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# FX Options Weekly Report

## Macro and Vol Commentary

The Turkish lira steadily shed value in the first two quarters of 2023, weakening 4.8% since the start of the year. With all eyes set on the country in the middle of one of the most important elections in decades, what is the outlook for USDTRY in the near term?

### Turkish Economy

- Turkish economy continues to face headwinds exacerbated by February earthquake disaster that weighs on economic growth.
  - — GDP growth forecast for 2023 was revised downwards by 0.4% to around 2.6% compared to 5.6% in 2022.
  - — More than 13 million were affected by the two earthquakes that caused widespread destruction in the regions accounting for 9.4% of Turkey's GDP.
  - — A report published by the Turkish Enterprise and Business Confederation put the cost of the damage at \$84.1 billion.
  - — Even though reconstruction spending should support the economy, growth could still suffer from the destruction of infrastructure, disrupted supply chains and the loss of labour and investment.
  - — So far, the manufacturing sector has shown signs of recovery, expanding at a faster pace in April, with the headline Manufacturing PMI staying in expansionary at 51.5.
- At the same time, inflation remains high at 43.68% in April, reducing purchasing power of the population and weighting on private consumption, which accounts for more than 50% of GDP.
  - — The biggest increase was seen in the health sector at 66.62%, followed by restaurants and hotels at 66.41%.
  - — Albeit slowing slightly in April, inflation is predicted to rise in the coming months as the base effect that helped lower the annual reading so far is expected to wear off.
- In the meantime, the Central Bank of Turkey maintains its unorthodox monetary stance, keeping low interest rates despite soaring inflation.
  - — At its last meeting in April, the CBRT held the interest rate at 8.5%. The policymakers have been decreasing the key rate steadily since October last year when it was set at 14%.
  - — As a result, the lira depreciated to record low against the dollar, and is expected to gradually depreciate further against other major currencies.

- Moreover, Turkey's structural current account deficit and high external debt continues to weaken the country's external position.
  - \_ The 12-month rolling deficit dropped in March due to recent normalisation in energy prices and the suspension of gold imports but remains high at almost 6% of GDP.
  - \_ Almost half of the country's debt is written in foreign currencies, posing risk to financial stability.

## Elections

- Turkey's presidential election will be decided in a run-off vote on May 28. The incumbent president Recep Tayyip Erdogan led over the opposition leader Kemal Kilicdaroglu but fell short of an outright majority in the first round of elections on May 14.
  - \_ On May 14, Turkey's benchmark BIST-100 index sank 6.4%, while the lira depreciated by 0.5% against the dollar. As Erdogan is committed to maintaining current unorthodox stance regarding economic policy, we expect the lira to depreciate in case of his victory.
  - \_ In case the opposition succeeds, following through on Kilicdaroglu promise to return to policy orthodoxy, we expect a slight appreciation of the lira.
- Regardless of the election result, the next Turkish government faces a complicated set of macroeconomic problems.

