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FX Options Weekly Report

Macro and Vol Commentary

The Euro has lost momentum in recent weeks, but as we move into the year end, and the probability of a Brexit deal increases, will we see this momentum turn around?

Poland

Manufacturing PMI was 50.8, as domestic demand held back the manufacturing sector in October. New orders, output growth was a drag on the sector. However, strong job creating, higher input and an increase in delivery time.

- Business expectations softened and this is due to the increase in COVID-19 cases
- Currency weakness in recent months has increased material costs for producers

The national bank of Poland (NBP) kept interest rates unchanged in November:

- reference rate at 0.10%;
- lombard rate at 0.50%;
- deposit rate at 0.00%;
- rediscount rate at 0.11%;
- discount rate at 0.12%.

They agreed to continue to purchase government securities, and government-guaranteed debt securities, the timing will depend on market conditions. NBP will also offer discount credit aimed at refinancing loans granted to enterprise by banks.

GDP data for Q3 shows an improvement in business conditions, Y/Y growth declined 1.6% in Q3 but on a Q/Q basis GDP improved 7.7%, following an 8.9% decline in Q2

- The easing of lockdown restrictions, in conjunction with fiscal stimulus, and accommodating monetary

policy increased economic activity

- Infections have started to rise once again, creating uncertainty about the course of the pandemic and the economy
- GDP for Poland is \$586bn which is \$15,421 per capita for the 2019 economy

The labour market has improved, with wage growth rising, especially in the corporate sector. This can be attributed to employees coming back to work

- As cases rise, we expect employment conditions to worsen, and unemployment to rise if restrictions are re-introduced

Inflation has been increasing, with CPI at 3.1% for October 2020, net food and energy prices increased by 4.2% in the same period versus 2019. On a month on month basis CPI was 0.1%, with net food and energy prices up 0.3% m/m

- Currency weakness and moderate rises in energy prices since March, could see inflation increase in the near term
- The NBP suggest that with interest rates unchanged, there is a 50% chance probability that annual price growth will be 3.4 -3.5% in 2020, and 1.8 - 3.2% in 2021
- With this projection, the NBP model indicated that there is a 50% probability that GDP will range between -4.1% and -3% in 2020 but in 2021 the model expects a range of 0.8-4.5% in 2021 (Narodowy Bank Polski)

For trade, Poland's balance of payments has remained positive in 2020 despite COVID-19, the current account in Q2 was 5.64% of GDP, capital account 2.99% of GDP, and combined they were 8.64% of GDP

- The balance of primary income was negative in Q2 at -13,328mIn PLN
- Poland's main exports in 2018 were rolled tobacco at \$3.4bn, Poultry meat at \$2.7bn, Iron structured at \$2.6bn, Refined petroleum at \$2.5bn, and coking coal at \$2bn

External debt held by Poland has increased in Q2 2020 to 335,481mn USD from 331,700mn USD. This is a decline from the final quarters of 2019 when gross external debt was 344,589mn USD and 353,962mn USD in Q3 and Q4 respectively

- Direct investment: Intercompany lending has increased to 97,595mn USD for Q2 2020, up from 95,336mn USD in Q1 2020

Risk appetite has improved following successful vaccine trials, and plans for rolling out the vaccine are put together. European economies have seen an increase in lockdown restrictions which has caused the currency to weaken. The move has been relatively strong in recent weeks causing a rally to 4.45. The increase in risk appetite has seen other currencies rally but PLN has only gone so far. While we do expect the EURPLN to weaken in the

long run as Ems and peripheral currencies start to strengthen once again. Poland's economy will benefit from a resumption in external demand, and fiscal stimulus which we would expect in 2021. We favour selling rallies in EURPLN at this time.

Volatility Commentary

Macro Comment

We've seen a mild pick up in FX macro vols starting this month however vols still remain far off the Nov election high, the main exception to that (as usual) being GBP vols which are being dominated as usual by UK-EU negotiations which again are still not resolved and a final deal or no deal decision to be made before month end.

