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# FX Options Weekly Report

## Macro and Vol Commentary

The multi-year EURTRY trend has been accentuated in recent months as stimulus measures in Europe have prompted a more bullish tone in the bloc.

### Turkish Data

- Consumer sentiment is starting to improve with the September reading at 61.8, up from 59.6
- Economic confidence was also stronger in September at 88.5, up marginally from 85.9 in August
- The manufacturing Turkish PMI actually softened slightly on a month on month basis from 54.3 to 52.8. Data is still expansionary
  - \_ Output and new orders were the reason for the modest reading, as they grew at a slower pace
  - \_ New jobs increased at the fastest pace since February 2018
  - \_ Input inflation increased at the fastest pace since October 2018, however business conditions are generally improving, and business confidence in the sector also shows more positive signs
- Capacity utilisations edged higher in September to 74.6%, up from 73.3%
- CPI has started stabilised this year and stood at 11.75% Y/Y, with the M/M inflation at 0.97%
  - \_ Core CPI was 11.32% y/y
  - \_ The one week-repo rate has increased to 10.25% for September 24th, up from 8.25%
- Unemployment is high, and we would expect this to remain the case in the near term. Indeed, the rate stood at 13.4% in September and increased in the previous month of 12.9%
  - \_ This will help inflation in the medium term as consumer spending remains low
  - \_ Unemployment has remained relatively subdued compared to 2018 when unemployment reached 14.74%
- The trade balance has weakened considerably to -\$6.28bn in August, down from -\$2.7bn the month prior

- Turkey eased some restrictions on foreign investors, this could see more appetite for Turkish assets; however, we expect the lira to continue to struggle
  - \_ The interest rate was increased in September to 10.25%, which was a surprise
  - \_ Up to September 25th, we saw investors buy \$116m bonds but sell \$102m of net stocks
- The increasing appetite for the lira for foreign investors is integral, and something Turkey has been missing
- The rate increase from the CB was an attempt to restore calm, however, will we see more rate rising in the coming months? We do not expect the move to prompt sustained strength in the lira, especially against the stimulus backed Euro
- Inflation, while still high has kept under control in recent months, helped by low energy prices, but with real interest rates not at an attractive level for foreign investors and further rate hike are needed to restore more confidence
  - \_ Investors may be wary of the political involvement of the central bank decisions

Geo-politics has also weighed heavy on the pair, with the EU threatening sanction on Turkey over the 'provocations and pressures' with Greece and Cyprus over energy and borders. The relationship has been fragile for some time as Turkey's membership into the EU has stalled, and there have been comments from the EU about Turkey's human rights record. Recent comments from Turkey's Foreign Minister Mevlut Cavusoglu have indicated that sanctions would have the opposite effect and would strengthen their determination to protect their rights. While there has been some stability in the Lira but with real rates still low, we need to see more interest rate hikes to increase appetite for the Lira, especially given the downside risks to the global economy. The geo-politic risk for Turkey reduced the appeal for foreign investors, and we expect the recent trend to continue. Even if the Euro has started to consolidate, we expect EURTRY to remain on-trend.

