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FX Options Weekly Report

Macro and Vol Commentary

The Australian dollar has been on the rise for more than a year, driven by its commodity export factor as well as improving economic outlook. Will this trend continue in the medium term?

Economic Backdrop

- Rising sentiment from a vaccine rollout combined with fiscal and monetary stimulus accelerated the economy's recovery
- The Australian economy grew by 3.1% in Q4 as the pandemic-induced shock subsided
- Household spending rose by 4.3% q/q
- For the year 2021, the economy is forecast to expand by 4.5%, according to government growth projection
- Australia unemployment dropped from 6.3% to 5.8% in February
- The employment level jumped by 88,700, reaching the pre-pandemic levels of 13m
- Yet, there could be a slowdown in the decline, given that the government's JobKeeper wage subsidy is set to expire on March 28th
- Nevertheless, the stronger-than-expected labour market highlights Australia's V-shaped recovery as the virus containment boosts confidence
- The service industry has been seen improving, yet at a slightly slower rate since the beginning of 2021
- The index value of 53.4 is the softest since September, yet marked the sixth successive improvement in business conditions
- The manufacturing, in line with the global trend, has been breaching record highs of 57.2 in January on the back of prospect optimism
- From the vaccine front, Australia is far behind its Western counterparts, with cumulative vaccinations reaching 0.28m on March 21st
- By securing enough jobs to vaccinate the entire population, the country is on target to inoculate all

residents with a first dose by the end of October

- Regardless, Australia is ranked second in the world in Bloomberg's Covid resilience ranking
- The low number of cases is attributed to a complete economy lockdown as well as strict travel restrictions from the beginning of the pandemic
- In February, the interest rate on the 3yr government bond began to rise
- To combat this, the RBA bought \$1bn worth of bonds
- It also initiated a QE programme to lower borrowing costs
- While annual inflation is seen rising to 0.9%, it is still well below the pre-pandemic levels
- From the monetary policy side, the RBA is expected to leave interest rates just above zero through at least 2024
- The government is providing ongoing support to industries like tourism and airlines that are still struggling from closed borders
- The government has implemented large fiscal stimulus, with about 12.5% of GDP in direct pandemic-related economic support over the next five years

China-Australia Trade

- Trade tensions between China and Australia arose in April 2020, as Australia called for an investigation into the origins of the COVID-19 virus
- In response, China has imposed tariffs on goods such as barley, wine, beef
- After nearly a year of tensions, we can see the implications for the countries' trade
- Chinese investment in Australia fell by 61% in 2020, the lowest number in 6 years as a result of the growing diplomatic rift
- Nevertheless, China's demand for Australian iron ore made up for restrictions on other products, causing Australia's trade balance with China to hit a six-month high in December
- The US came out in support of Australia, stating that the relationship between the US and China will not improve until Beijing stops its economic coercion against Australia

The price of Australia's biggest export commodity, iron ore, has been rising on the back of growing China steel production. A positive economic backdrop has also supported the currency. While the number of vaccinations remains low, the country's strict lockdown restrictions from the beginning of the pandemic supported the positive economic backdrop. With enough vaccine jabs purchased to inoculate the whole country by the end of 2021, the outlook for this year remains positive. The labour market continues to heal, with unemployment levels falling sharply. While the levels still above the pre-pandemic levels, the government decided to let its wage support expire by the end of March, jeopardising the case of a smooth recovery. The focus is likely to shift to rising government yields and the government's response to control the bond markets in the meantime.

Volatility Commentary

Over the last few months, we have generally seen AUDUSD vols realise below implied, though Feb saw higher realised volatility with the risk-off move towards the end of Feb factoring in. Though since the risk-off move we have seen implied vols come back down though see the potential for vol to continue realising higher. AUDUSD has risen over the last few months along with improved risk-on sentiment with vaccine's being confirmed (surpassing levels seen pre-Covid), though we've seen a recent bout of USD strengthening off USD yields this month and risk-off sentiment creeping into the market with renewed lockdowns in Europe and potential a "Vaccine War" between the UK and EU. Below we suggest a trade idea that would benefit from short-lived risk-off sentiment continuing and a medium-term reversion.