EURPLN

We've seen PLN strengthen post-election and with the recent vaccine news, a trend over the medium term we'd expect to continue as we see macro risk on sentiment gradually increase with vaccine roll outs expected over the next few months/year. With macro risk-on sentiment slowly creeping back we've recently seen volatility realise lower than implied and we expect in the medium term for this to continue.

EURPLN 1-month Realised and Implied Volatility



EURPLN Trade Idea

- Buy 3m EURPLN Put option in 10m EUR strike 4.4500 for 93k EUR
- Sell 3m EURPLN Call spread in 7.5m EUR strikes 4.5500, 4.7000 for 50k EUR to reduce long vol expiry for potential lower volatility in the medium term
- Total Structure cost circa 43k EUR

Charts and Tables

FX Expiries

Currency Pair	Thursday 10 th	Friday 11 th	Monday 14 th	Tuesday 15 th	Wednesday 16 th
GBP/USD		705.88mio @ 1.36			
USD/JPY	600mio @ 103.5		500mio @ 105.15 2bio @ 106	500mio @ 102.9	
EUR/USD	576.26mio @ 1.18				920.52mio @ 1.195 816.66mio @ 1.2 629.66mio @ 1.207
EUR/GBP	847.28mio @ 0.897			840mio @ 0.8958	
USD/BRL	250mio @ 5.35 200mio @ 5.364 220mio @ 5.426	140mio @ 5.42	450mio @ 5.23 800mio @ 5.3	100mio @ 5.3 500mio @ 5.4 440mio @ 5.404	850mio @ 5.07 180mio @ 5.15 500mio @ 5.23
AUD/USD	100.69mio @ 0.725 337.9mio @ 0.728 200.68mio @ 0.7375 200mio @ 0.74 202.57mio @ 0.7405 403.76mio @ 0.743 335.57mio @ 0.745 200.14mio @ 0.7496 200mio @ 0.75	100.41mio @ 0.727 300.55mio @ 0.732 336.93mio @ 0.742 202.02mio @ 0.7425 100.67mio @ 0.745	100.69mio @ 0.725 100.48mio @ 0.7265 136.99mio @ 0.73 201.34mio @ 0.745	300.55mio @ 0.732	731.54mio @ 0.745 301.62mio @ 0.746 786.67mio @ 0.751
USD/ZAR	150mio @ 15.25				
USD/INR			100mio @ 73.75	250mio @ 73.5	100mio @ 73.25 100mio @ 73.5 100mio @ 74.25