# Volatility Commentary

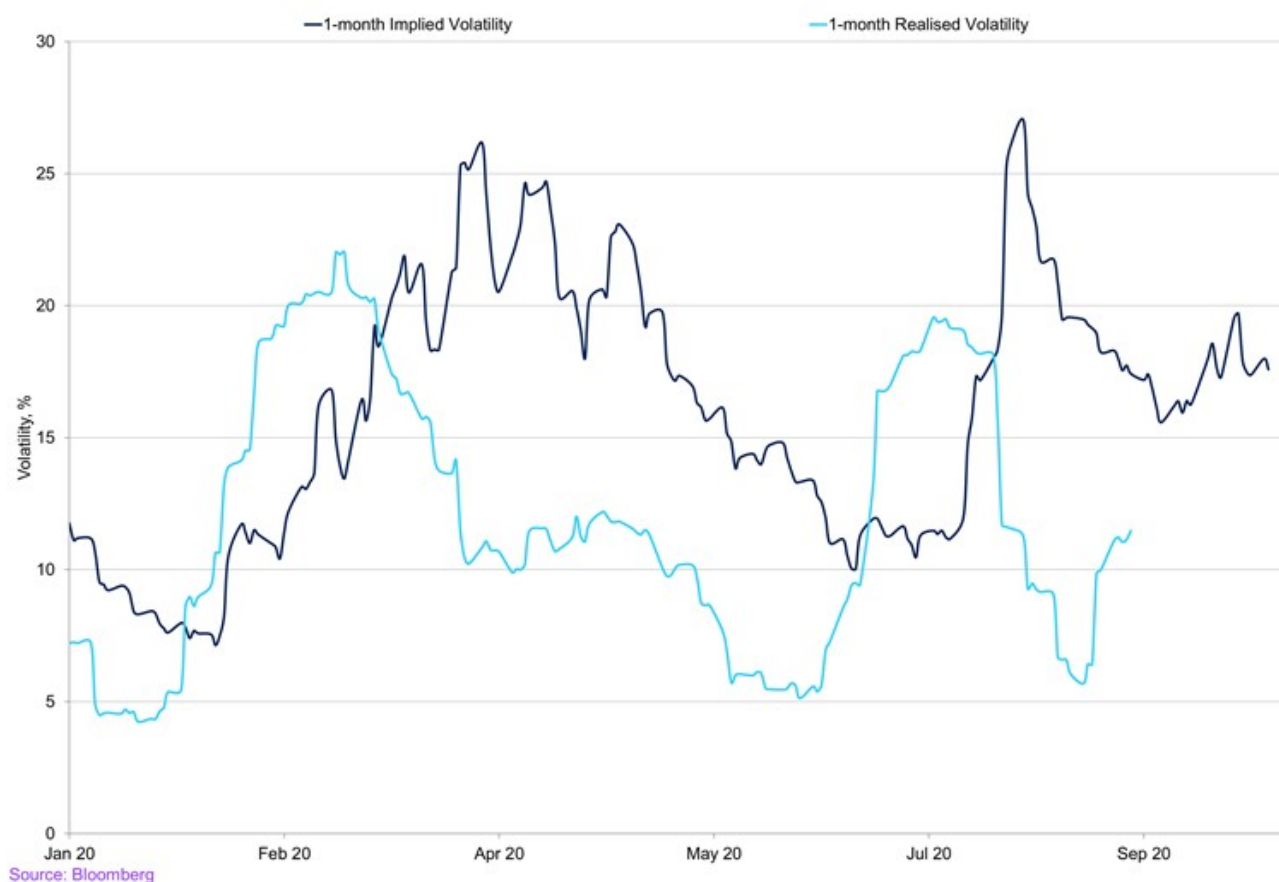
## General

At the tail end of last week, we saw a pick up in shorter end vols following US President Trump's diagnosis of CV19. Though the active questions around his health, as well as how the Government & Senate will function, with various members of his inner circle have also tested positive for the virus, still remain. A real October surprise for this election; the next two weeks will be critical, alongside that here, in the UK, we see crunch time this month for UK-EU negotiations with vols remaining elevated in GBP.

## Vol Comments

Over the last few months (and years...), TRY has continued to weaken, with economic and geopolitical pressures continuing to be present when considering the currency. Though we do note that, following the initial CV19 crisis, USDTRY vol has generally realised lower than implied. With CV19 still being a concern and geopolitical risk, such as disputes with Greece over oil drilling on one side (the literal West), and on the other side (the literal East), Turkey potential embroiling itself with the Armenia-Azerbaijan, we favour positions that benefit from EURTRY spot moving higher, though suggest a structure with features to lower upfront premium (bearing in mind the recent lower realised vs implied vol).