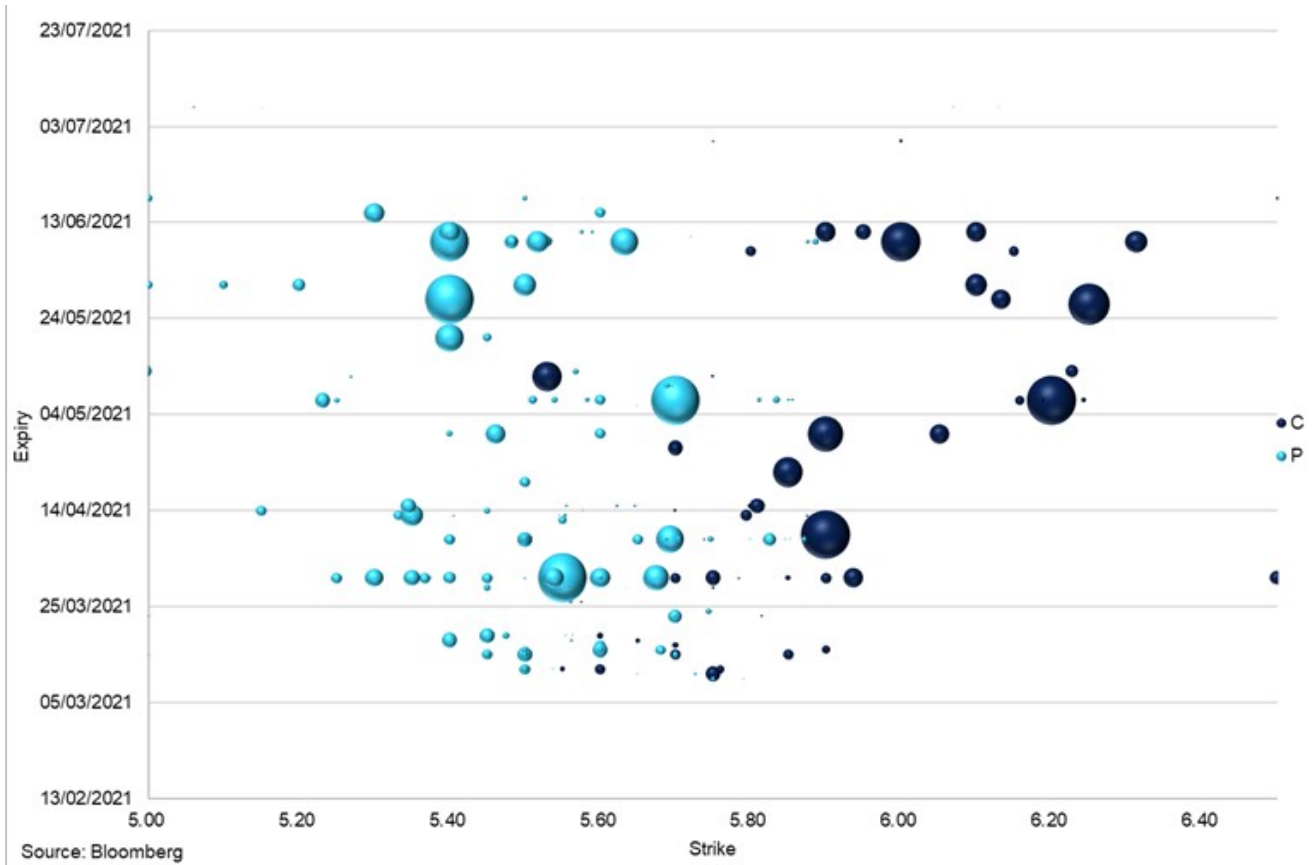
AUDUSD Trade Idea

- Below priced in 10m AUD notional per leg 2-month expiries
- KI Call spread, buy KI Call option with Strike 0.7700 and KI Barrier 0.755 vs selling KI Call option with strike 0.7800 and KI Barrier 0.755 for cost circa 21k USD
- For reference, vanilla equivalent is circa 36k USD