Sources: S&P Global, Turkish Statistical Institute, Central Bank of Turkey

# Volatility Commentary

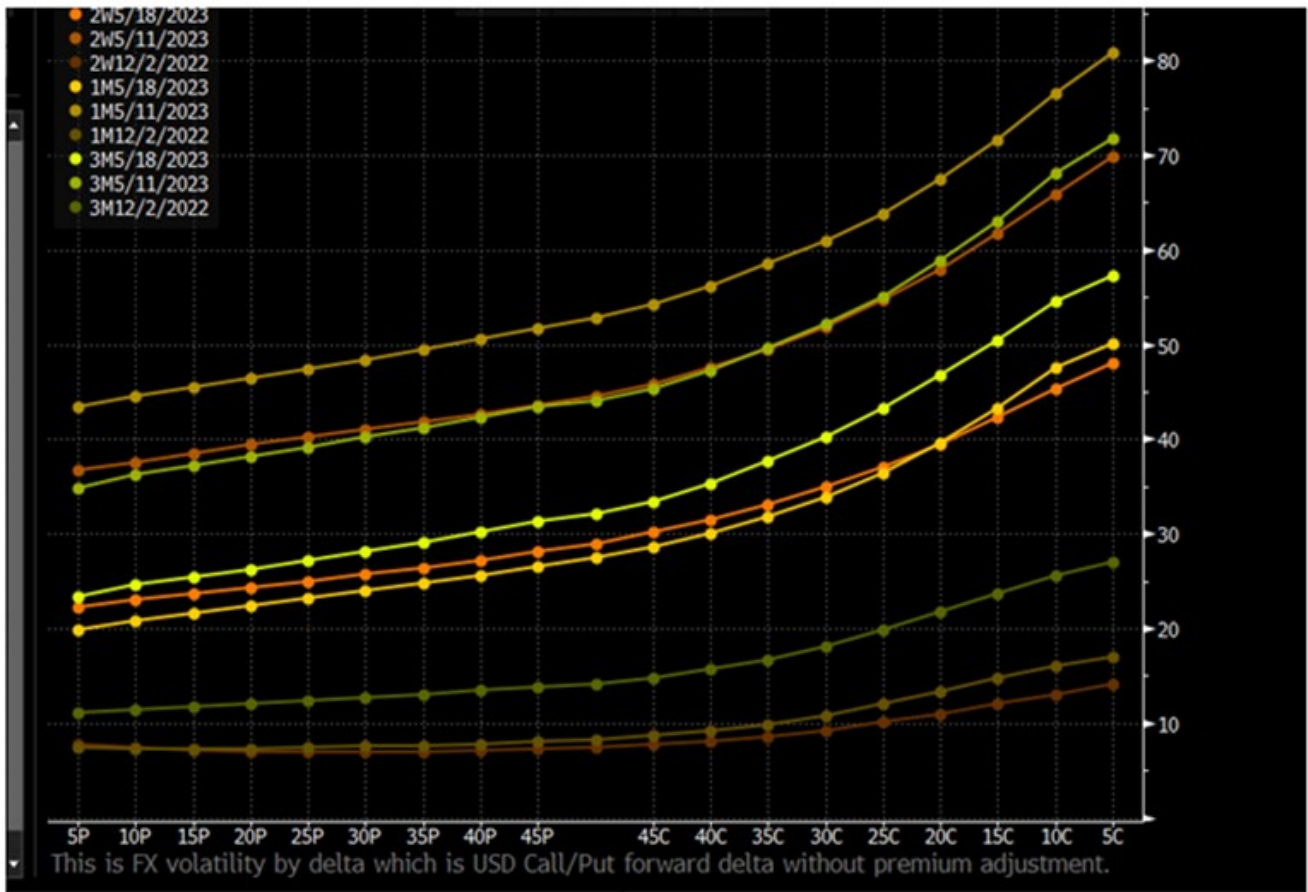
## Historical vs Implied Volatility



By simply comparing the volatility levels of USDTRY, we can see that implied volatilities have been elevated throughout the past year, especially coming up to April/ May 2023, despite the recent drop, the 1M Implied Volatility is still at 27.77 in comparison to the 1M Realized volatility levels at 2.422. Options valuations are currently trading at a very high premium, purchasing options at these volatility levels is expensive however given the uncertainty of the result in the run off vote on the 28/05, we do expect realised volatility to rise if the new government gets into power and a new economic policy is adopted.

However if the current government stays in power then we don't expect anything new with regards to the economic policy hence we can expect IV remain at its current levels.

Skew



To better understand the USDTRY market landscape we also analyse the term structure. Just looking at the 2w, 1m and 3m implied volatility, we can see clearly see a positive skew where the risk is to the upside. This is in line with the market expectations that the likely event is the current government will stay in power and its unorthodox policy framework will stay in place leading to a continued depreciation of the lira.

Putting all this together, given the fact that the volatility is considered at elevated levels, we will use a calendar spread, by selling the short term option and buying the long term. Betting that short term volatility will remain at these levels while medium term volatility will increase.