## EURTRY 1-month Realised and Implied Volatility



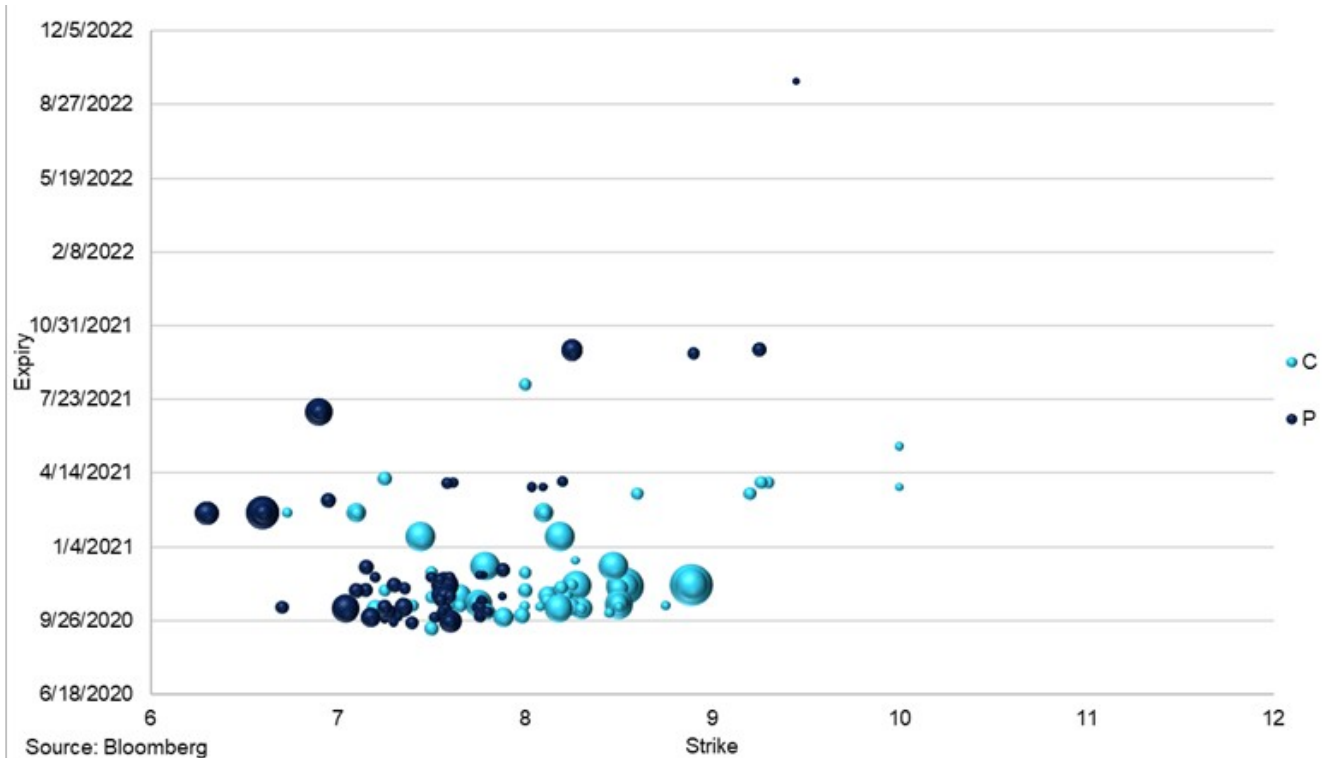
## EURTRY Trade Idea

- Buy 3-month EKI Call with strike 9.5000 and barrier 10.2500 in 10m EUR notional
- Premium is circa 366k EUR for the above vs 455k for the vanilla equivalent
- Upfront premium can be lowered further selling a 3-month Vanilla Call with strike 10.7500 for circa 147k EUR to lower overall premium of structure to circa 219k EUR (though gives up any benefit of spot exceeding 10.7500)

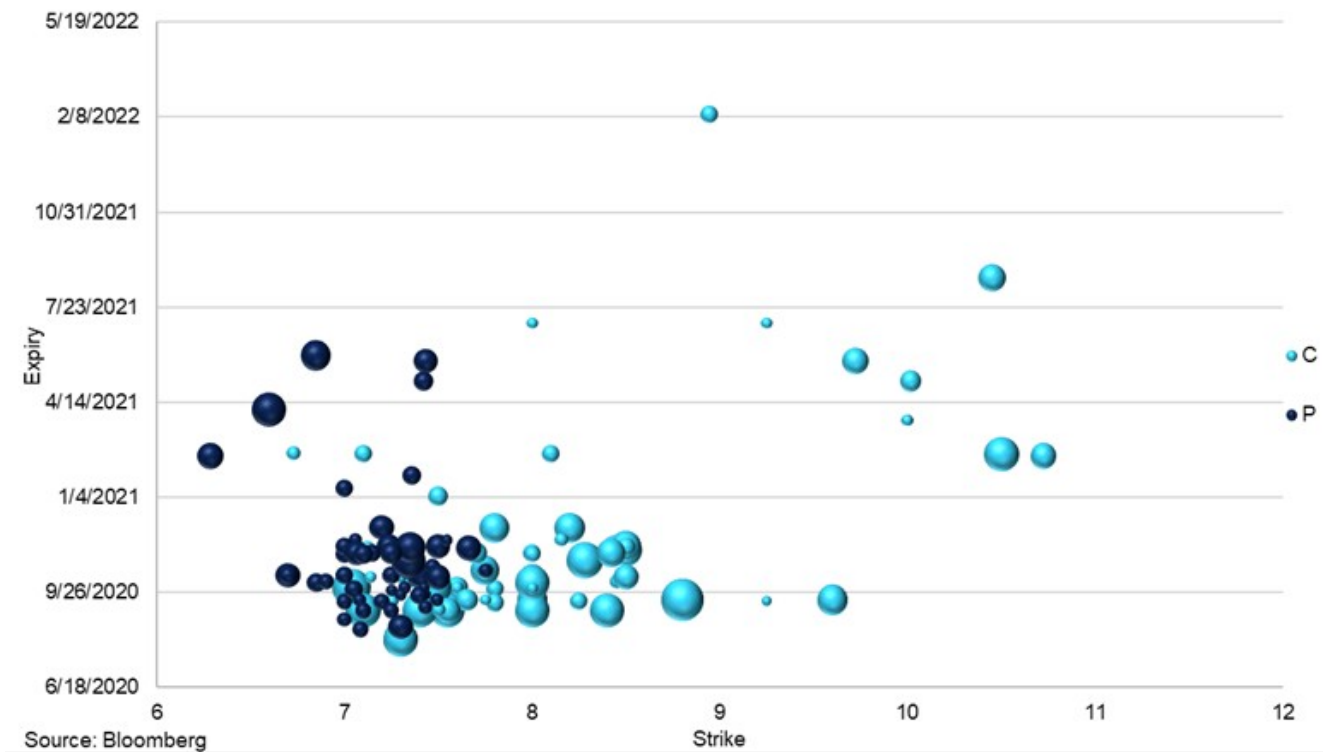
# Positioning Charts

## EURTRY September 6th to October 6th

Positioning data for EURTRY shows that there is a narrower range for options executed between September 6th and October 6th. Indeed in August/September, there is upside coverage above 9 with some of these options expiries after January 2021. In chart 1, the majority of option trades are between 7-9 with the majority call options suggesting these are now in the money. However, with spot now above 9 there is little cover if prices continue to rise, which we think they will. Put options traded have a strike around 7.75, but these options have a low notional value. The options market looks to be playing catch up as the spot moves above recent strikes for options which could pull spot higher further.