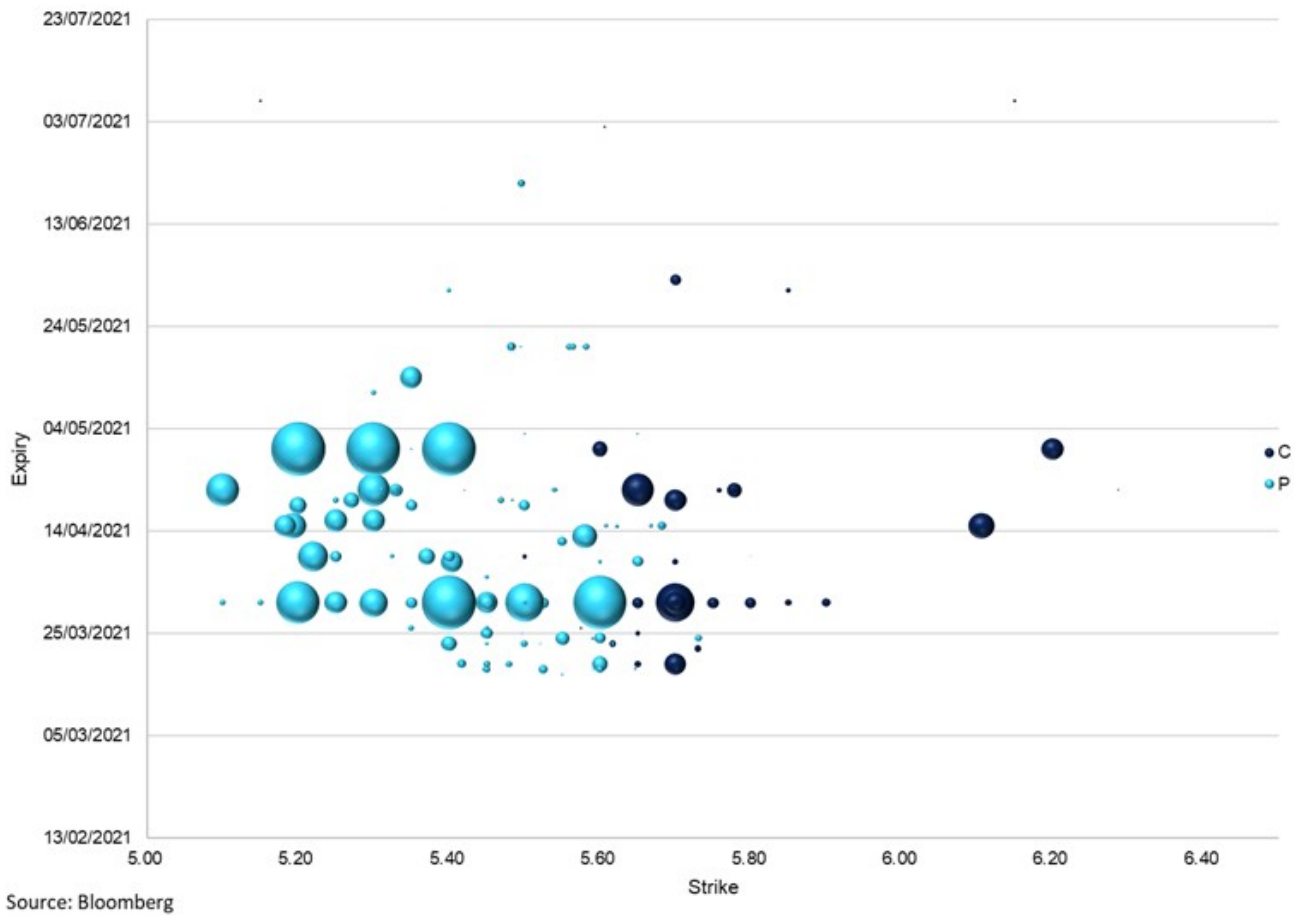
Positioning Charts

USDBRL NDO Positioning Data 09/03/2021 - 16/03/2021

There is a large difference between the two charts, chart 2 shows a greater bias for the downside. There are significantly more puts executed in the week with higher notional values. Puts traded a lower range 5.20-5.60 vs last week which was 5.40-5.60. The notional values with expiries this week are across the whole range of 5.20-5.60, this has caused spot to weaken to 5.50. There is very little upside cover in the options market, with very few options executed above 5.70. We expect USDBRL to weaken in the near term with options traders having downside exposure.

