bio @ 1.2
EUR/GBP		100mio @ 0.888 300.56mio @ 0.895	100mio @ 0.888 170mio @ 0.8882 163.93mio @ 0.915		
USD/BRL	250mio @ 5.2 500mio @ 5.4	430mio @ 5.2		380mio @ 5.27	
AUD/USD	180.31mio @ 0.721 100mio @ 0.73	200.54mio @ 0.728 100.68mio @ 0.735	433.34mio @ 0.72		
USD/ZAR	130mio @ 16.7		200mio @ 16.5		150mio @ 16.8
USD/INR				100mio @ 74 200mio @ 74.5	

Source: Bloomberg DTCC Data 2% from spot levels as of 08/09/2020

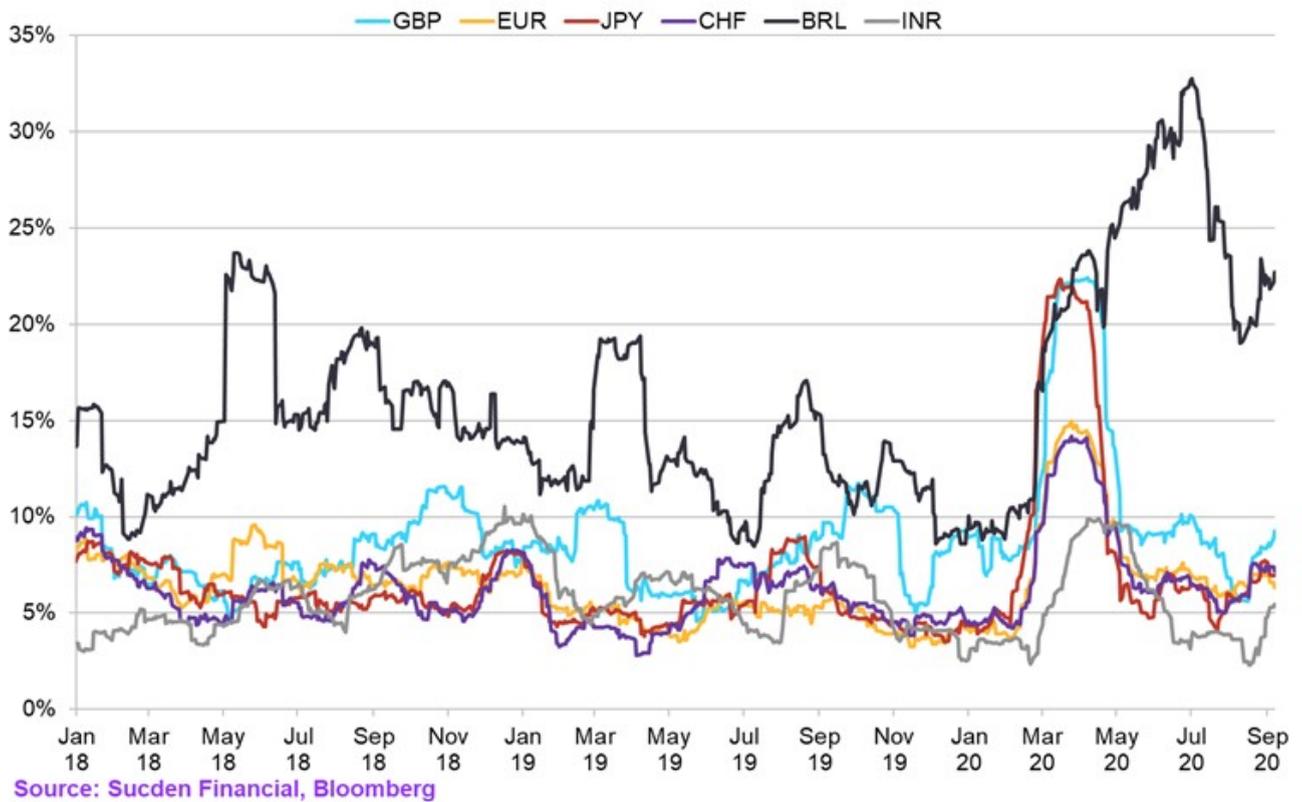
Volatility Grid

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	0.08	0.15	8.33	-1.44	0.26	10.95	-0.96	0.19	6.11	1.34	0.22	9.30
1M	0.28	0.17	7.72	-1.68	0.32	11.02	-1.17	0.21	6.61	1.64	0.27	9.09
2M	0.36	0.20	8.31	-1.95	0.38	11.53	-1.89	0.27	8.61	1.81	0.31	9.33
3M	0.41	0.24	8.09	-2.07	0.42	11.37	-2.05	0.31	8.55	1.93	0.36	9.28
6M	0.44	0.33	7.50	-2.22	0.51	10.88	-2.18	0.37	8.04	2.05	0.43	9.09
1Y	0.48	0.40	7.30	-2.37	0.57	10.62	-2.36	0.39	7.90	2.20	0.50	8.98

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	0.56	0.21	6.69	5.22	1.14	15.26	1.27	0.37	21.87	-0.92	0.28	10.31
1M	0.69	0.26	6.73	6.86	1.45	16.90	1.97	0.44	21.94	-1.09	0.34	10.64
2M	0.82	0.31	7.36	7.39	1.58	18.12	2.41	0.51	22.23	-1.32	0.38	11.48
3M	0.91	0.33	7.26	7.73	1.66	18.67	2.83	0.58	21.40	-1.41	0.41	11.30
6M	1.05	0.37	7.04	8.18	1.79	19.41	3.51	0.70	19.62	-1.52	0.45	10.70
1Y	1.22	0.43	7.07	8.84	2.05	20.80	4.12	0.85	18.30	-1.69	0.51	10.51

Source: Sueden Financial

Historical Spot FX Volatility (30D Rolling)



FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3007	1.1821	0.0094	1.0940	0.7577	0.7276	0.6681
GBP	0.7688	-	0.9088	0.7242	0.8410	0.5826	0.5594	0.5136