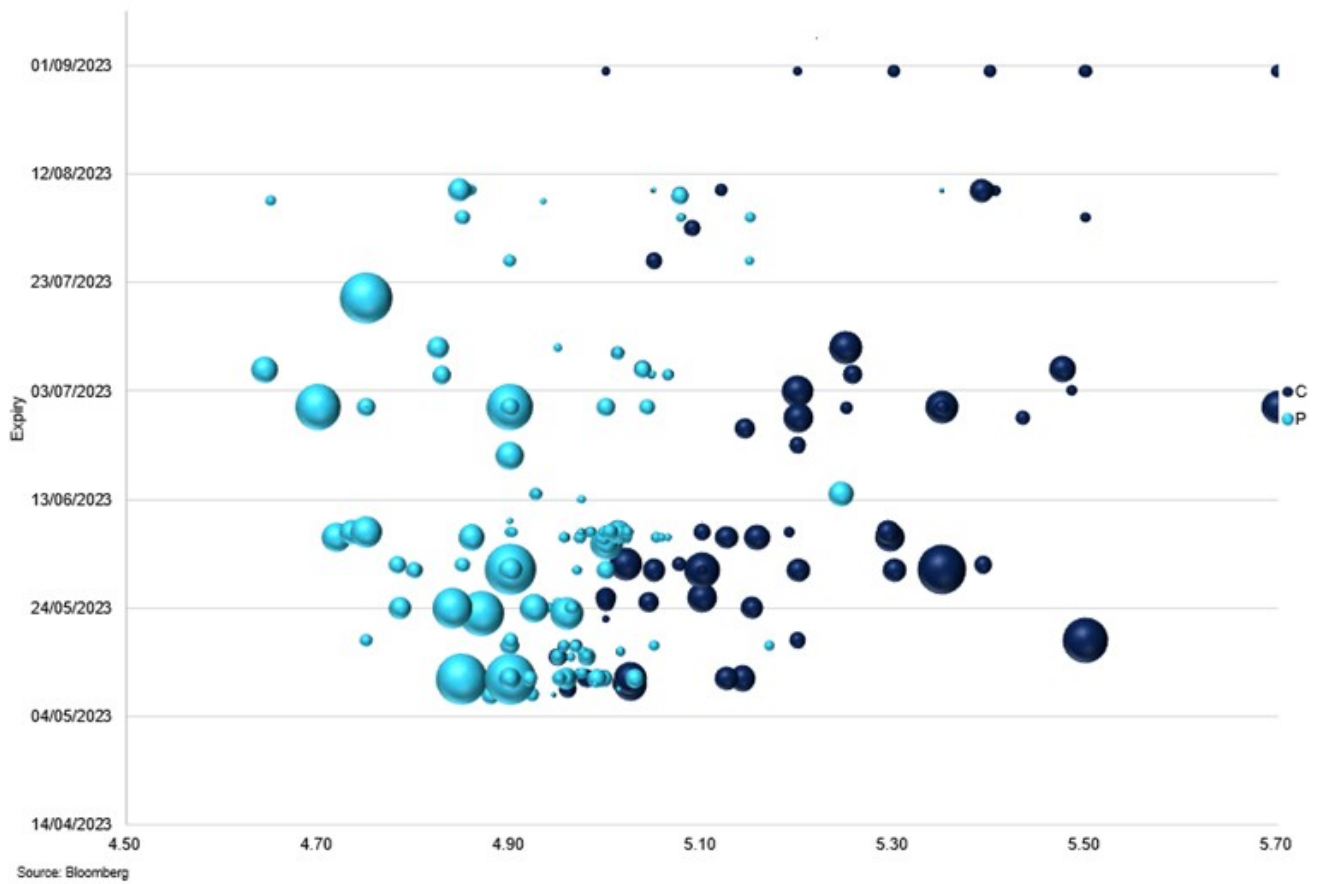
# USDTRY Trade Idea

- Calendar spread
- SELL USDTRY Call expiry 29/05/2023
- BUY USDTRY Call expiry 24/07/2023
- Strike 21
- Notional: 500k USD
- Cost: Pay Circa 40k USD.
- Potential payoff: 55k USD if spot finishes at 23.2 (forward rate for 2 months expiry).