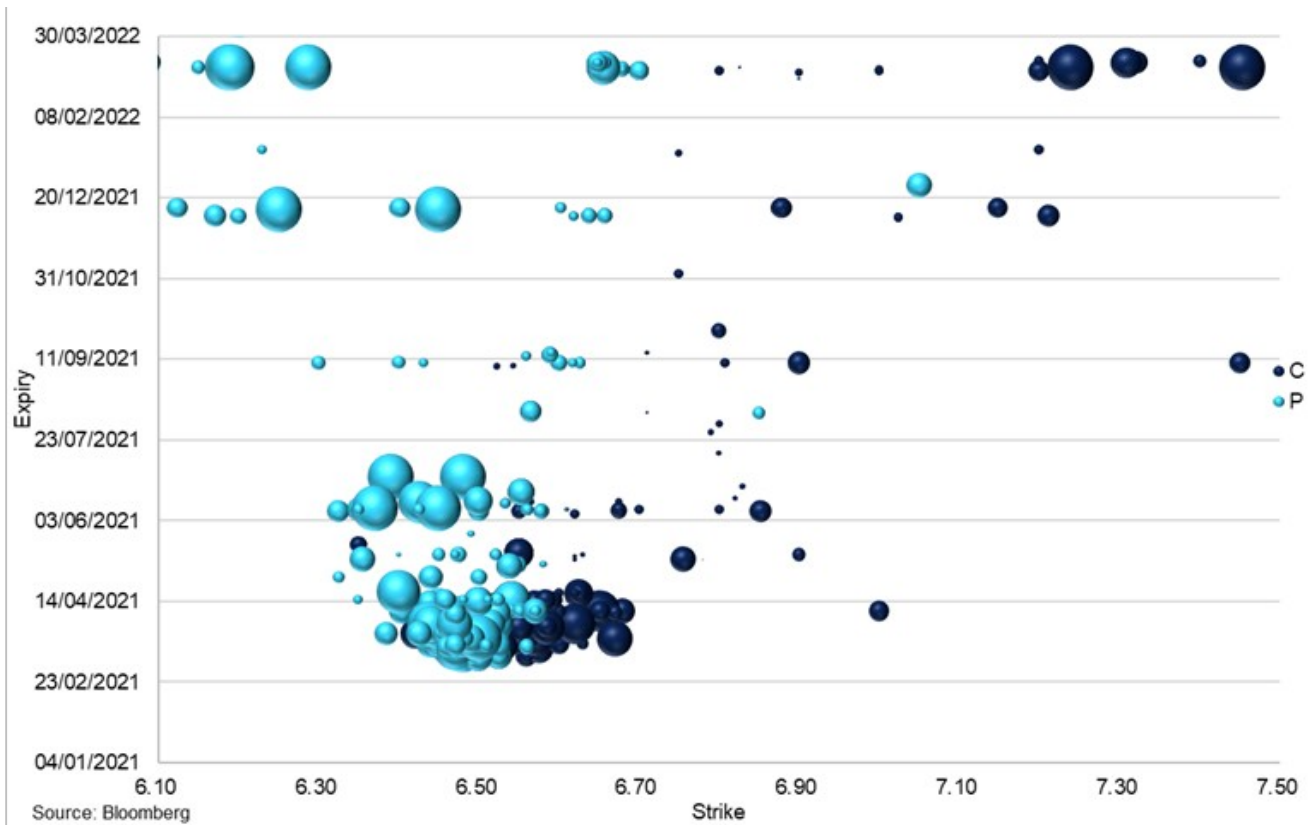


USDBRL NDO Positioning Data 16/03/2021 - 23/03/2021

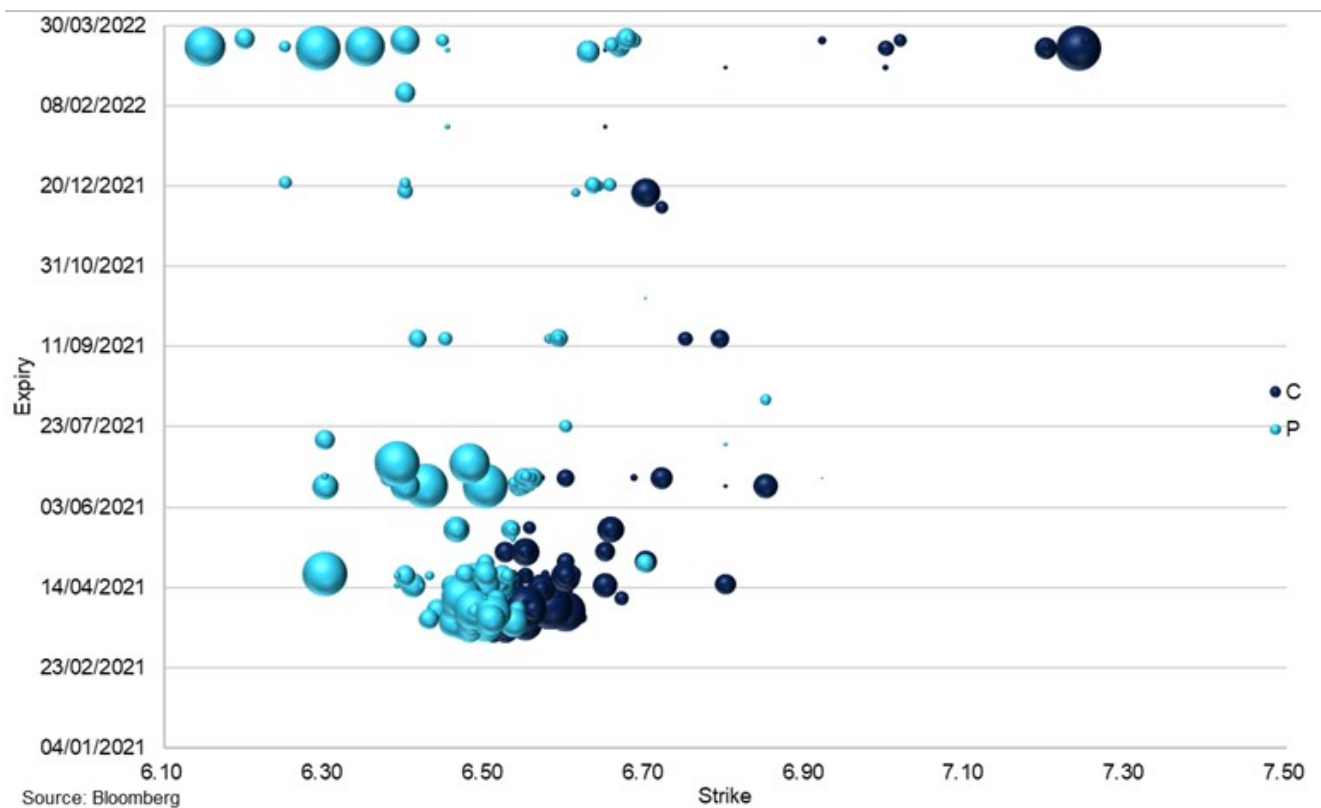


USDCNY Vanilla Positioning Data 09/03/2021 - 16/03/2021

Volumes were lower in the week to March 23rd, there remains a bias to the further USD weakness, but put options traded a narrower 6.40-6.55 range. The market continues to consolidate as spot holds above 6.50 at the time of writing but there is little upside cover in the options market. The narrow range of both call and put options with expiries between now and April 15th suggest there is little conviction in the market. We expect spot to continue to consolidate, a break out either way would see option traders frantically chasing the market.