EUR	0.8460	1.1004	-	0.7968	0.9255	0.6411	0.6155	0.5652
JPY	106.1700	138.0980	125.5000	-	116.1480	80.4520	77.2450	70.9310
CHF	0.9141	1.1890	1.0805	0.8611	-	0.6927	0.6651	0.6107
CAD	1.3197	1.7165	1.5599	0.0124	1.4437	-	0.9601	0.8817
AUD	1.3745	1.7878	1.6247	1.2947	1.5036	1.0414	-	0.9183
NZD	1.4969	1.9469	1.7693	0.0141	1.6375	1.1342	1.0890	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-2.57	-0.29	0.02	-0.37	-1.13	-0.86	-1.34
GBP	2.64	-	2.35	2.65	2.22	1.45	1.77	1.26
EUR	0.28	-2.29	-	0.29	-0.09	-0.87	-0.58	-1.05
JPY	-0.03	-2.61	-0.32	-	-0.41	-1.18	-0.90	-1.37
CHF	0.37	-2.22	0.09	0.40	-	-0.77	-0.49	-0.96
CAD	1.17	-1.45	0.87	1.16	0.77	-	0.28	-0.19
AUD	0.87	-1.73	0.59	0.90	0.48	-0.29	-	-0.49
NZD	1.35	-1.25	1.07	1.37	0.97	0.19	0.49	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
CN	09/9	02:30	CPI YoY	Aug	2.4%	2.7%
US	09/9	12:00	MBA Mortgage Applications	Sep 4		-2.0%
EU	10/9	12:45	ECB Deposit Rate Decision		-0.5%	-0.5%
US	10/9	13:30	PPI YoY	Aug	-0.3%	-0.4%
US	10/9	13:30	Continuing Jobless Claims	Aug 28	12.9m	13.254m
RU	10/9	14:00	CB Reserves \$			\$591.8bn
UK	11/9	07:00	Industrial Production MoM	Jul	4.0%	9.3%
UK	11/9	07:00	GDP MoM	Jul	6.7%	8.7%
US	11/9	13:30	CPI MoM	Aug	0.3%	0.6%
RU	11/9	14:00	Foreign Trade	Jul	\$5.5bn	\$5.29bn
US	11/9	19:00	Monthly Budget Statement	Aug	-\$240bn	-\$63bn
UK	14/9		Inflation report Hearings			
JPY	14/9	05:30	Industrial Production YoY	Jul	-16.1%	-16.1%
EU	14/9	10:00	Industrial Production MoM	Jul	10.0%	9.1%
CN	15/9	03:00	Retail Sales YoY	Aug		-1.1%
UK	15/9	07:00	ILO Unemployment Rate (3M)	Jul	4.2%	3.9%
US	15/9	14:15	Industrial Production MoM	Aug	0.9%	3.0%
US	15/9	19:00	FOMC Economic Projections			