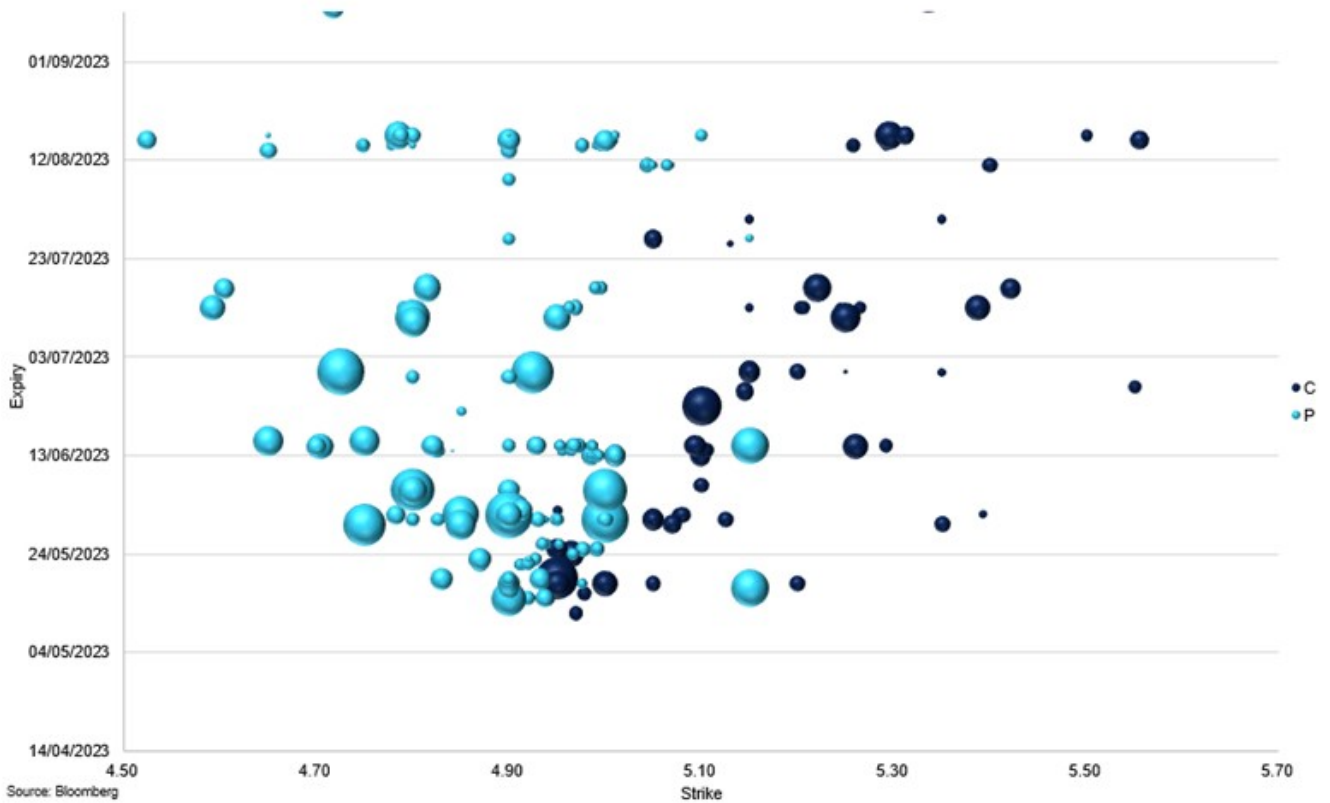
# Positioning Charts

## USDBRL NDO Positioning Data 04/05/2023 - 11/05/2023

USDBRL option positioning remained broadly unchanged in the week ending May 18th, with the near-term term range getting tighter around the 4.90-5.00 levels. In the meantime, further down the curve, the number of options for both puts and calls increased and the cover was extended. This suggests to us that markets are more comfortable with the pair trading at current ranges, before seeing downside cover grow in June and July.