Source: Bloomberg DTCC Data 2% from spot levels as of 09/12/2020

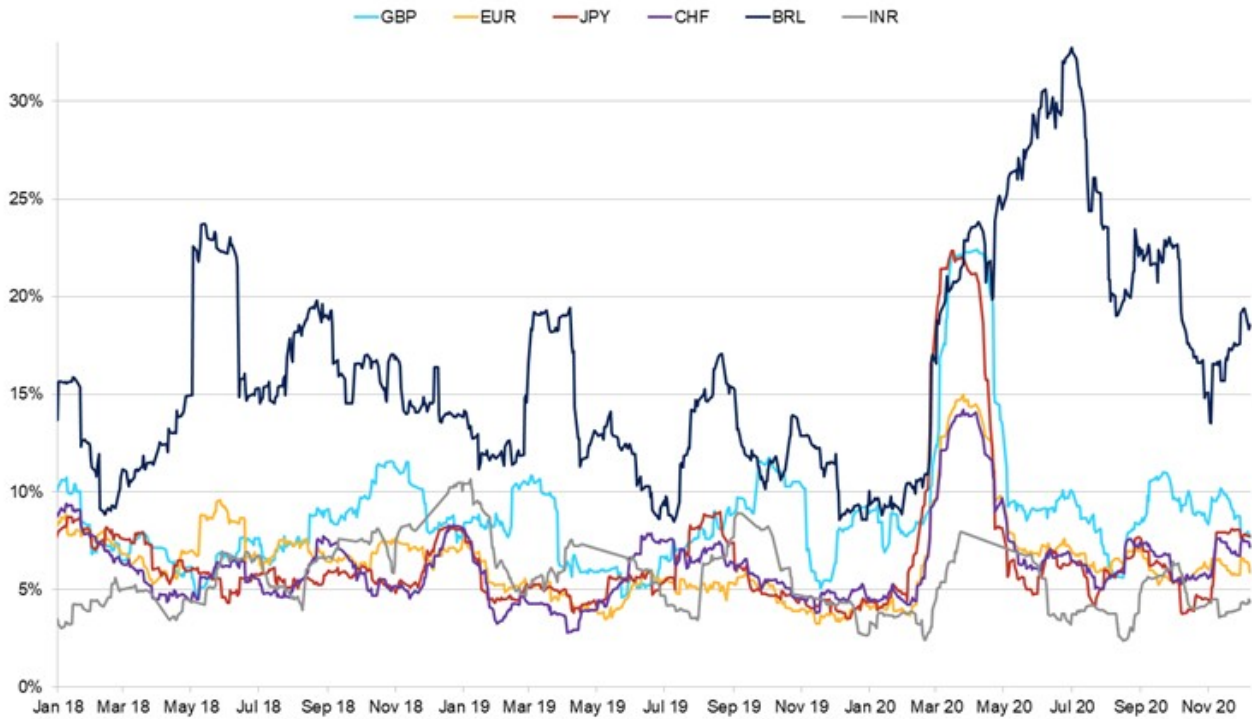
Volatility Grid

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	0.02	0.20	8.13	-2.77	0.47	17.44	-0.53	0.18	6.07	2.46	0.42	16.23
1M	0.24	0.20	7.24	-3.14	0.52	12.67	-0.75	0.20	6.21	2.66	0.41	11.49
2M	0.30	0.24	7.05	-2.70	0.50	10.92	-0.96	0.23	6.43	2.33	0.39	9.87
3M	0.32	0.26	6.89	-2.47	0.49	10.23	-1.09	0.26	6.51	2.16	0.39	9.21
6M	0.40	0.35	6.67	-2.10	0.50	9.29	-1.27	0.30	6.75	1.87	0.38	8.26
1Y	0.46	0.40	6.51	-1.81	0.52	8.77	-1.48	0.34	6.96	1.64	0.39	7.64

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	0.25	0.20	5.33	2.33	0.64	18.92	1.48	0.25	21.09	-0.52	0.23	9.82
1M	0.41	0.20	5.79	3.75	0.95	18.96	2.11	0.32	19.26	-0.78	0.27	9.53
2M	0.56	0.23	6.29	4.14	1.07	18.57	2.52	0.39	18.92	-0.93	0.30	9.48
3M	0.68	0.26	6.50	4.60	1.15	18.48	2.72	0.44	18.51	-1.03	0.34	9.48
6M	0.92	0.32	6.82	5.60	1.41	18.28	3.10	0.55	17.96	-1.17	0.38	9.43
1Y	1.12	0.38	6.99	6.49	1.64	18.08	3.54	0.69	17.40	-1.33	0.43	9.41