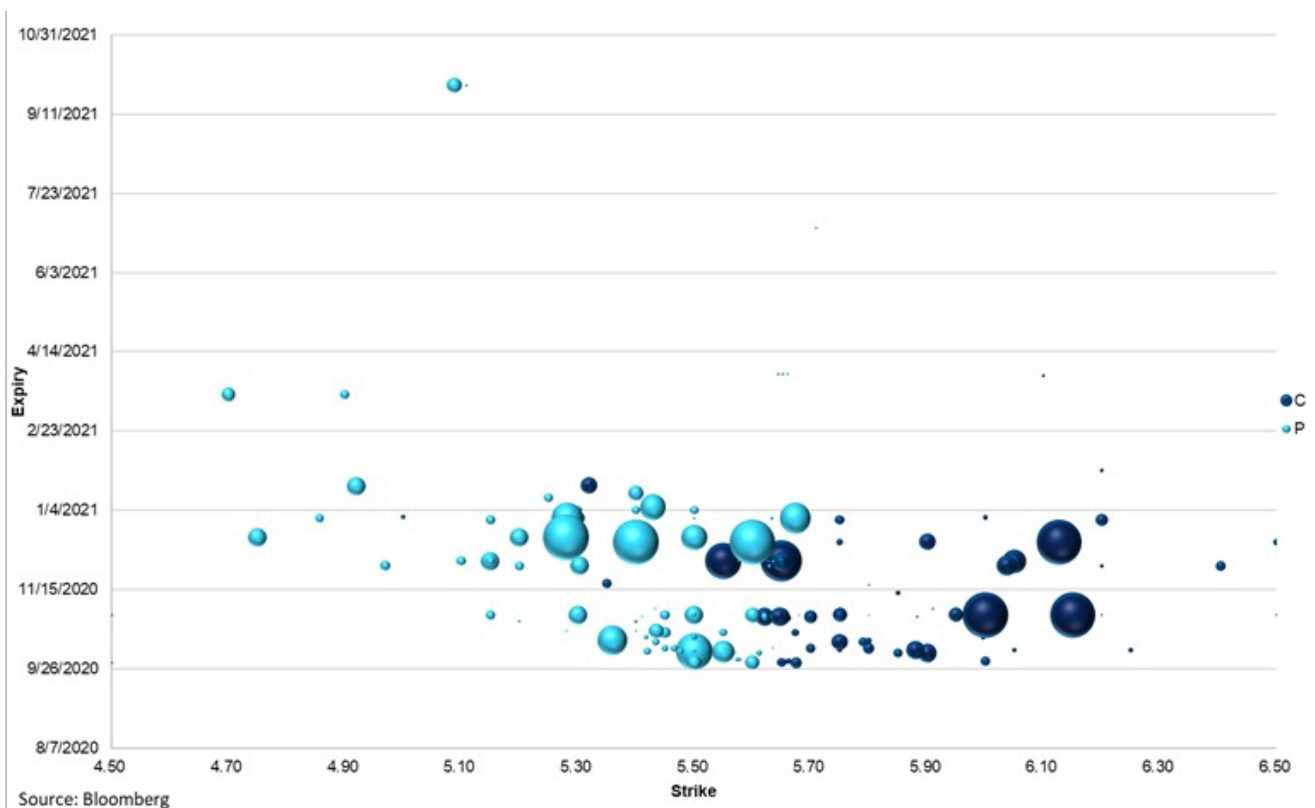


## EURTRY August 6th to September 6th



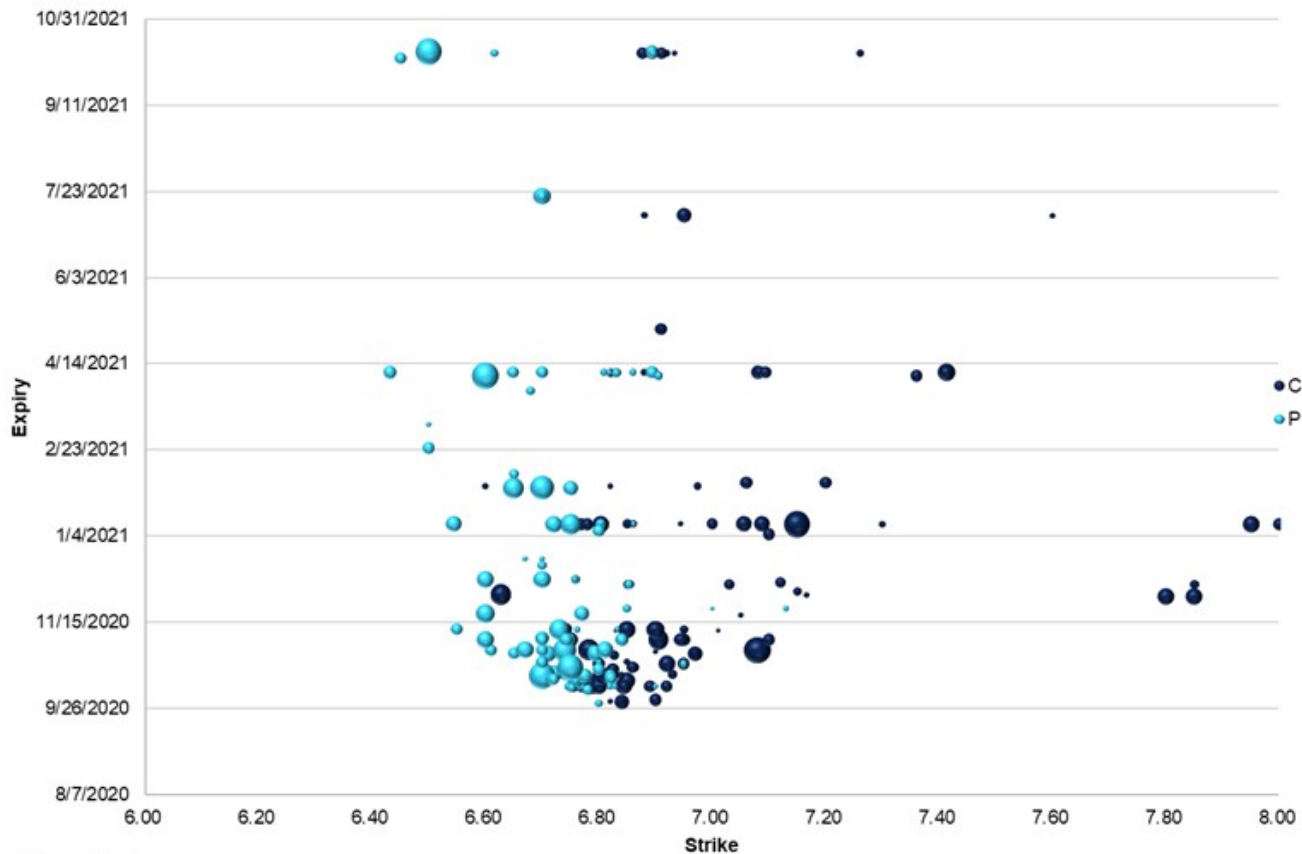
### USDBRL NDO Positioning Data 29/09/2020 - 06/10/2020

USDBRL NDO positioning has been slightly more incisive this week, we continue to see call options executed out of the money and clearly as a protection if the current blows through 6 once more. The call options executed around 6.10 have a high notional value, and 2 have an expiry before November 15th, with the other trade expiring just before year-end. As we look towards the current spot level, trades with expiries before the end of October have small notional values and marginally favour the downside, but according to the data below, there is no real conviction in the immediate term. As expiries push towards year-end the market, we are seeing more conviction in the market with put options traded with larger notional values in a range of 5.30-5.70.