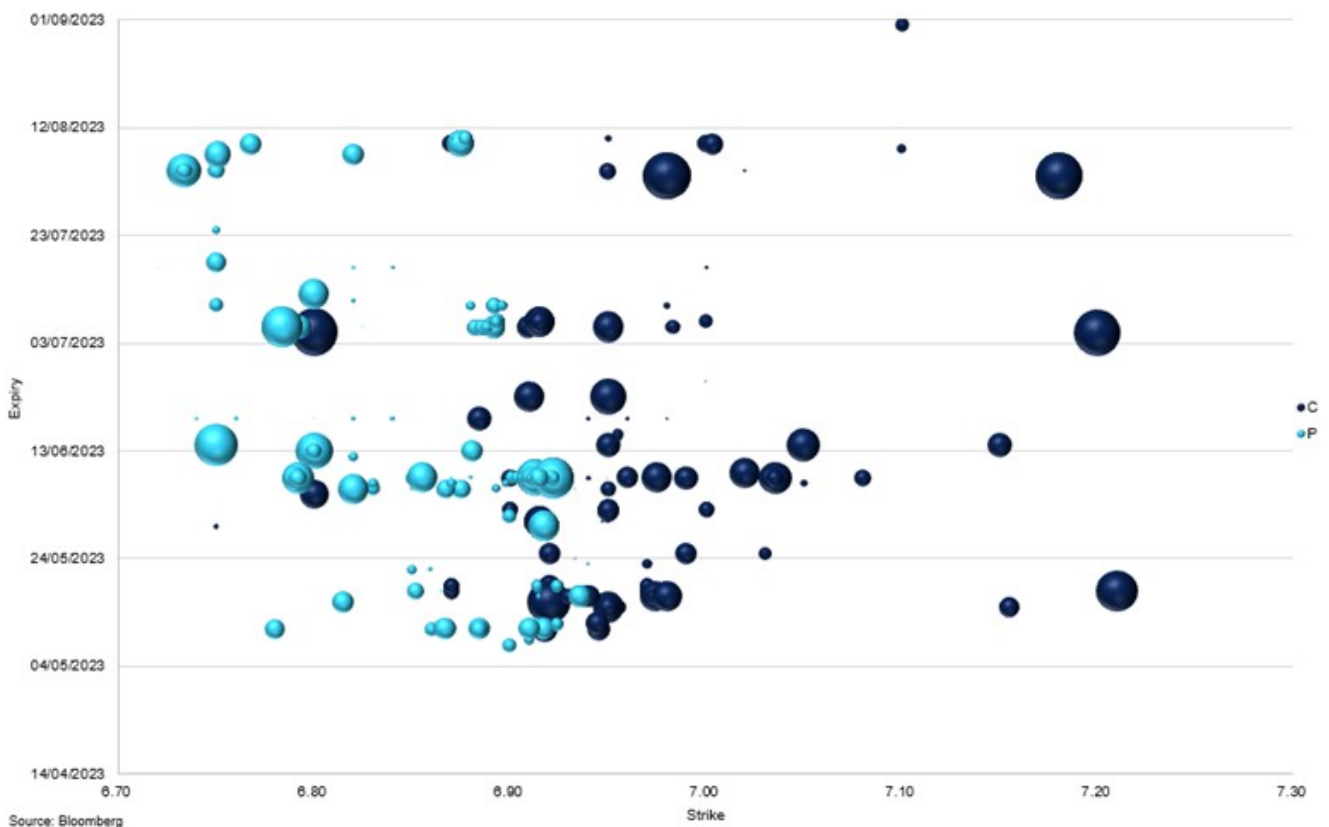


## USDBRL NDO Positioning Data 11/05/2023 - 18/05/2023

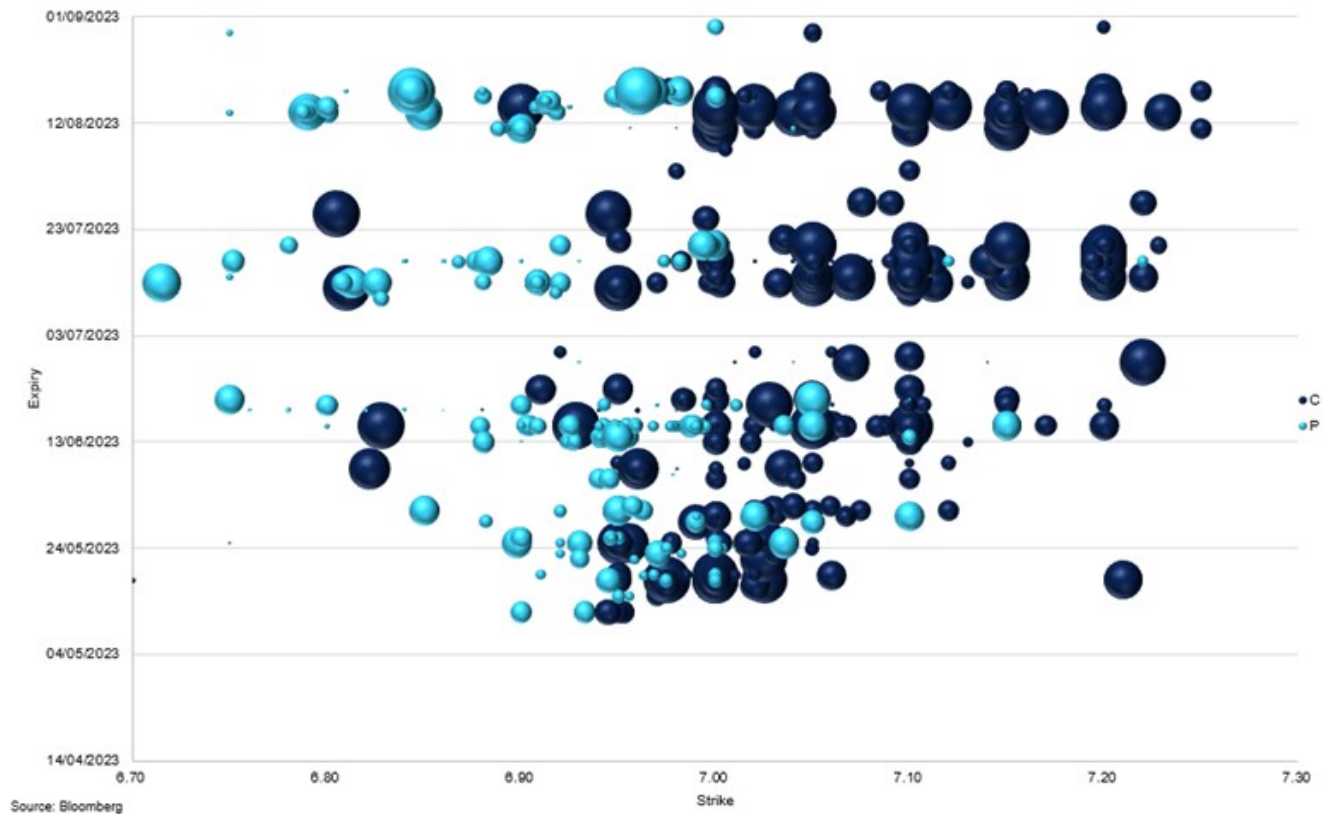


### USDCNY Vanilla Positioning Data 04/05/2023 - 11/05/2023

USDCNY saw the number of options increase in the week ending May 18th. In particular, a great number of calls have filled in the 7.00-7.20 ranges, suggesting a strong conviction on the upside if 7.05 and 7.10 is broken above. With calls having bigger notional size and number of options expiring in the near term, there is a strong appetite for higher levels, and we expect the currency to gain ground in the near term.