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: SucdenFinancial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3273	1.21	0.009578	1.1258	0.7834	0.7487	0.7043
GBP	0.7534	-	0.91166	0.7216	0.8482	0.5902	0.56412	0.5307
EUR	0.8264	1.0969	-	0.79156	0.9304	0.6474	0.6188	0.5821
JPY	104.41	138.574	126.34	-	117.542	81.793	78.171	73.539
CHF	0.8882	1.1789	1.07481	0.8508	-	0.6959	0.665	0.6256
CAD	1.2765	1.6942	1.54457	0.012226	1.4371	-	0.9557	0.8991
AUD	1.3355	1.7727	1.61613	1.2793	1.5036	1.0462	-	0.9407
NZD	1.4197	1.8844	1.7179	0.0136	1.5984	1.1122	1.063	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.32	0.37	0.54	-0.27	-0.76	-0.65	0.48
GBP	-1.35	-	-0.96	-0.80	-1.64	-2.13	-1.95	-0.87
EUR	-0.40	0.96	-	0.15	-0.70	-1.16	-1.00	0.09
JPY	-0.55	0.78	-0.17	-	-0.85	-1.31	-1.16	-0.07
CHF	0.34	1.59	0.71	0.85	-	-0.38	-0.24	0.73
CAD	0.75	2.09	1.12	1.29	0.42	-	0.10	1.23
AUD	0.61	1.96	1.00	1.14	0.32	-0.16	-	1.07
NZD	-0.48	0.83	-0.10	0.07	-0.76	-1.25	-1.10	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	10/12	00:50	PPI MoM	Nov	0.0%	-0.2%
UK	10/12	08:00	Mfg Production MoM	Oct	0.3%	0.2%
UK	10/12	08:00	GDP MoM	Oct	0.4%	1.1%
EU	10/12	13:45	ECB Interest Rate Decision			0.0%
US	10/12	14:30	CPI MoM	Nov	0.2%	0.0%
US	10/12	14:30	Continuing Jobless Claims	Nov 27	5.4m	5.52m
US	10/12	20:00	Monthly Budget Statement	Nov	-\$200bn	-\$284bn
US	11/12		COVID-19 Vaccine Announcement			
US	11/12	14:30	PPI YoY	Nov	1.5%	1.1%
US	11/12	16:00	Michigan Consumer Sentiment	Dec	76.5	76.9
JPY	14/12	00:50	Tankan Large Mfg Index	Q4		-27
JPY	14/12	05:30	Industrial Production YoY	Oct		-3.2%
EU	14/12	11:00	Industrial Production MoM	Oct		-0.4%
PNL	14/12	14:00	Current Account	Oct		€1072m
CNY	15/12	03:00	Industrial Production YoY	Nov		6.9%
CNY	15/12	03:00	Retail Sales YoY	Nov		4.3%
UK	15/12	08:00	ILO Unemployment Rate 3M	Oct		4.8%
US	15/12	15:15	Industrial Production MoM	Nov		1.1%

Source: FX Street

Technical Analysis

JP Morgan Global FX Volatility



The index has weakened below the support level of 8.06; the market closed at 8.04. The fall below the 8.00 level could pave the way for a challenge at 50 DMA. The MACD diff is negative and diverging, suggesting further downside pressures for the prices. On the other hand, RSI dipped marginally lower and %K stochastic broke above the %D – a buy signal. On the upside, the index needs to gain a footing above yesterday's high of 8.11, which could set the scene for 200 DMA. The indices paint a mixed picture, but if the index corrects to the upside and fails into previous day support, we could see prices trend lower.

Dollar Index



The index has improved in the recent sessions and has breached resistance at 91.00 and closed at 91.10. The stochastics are rising, with %K/%D converging, which is a signal of waning buying pressure. The MACD diff is positive and diverging, suggesting we could see a push higher in the near term. The index needs to hold above the 50 DMA levels before it could target the 161.8% fib level at 91.20. On the downside, the break below 90.70 could pave the way for a 90.50 support. The moving averages are edging lower, and a break above them could set the scene for bullish momentum.

EURPLN



The index has weakened yesterday, falling below the 4.44 support level to close at 4.43. The prices have found support at 4.41. The stochastics are seen rising, with %K/%D crossing into a buy signal. The MACD are negative and converging on the upside, supporting the outlook for a change to bullish momentum. On the upside, the break above yesterday's highs could set the prices to test the 50 DMA. Conversely, to confirm the outlook for lower prices, the index needs to take out the key support at 4.41, which would signal a strong bearish momentum. A breach of this level could trigger a test at 4.40 and 4.38.

Risk warning

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