## USDCNY Vanilla Options Positioning Data 29/09/2020 -06/10/2020

USDCNY options traded in the last week look to have a moderate tilt to the downside. There is little upside coverage around the spot market, with some upside calls trades between 6-80-7 but calls above 7 are very thin. Conversely, options with expiries before November 15th are below spot towards 6.65. This suggests we could see the market move back towards the recent low at 6.763, but notional values of these options are low. Judging by the below-positioning data, we expect USDCNY to weaken in the near term.



Source: Bloomberg

# Charts and Tables

## FX Expiries

Currency Pair	Thursday 8 <sup>th</sup>	Friday 9 <sup>th</sup>	Monday 12 <sup>th</sup>	Tuesday 13 <sup>th</sup>	Wednesday 14 <sup>th</sup>
GBP/USD					
USD/JPY		650mio @ 105			500mio @ 105.2 620mio @ 106 750mio @ 106.19 500mio @ 106.2 550mio @ 107.25
EUR/USD	510.86mio @ 1.1745			949.13mio @ 1.18	
EUR/GBP					
USD/BRL					
AUD/USD		753.52mio @ 0.71	392.16mio @ 0.714 450mio @ 0.72 119.83mio @ 0.726	597.18mio @ 0.71 200mio @ 0.72 218.84mio @ 0.722	200mio @ 0.7 100mio @ 0.71
USD/ZAR		100mio @ 16.35			
USD/INR		100mio @ 72 130mio @ 73.4 200mio @ 74.5	200mio @ 72.4 500mio @ 72.5 400mio @ 73.1 100mio @ 74.1		100mio @ 73.1