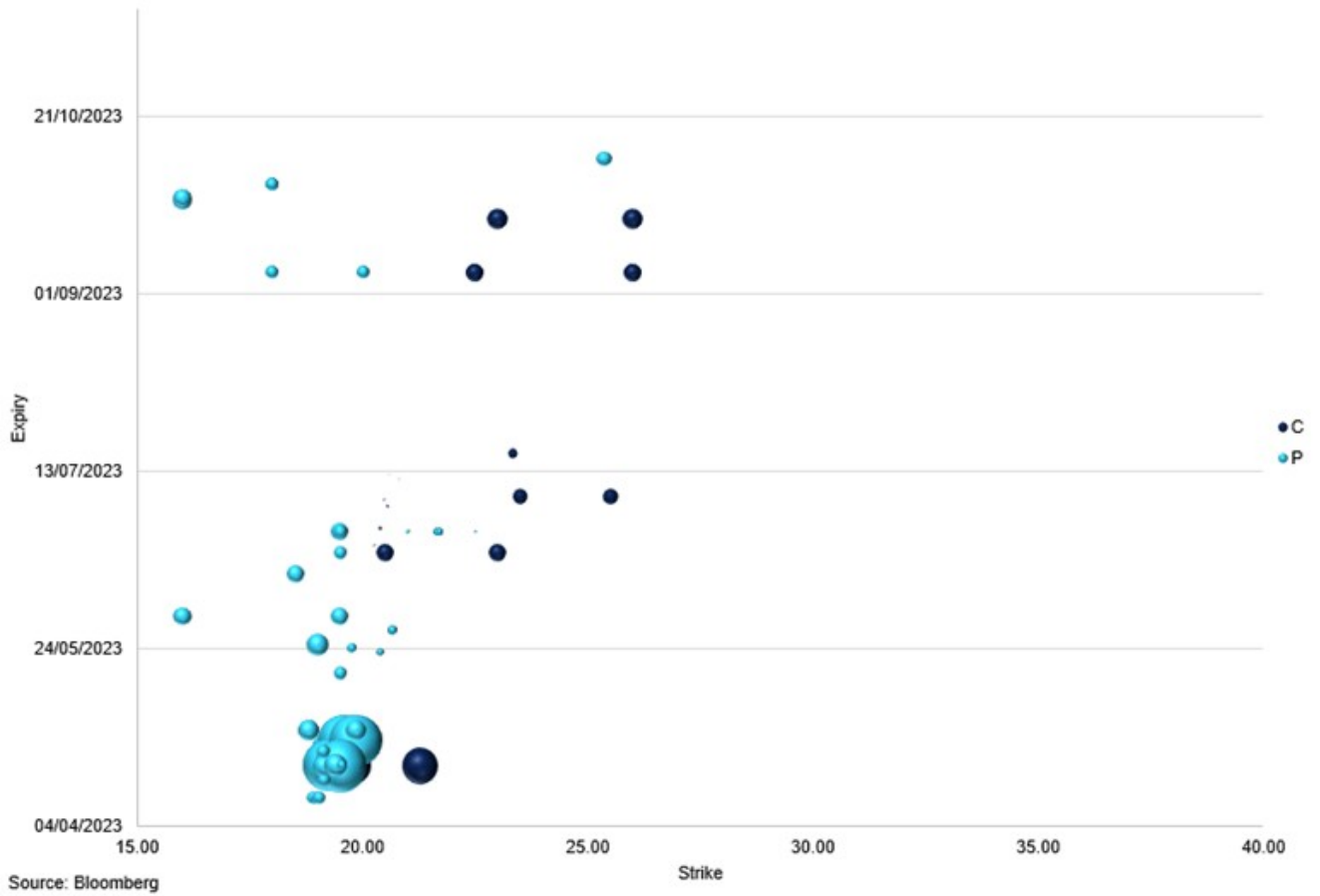
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