USDCNY Vanilla Positioning Data 16/03/2021 - 23/03/2021

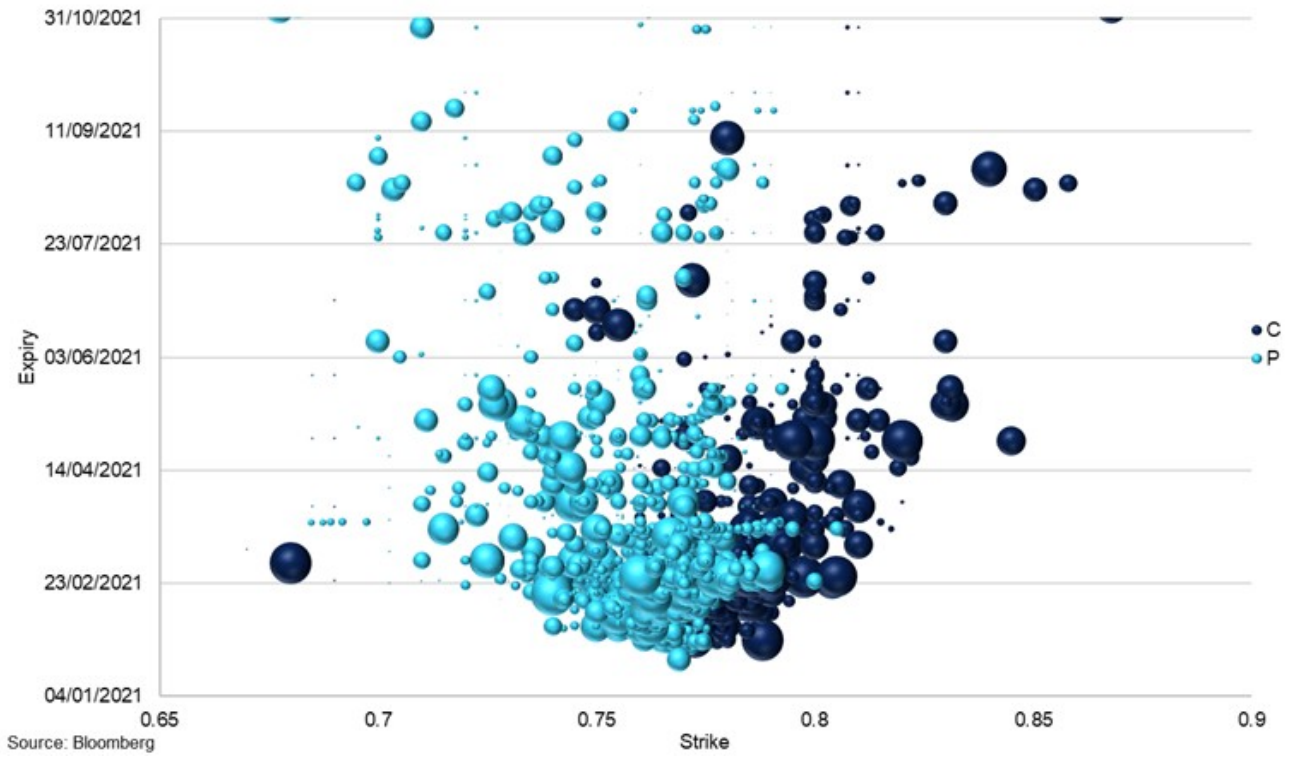


AUDUSD Vanilla Positioning Data 23/01/2020 - 23/02/2021

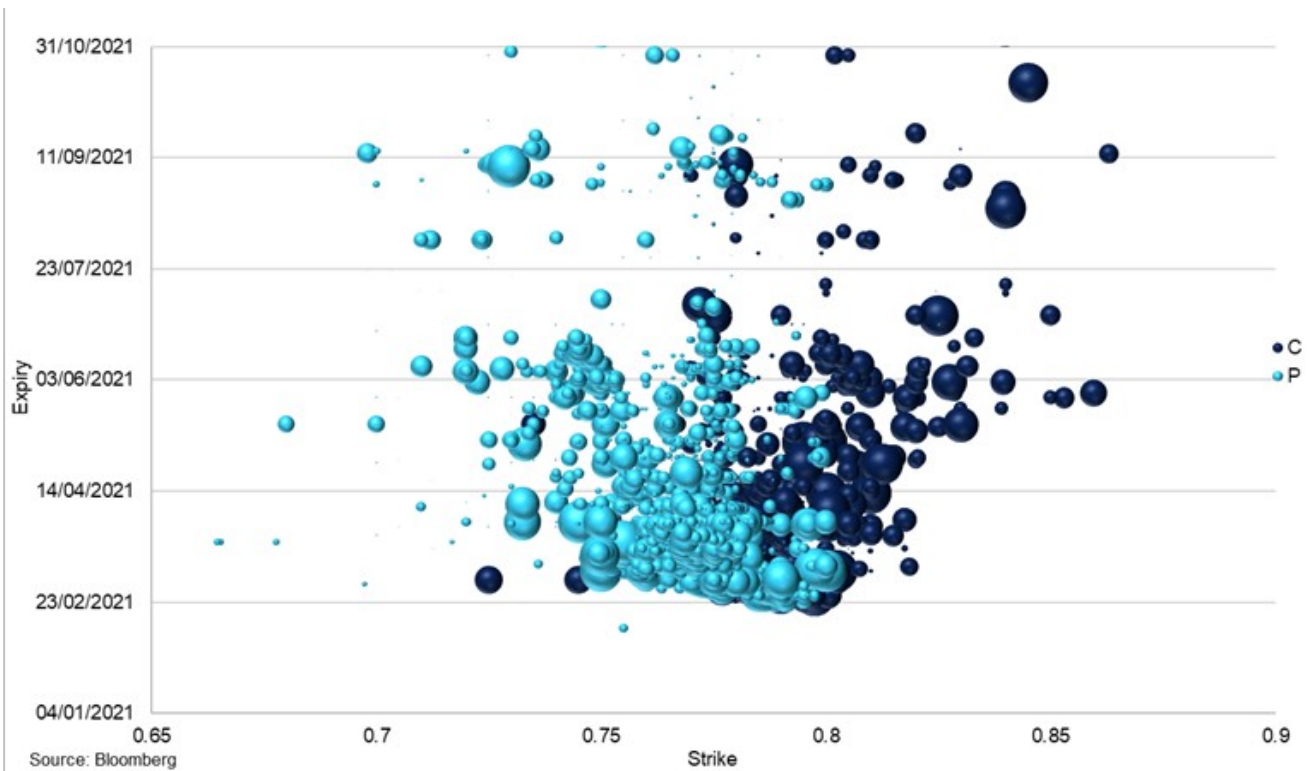
Options have followed spot higher in the month to March 23rd, the majority of put options executed in March traded a 0.75-0.8 range. Most of these potions expire before April 14th. As we move further out, there is more upside exposure to the market, with call options more frequently executed above 8. In March, there were more

call options executed as traders looked to get more upside exposure. We expect to see the current trend continue but as spot approaches 0.76 we believe the options market will cover accordingly to the downside.