Source: Bloomberg DTCC Data 2% from spot levels as of 0710/2020

## Volatility Grid

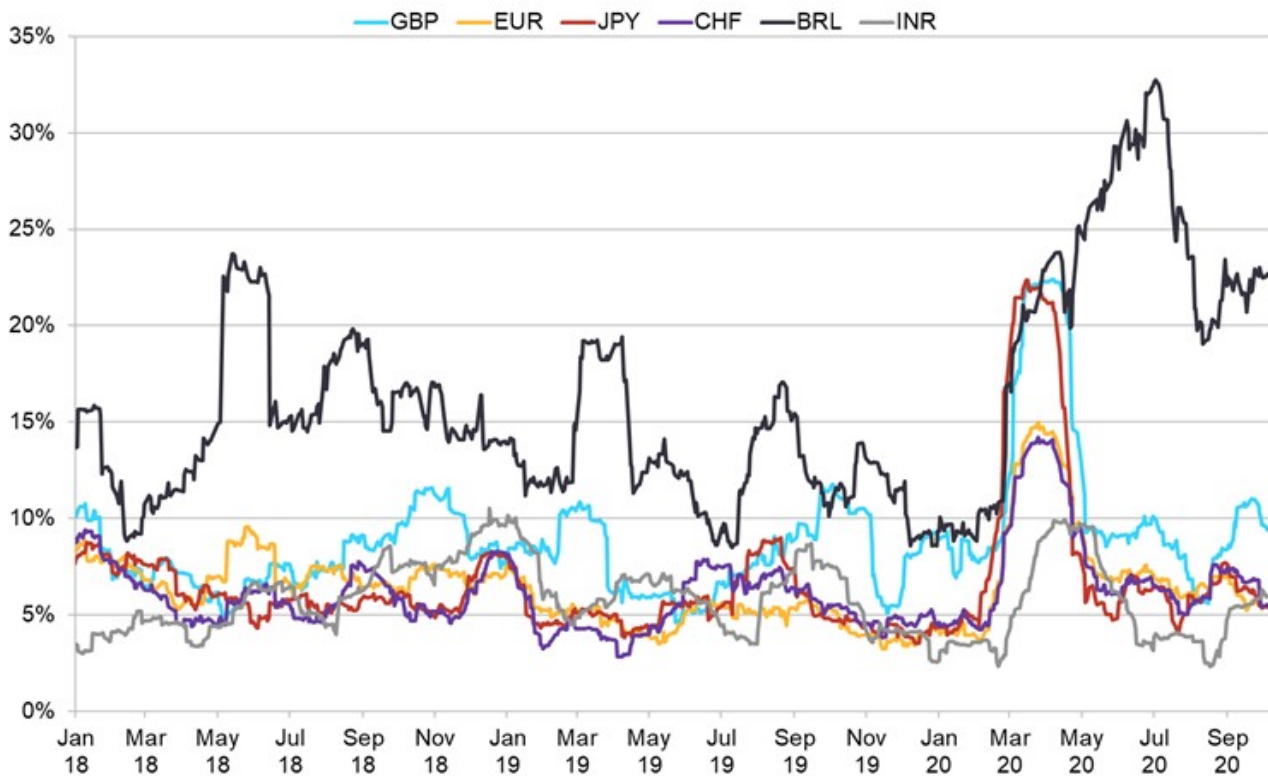
Time	EURUSD			GBPUSD			USDJPY			EURGBP		
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	0.39	0.15	6.20	-0.24	0.25	10.89	-0.44	0.18	5.23	0.21	0.19	9.27
1M	0.41	0.17	7.68	-1.16	0.30	11.47	-1.29	0.22	7.76	1.13	0.23	9.52
2M	0.44	0.23	7.57	-1.58	0.36	11.37	-1.59	0.27	7.74	1.41	0.26	9.52
3M	0.44	0.27	7.15	-1.75	0.39	10.93	-1.70	0.32	7.46	1.55	0.25	9.16
6M	0.49	0.36	7.09	-1.91	0.46	10.45	-2.00	0.37	7.44	1.75	0.33	8.80
1Y	0.53	0.44	7.14	-2.06	0.53	10.19	-2.27	0.40	7.50	2.04	0.43	8.58

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	0.59	0.19	5.94	4.52	1.31	17.23	-0.74	0.31	20.79	-0.63	0.25	9.52
1M	0.73	0.26	7.20	6.77	1.66	19.37	2.35	0.48	22.83	-1.08	0.28	11.06
2M	0.90	0.29	7.24	7.28	1.75	19.49	3.09	0.55	22.51	-1.23	0.35	10.86
3M	0.95	0.33	7.07	7.42	1.76	19.38	3.26	0.61	20.95	-1.30	0.37	10.41
6M	1.23	0.39	7.17	7.99	1.90	19.90	3.68	0.72	19.38	-1.49	0.44	10.35
1Y	1.49	0.44	7.17	8.75	2.10	20.51	4.17	0.83	18.24	-1.69	0.50	10.29

Source: Sucden Financial

## Historical Spot FX Volatility (30D Rolling)





## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2927	1.1761	0.009435	1.0896	0.7554	0.7163	0.6592
GBP	0.7736	-	0.90988	0.7299	0.8429	0.5844	0.55411	0.5099
EUR	0.8502	1.0991	-	0.80224	0.9264	0.6423	0.609	0.5604
JPY	105.98	136.999	124.65	-	115.479	80.065	75.914	69.862
CHF	0.9178	1.1864	1.07944	0.866	-	0.6933	0.6574	0.605
CAD	1.3237	1.7111	1.55689	0.0124898	1.4423	-	0.9482	0.8726
AUD	1.3961	1.8047	1.64201	1.3173	1.5212	1.0547	-	0.9203
NZD	1.517	1.961	1.7843	0.01431	1.653	1.1461	1.0866	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.42	-0.14	0.04	0.01	0.00	-0.71	-0.41
GBP	0.43	-	0.30	0.47	0.43	0.43	-0.30	0.00
EUR	0.11	-0.28	-	0.15	0.11	0.11	-0.59	-0.30
JPY	-0.05	-0.47	-0.17	-	-0.04	-0.05	-0.75	-0.45
CHF	0.00	-0.41	-0.14	0.05	-	-0.01	-0.71	-0.41
CAD	0.01	-0.43	-0.13	0.04	0.00	-	-0.70	-0.41
AUD	0.71	0.29	0.58	0.77	0.73	0.73	-	0.32
NZD	0.40	-0.01	0.27	0.42	0.42	0.42	-0.30	-