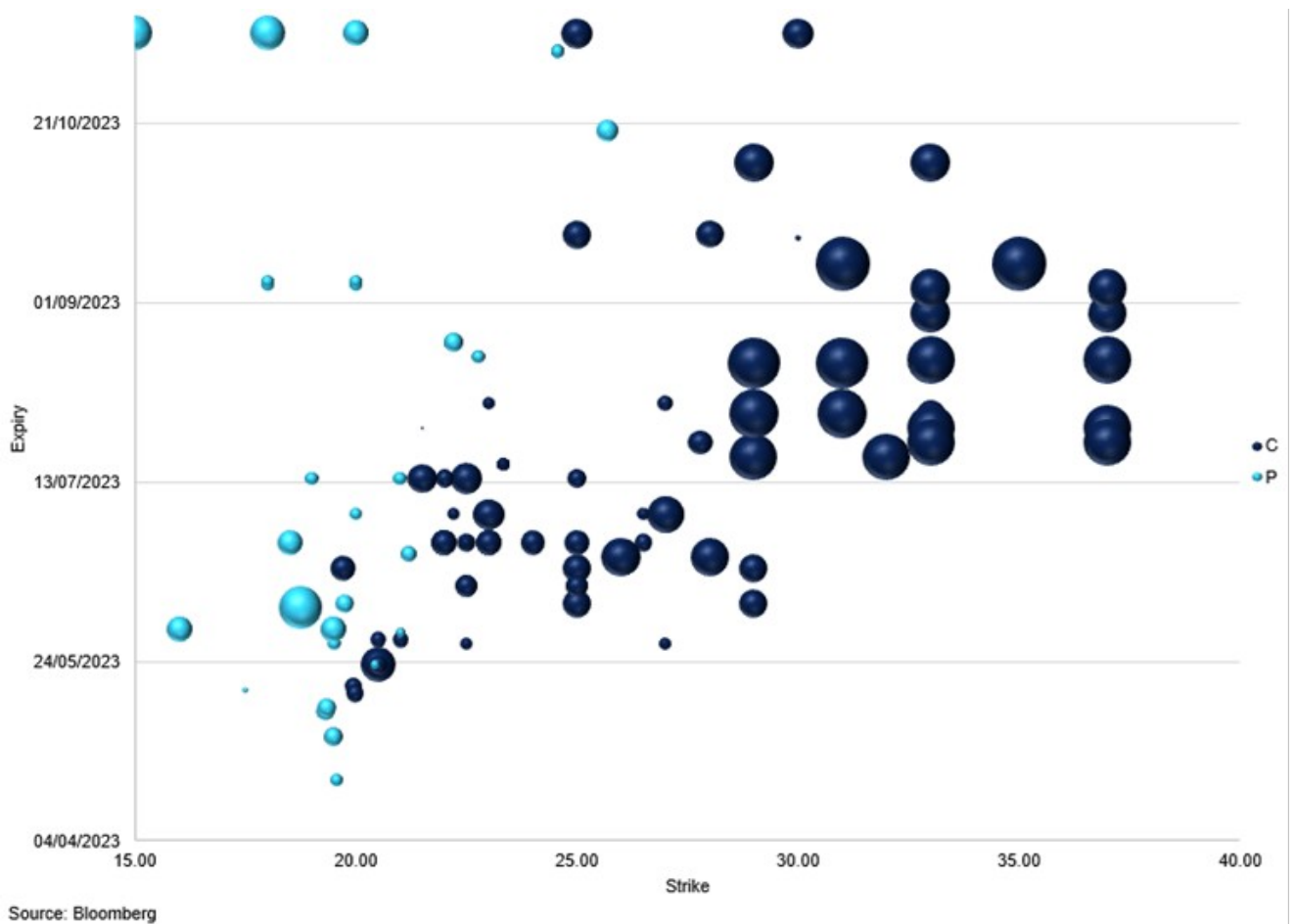
## USDTRY Vanilla Positioning Data 18/03/2023 -18/04/2023