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AUDUSD Vanilla Positioning Data 23/02/2021 - 23/03/2021



Charts and Tables

FX Expiries

Currency Pair	Wednesday 24 th	Thursday 25 th	Friday 26 th	Monday 29 th	Tuesday 30 th
GBP/USD					
USD/JPY	1.05bio @ 108	610mio @ 107 500mio @ 110		760mio @ 107 660mio @ 108.7	
EUR/USD		641.04mio @ 1.17 847.44mio @ 1.18		837.88mio @ 1.1935 502.09mio @ 1.195	508.33mio @ 1.2
EUR/GBP					
USD/BRL					
AUD/USD	120.39mio @ 0.7725 100.58mio @ 0.7755 219.93mio @ 0.7775 243.59mio @ 0.78 152.87mio @ 0.785 200mio @ 0.79	125.49mio @ 0.765 259.74mio @ 0.77 316.46mio @ 0.79	110.53mio @ 0.76 320nio @ 0.768 972.32mio @ 0.7765 100mio @ 0.79	300mio @ 0.77 115.51mio @ 0.7705 100.58mio @ 0.7755 100.64mio @ 0.785	109.68mio @ 0.775 100.39mio @ 0.777 100.64mio @ 0.785 152.67mio @ 0.786 100.32mio @ 0.7875 230.38mio @ 0.79
USD/ZAR					
USD/INR		100mio @ 72	200mio @ 73		180mio @ 71.2 220mio @ 71.4 200mio @ 71.55 420mio @ 72 100mio @ 72.3 570mio @ 72.5 760mio @ 72.8 540mio @ 73 780mio @ 73.5 150mio @ 73.8