Source: Bloomberg

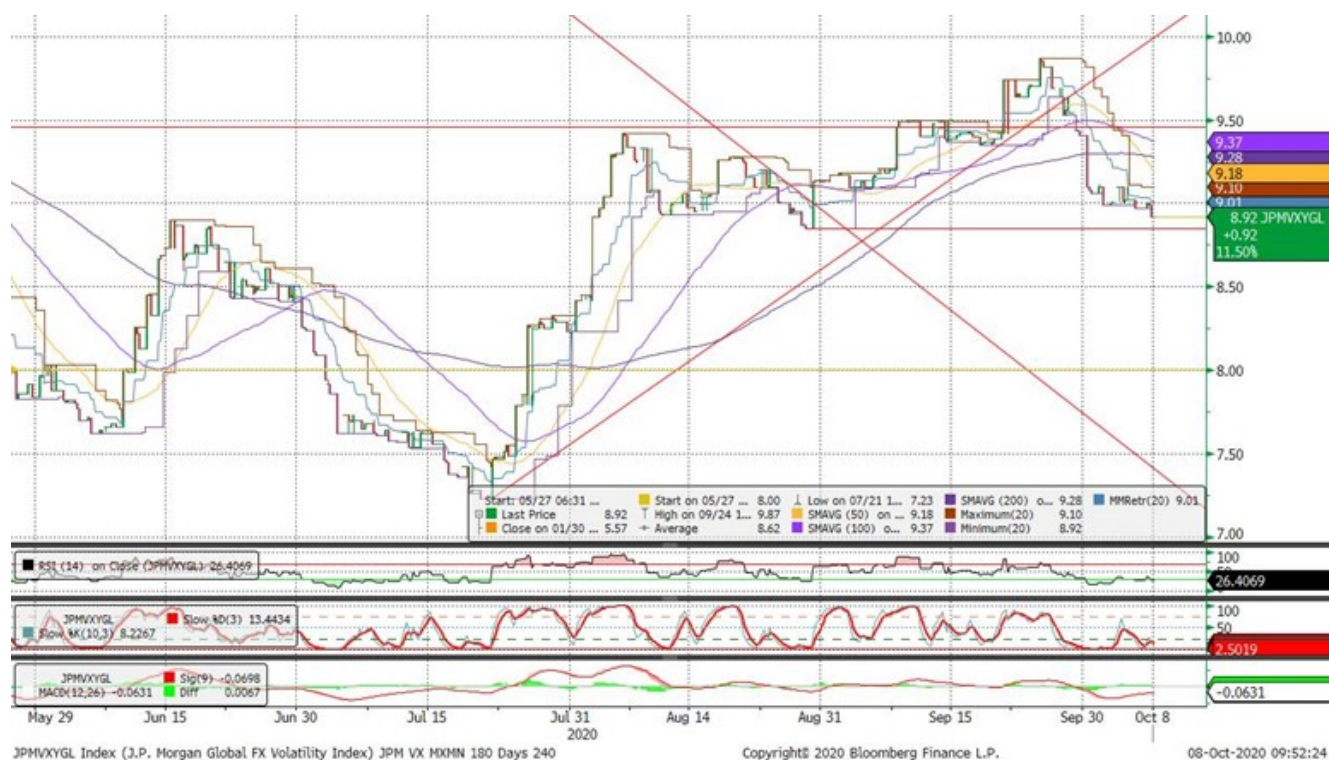
## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	8/10	00:50	Current Account	Aug	1983.7b	1468.3b
UK	8/10	08:25	BoE's Governor Bailey speech			
JPY	9/10	00:30	Household Spending YoY	Aug	-6.9%	-7.6%
CN	9/10	02:45	Caixin Services PMI	Sep	50.7	54.0
UK	9/10	07:00	Manufacturing Production MoM	Aug	3.0%	6.3%
UK	9/10	07:00	Industrial Production MoM	Aug	2.5%	5.2%
UK	9/10	07:00	GDP MoM	Aug	4.6%	6.6%
US	12/10	06:00	Columbus Day			
TRY	12/10	08:00	Current Account Balance	Aug		-\$1.817b
CN	12/10	09:00	FDI YTD	Sep		2.6%
CN	13/10	03:00	Trade Balance USD	Sep	\$50.5b	\$58.9b
TRY	13/10	08:00	Industrial Production YoY	Aug	3.0%	4.4%
UK	13/10	09:30	Claimant Count Change	Sep		73.7k
UK	13/10	09:30	ILO Unemployment Rate (3M)	Aug	4.1%	4.1%
EU	13/10	10:00	ZEW Economic Sentiment	Oct		73.9
US	13/10	13:30	CPI MoM	Sep	0.2%	0.4%

Source Bloomberg

# Technical Analysis

## JP Morgan Global FX Volatility Index



The index has remained on the back foot in the last week, after falling into 9.10. The index has broken below 9, and this could trigger losses towards 8.85. The stochastics are falling, and are oversold, but the MACD diff is positive and lacks conviction. Near term, momentum is on the downside, and the full candle may set the scene for lower prices in the near term through 8.85. Superseding this level, support stands at 8.5. On the upside, appetite for prices below 9 may trigger a re-test of 9.10. The market needs to break through this level in the near term in order to regain upside conviction towards the 200 DMA at 9.29.