Source: FX Street

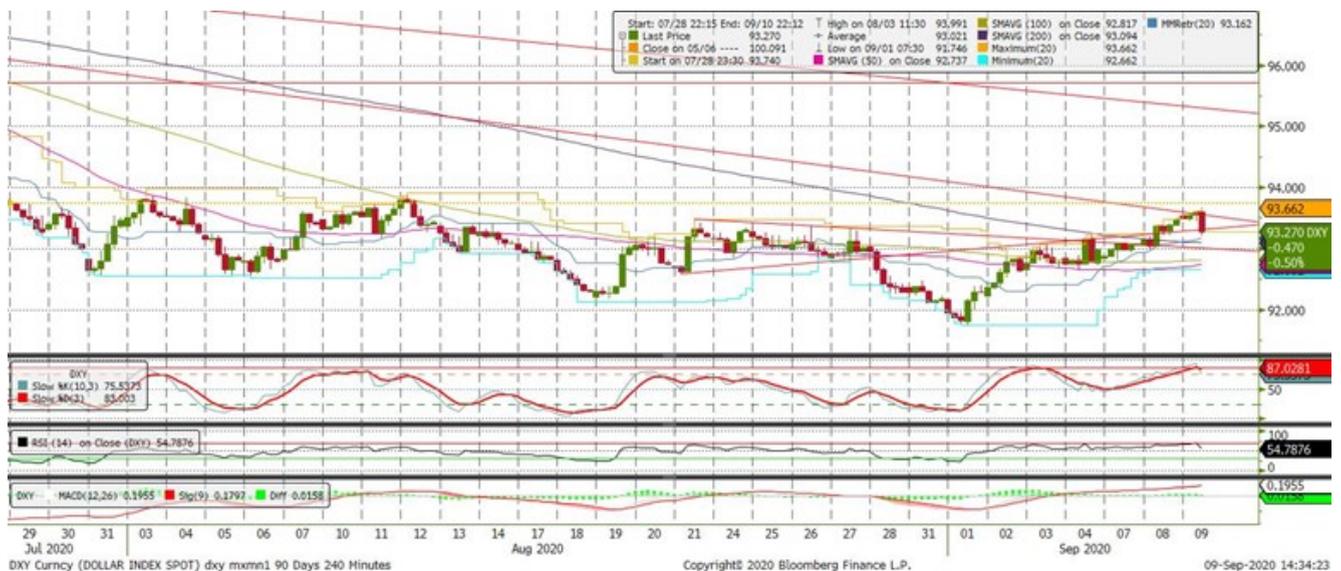
Technical Analysis

JP Morgan Global FX Volatility Index



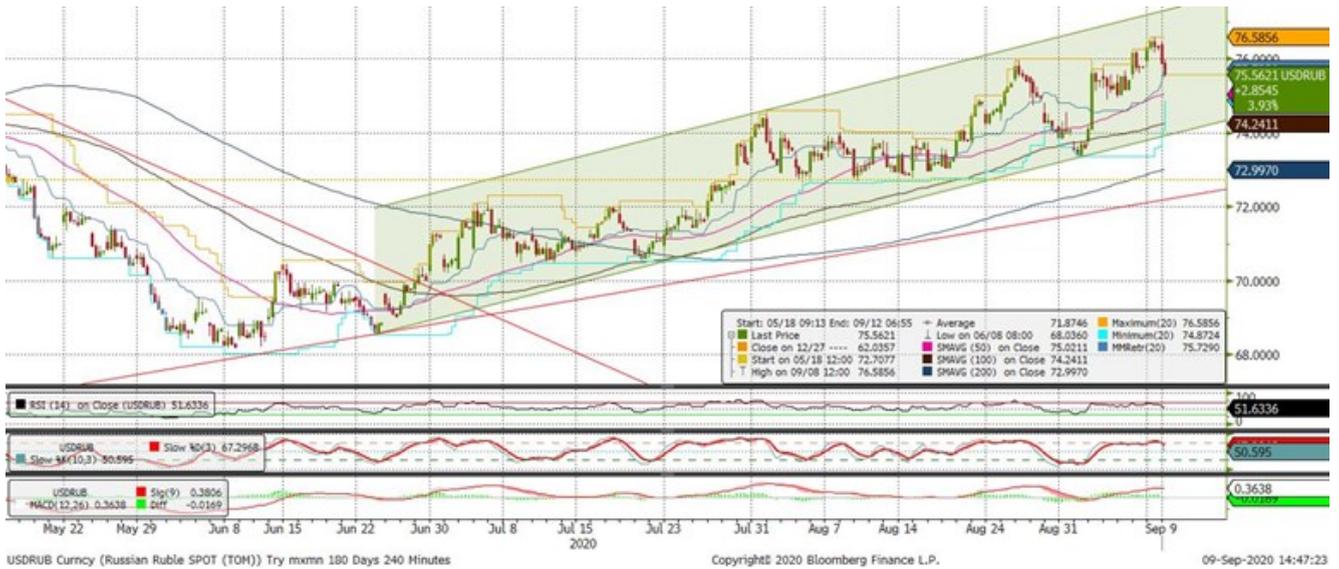
The index has improved in recent sessions and has breached resistance at 9.46 and now stands at 9.49. The stochastics are rising and are in overbought as the MACD diff is positive and diverging suggesting we could see the index push higher in the near term. The index needs to hold above 9.46 before targeting 10. The reaffirmation of near term trend support and the moving averages suggests we could see the market push higher. The 200 DMA is closing in and this should provide support in the near term. On the downside, rejection above 9.46 could trigger a break of trend support and moving averages helping to confirm the double top around 9.46.

Dollar Index



The dollar index has been gaining in recent weeks prompting a breach of resistance at the moving averages. The market has tested long term resistance and has rejected this level. The bearish engulfing candle and the selling signal from the stochastics and MACD diff is positive and converging suggesting that we could see the index break back through the moving averages, with a downside target of 92 in the near term. On the upside, if support around the moving averages holds firm, this could trigger gains back through trend resistance and target 94. The most recent candle and indicators suggest we could see the index decline in the near term.

USDRUB



USDRUB has been well supported in recent weeks despite the dollar weakening, however lack of appetite above 76 has triggered a retracement. The stochastics are falling and the MACD diff is converging on the upside suggesting waning buying pressure. The bearish engulfing candle and weakening indicators are falling towards the 50 DMA before the 100 DMA at 74.241. We could see the market retreat towards the lower trend channel but expect this level to hold firm and keep the trend intact. On the upside, if prices hold above the 50DMA would keep the trend intact. We expect a correction in the near term but expect the long term trend to remain intact.

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