Source: Bloomberg DTCC Data 2% from spot levels as of 22/03/2021

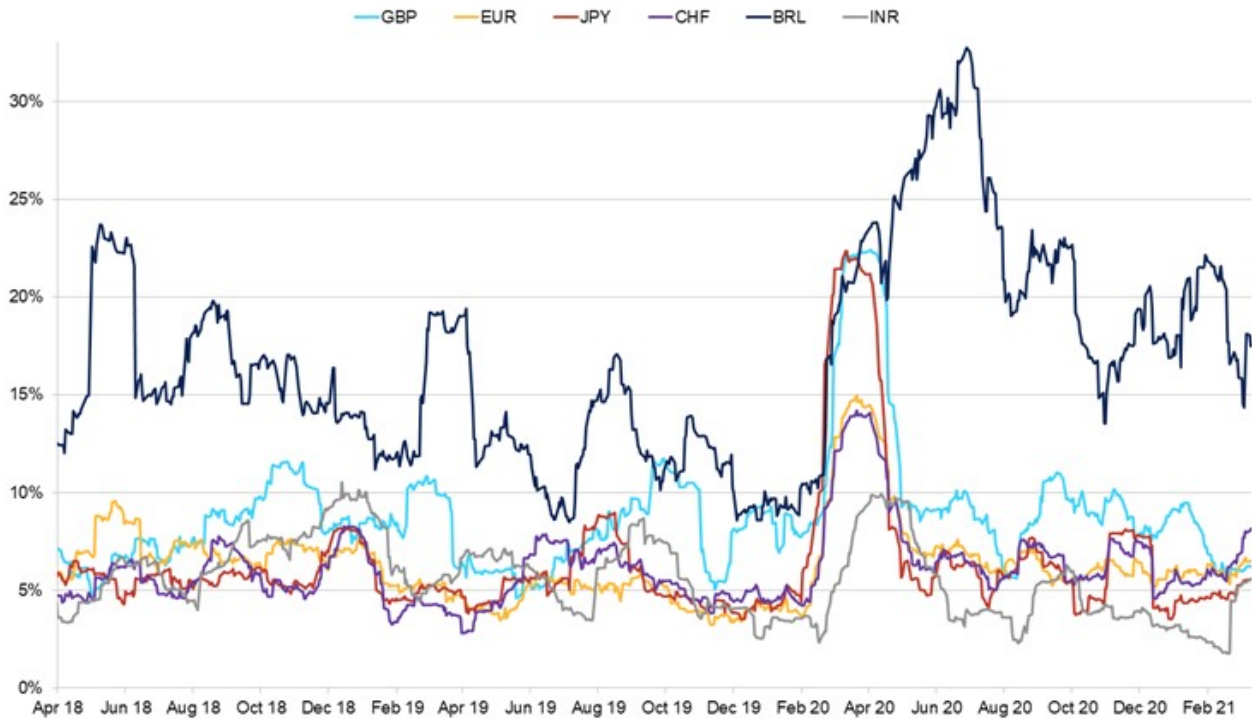
Volatility Grid

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	-0.31	0.15	7.69	-0.61	0.19	9.08	-0.02	0.20	7.23	0.45	0.14	6.70
1M	-0.20	0.16	6.41	-0.75	0.22	7.96	-0.12	0.23	6.34	0.57	0.16	6.21
2M	-0.15	0.18	6.28	-0.83	0.26	7.92	-0.38	0.27	6.31	0.62	0.18	6.32
3M	-0.11	0.21	6.36	-0.90	0.29	7.99	-0.58	0.29	6.44	0.68	0.20	6.48
6M	-0.06	0.27	6.36	-0.99	0.36	8.07	-0.89	0.33	6.63	0.79	0.26	6.70
1Y	0.00	0.32	6.45	-1.13	0.42	8.20	-1.18	0.36	6.87	0.94	0.33	6.93

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	0.82	0.18	5.29	3.27	0.61	21.58	1.59	0.30	25.89	-0.90	0.26	11.78
1M	1.07	0.21	5.67	4.82	0.95	19.37	1.60	0.33	21.24	-1.47	0.33	10.50
2M	1.17	0.23	5.88	5.26	1.05	18.75	1.72	0.36	19.83	-1.60	0.36	10.17
3M	1.28	0.26	6.11	5.68	1.15	18.94	1.91	0.39	19.29	-1.69	0.40	10.17
6M	1.45	0.30	6.44	6.27	1.31	19.13	2.08	0.45	18.44	-1.80	0.43	10.09
1Y	1.60	0.36	6.72	6.95	1.56	19.39	2.32	0.55	17.68	-1.89	0.46	10.07

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	-	1.3900	1.1896	0.0092	1.0778	0.8017	0.7719	0.7172
GBP	0.7194	-	0.8559	0.6588	0.7754	0.5769	0.5553	0.5159
EUR	0.8407	1.1684	-	0.7698	0.9062	0.6740	0.6488	0.6028
JPY	109.2000	151.7810	129.9000	-	117.6870	87.5570	84.2880	78.3180
CHF	0.9278	1.2897	1.1038	0.8497	-	0.7440	0.7162	0.6652
CAD	1.2473	1.7335	1.4837	0.0114	1.3446	-	0.9626	0.8945