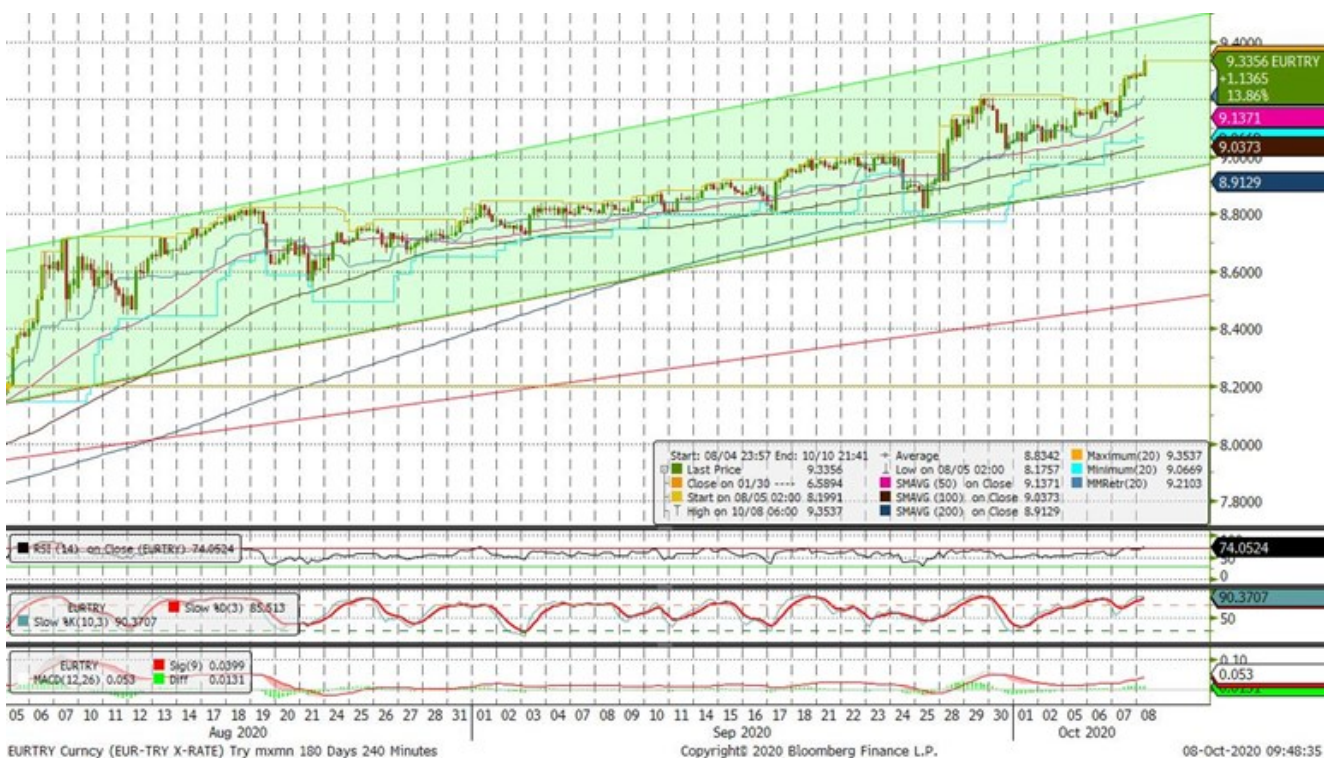
## The Dollar Index





The index was well bid below near term trend support around the 200 DMA. The bullish engulfing candle and downside tails caused futures to break towards the 50 DMA and prompted some strength from the momentum indicators. The stochastics are falling and have given a sell signal as the MACD diff which suggests we could see prices retreat in the near term back towards the 200 DMA. The inverted hammer candle and bearish engulfing candle has kept momentum on the downside, but the index needs to break below 93.60 in the near term to suggest lower prices. The 200 DMA is the second support level, and breach here may prompt a challenge of 93. On the upside, the index needs to break above trend resistance and out of the symmetrical triangle to suggest a change in trend to the upside.

## EURTRY



The rally has been strong in recent months as prices have broken above the resistance repeatedly. The break above 9 and the three white soldiers suggests a challenge of 9.40 in the near term. The stochastics are rising, and the MACD diff is positive and diverging on the upside, both of which suggest higher prices. A break of resistance at 9.40 and then the upper trend channel would confirm the long term trend. Buying pressure is strong, outlined by the full candles but apprehension amongst traders may trigger a correction back to towards 9.13, with secondary support at 9.03. We expect the trend to remain on the front foot.

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