AUD	1.2958	1.8008	1.5412	1.1864	1.3963	1.0389	-	0.9292
NZD	1.3945	1.9380	1.6587	0.0128	1.5027	1.1180	1.0762	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.23	-0.28	-0.75	0.20	1.17	-0.22	-0.33
GBP	0.25	-	-0.02	-0.47	0.47	1.44	0.04	-0.10
EUR	0.29	0.02	-	-0.46	0.47	1.46	0.05	-0.07
JPY	0.76	0.50	0.47	-	0.95	1.93	0.52	0.42
CHF	-0.22	-0.46	-0.47	-0.98	-	0.85	-0.47	-0.63
CAD	-1.17	-1.39	-1.43	-1.89	-0.93	-	-1.36	-1.49
AUD	0.22	-0.03	-0.06	-0.52	0.41	1.39	-	-0.12
NZD	0.35	0.09	0.04	-0.39	0.54	1.51	0.11	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	24/3	01:30	Jibun Bank Mfg PMI	Mar	52.0	51.4
UK	24/3	08:00	CPI MoM	Feb	0.5%	-0.2%
EU	24/3	10:00	Markit Services PMI	Mar	46.0	45.7
UK	24/3	10:30	Markit Mfg PMI	Mar	55.0	55.1
US	24/3	12:00	MBA Mortgage Applications	Mar 19		-2.2%
US	24/3	13:30	Durable Goods Orders	Feb	0.8%	3.4%
US	24/3	14:45	Markit Mfg PMI	Mar	59.4	58.6
US	24/3	14:45	Markit Services PMI	Mar	60.2	59.8
EU	24/3	16:00	Consumer Confidence	Mar	-14.5	-14.8
EU	25/3	01:00	European Council Meeting			
JPY	26/3	00:50	Tokyo CPI YoY	Mar	0.0%	-0.3%
UK	26/3	08:00	Retail Sales YoY	Feb	-3.5%	-5.9%
JPY	30/3	00:30	Unemployment Rate	Feb	3.0%	2.9%
EU	30/3	10:00	Industrial Confidence	Mar	-5.0	-3.3
US	30/3	14:00	Housing Price Index MoM	Jan		1.1%
US	30/3	15:00	Consumer Confidence	Mar		
AUD	31/3	01:30	Building Permits YoY	Feb		19%
AUD	31/3	23:00	Commonwealth Bank Mg PMI			

Source: FX Street

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