USDTRY option positioning changed drastically from March-April to April-May period, with the number of calls growing rapidly with strikes above 20.00, the level that has not yet been breached. The number of calls further down the curve is overwhelming in comparison to puts, suggesting a strong upside for the pair. If the robust resistance level is breached, it could create a strong buy signal on the upside. In particular, the conviction grows above the 30.00 level, creating another robust resistance on the upside.





### USDTRY Vanilla Positioning Data 18/04/2023 - 18/05/2023



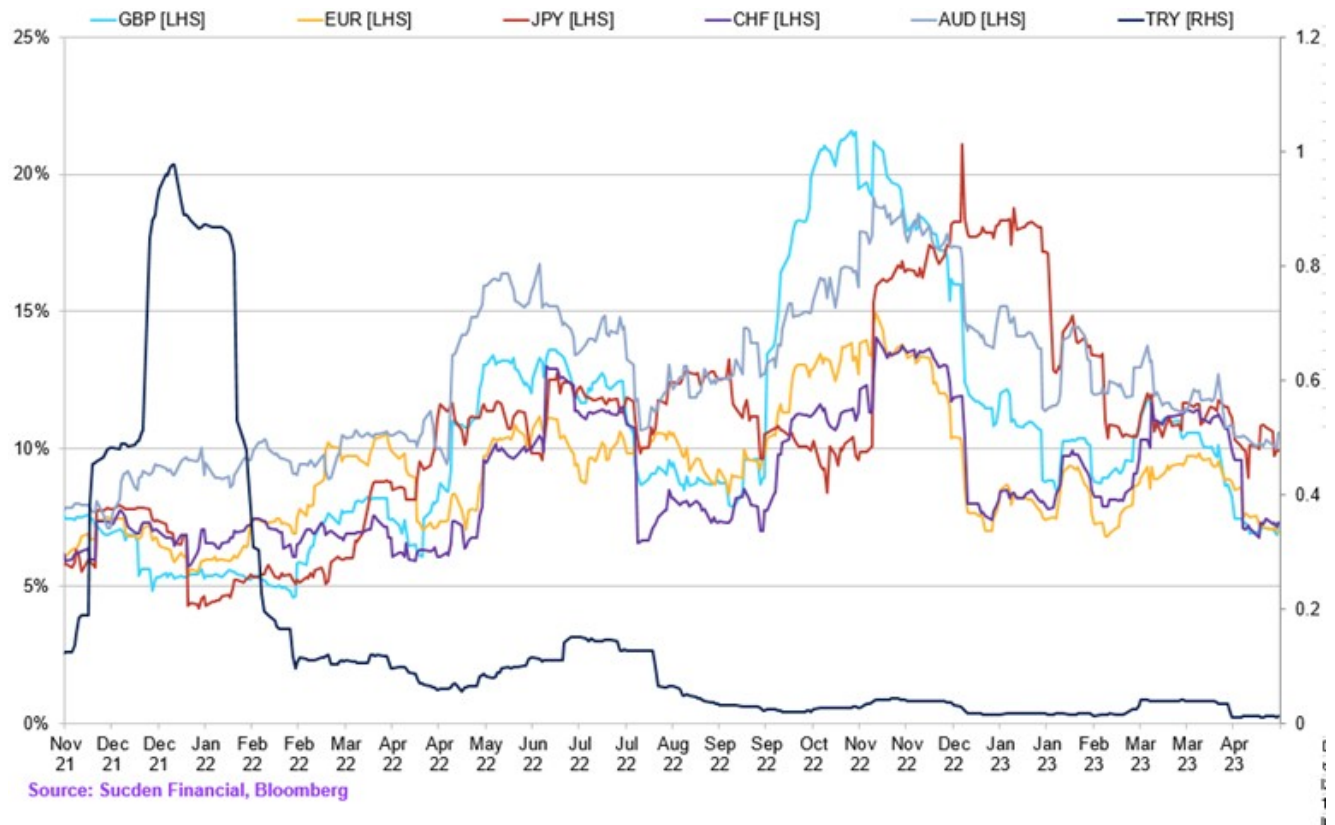
# Charts and Tables

## FX Expiries

Currency Pair	Friday 19 <sup>th</sup>	Monday 22 <sup>nd</sup>	Tuesday 23 <sup>rd</sup>	Wednesday 24 <sup>th</sup>	Thursday 25 <sup>th</sup>
GBP/USD					
USD/JPY		1.03bio @ 136 675.27mio @ 137.5			
EUR/USD		672.6mio @ 1.0705 508.66mio @ 1.0825		600mio @ 1.075	
EUR/GBP					
USD/BRL	202.02mio @ 4.95		600mio @ 4.87 100mio @ 4.95 100mio @ 4.96	300mio @ 4.84	150mio @ 4.95 300mio @ 5.0
AUD/USD	200.75mio @ 0.665 200mio @ 0.67			250mio @ 0.661 200.16mio @ 0.6695 200mio @ 0.67	393.74mio @ 0.671
USD/ZAR					
USD/INR	200mio @ 81 100mio @ 81.83	240mio @ 81 241.2mio @ 83.75			

Source: Bloomberg DTCC Data 2% from spot levels as of 18/05/2023

## Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2487	1.0875	0.0074	1.1155	0.7404	0.6692	0.6226
GBP	0.8008	-	0.8709	0.5889	0.8935	0.5929	0.5359	0.4986
EUR	0.9196	1.1482	-	0.6761	1.0259	0.6809	0.6152	0.5726
JPY	136.0400	169.8720	147.9400	-	151.7530	100.7220	91.0340	84.7030
CHF	0.8965	1.1194	0.9749	0.6590	-	0.6637	0.5999	0.5582
CAD	1.3507	1.6866	1.4688	0.0099	1.5068	-	0.9038	0.8410
AUD	1.4944	1.8660	1.6251	1.0987	1.6673	1.1066	-	0.9306
NZD	1.6061	2.0055	1.7466	0.0118	1.7916	1.1891	1.0747	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-1.04	-1.17	-0.69	-0.78	-0.99	-1.34	-1.86
GBP	1.05	-	-0.13	0.38	0.28	0.05	-0.29	-0.84
EUR	1.20	0.13	-	0.50	0.41	0.18	-0.18	-0.69
JPY	0.70	-0.37	-0.50	-	-0.11	-0.28	-0.67	-1.19
CHF	0.79	-0.26	-0.40	0.03	-	-0.20	-0.60	-1.10
CAD	0.99	-0.07	-0.19	0.34	0.23	-	-0.41	-0.88
AUD	1.37	0.31	0.18	0.67	0.55	0.33	-	-0.55
NZD	1.90	0.84	0.68	1.29	1.13	0.88	0.53	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	19/05	00:30	Natl CPI YoY	Apr	3.5%	3.2%
JPY	19/05	5:30	Tertiary Industry Index MoM	Apr	0.3%	0.7%
JPY	22/05	00:50	Core Machine Orders MoM	Mar	-1.0%	-4.5%
JPY	23/05	1:30	Jibun Bank Japan PMI Mfg	May		49.5
CNY	23/05	9:00	HCOB Eurozone Manufact PMI	May	46.0	45.8
GBP	23/05	9:30	S&P Global UK Composite PMI	May		54.9
USD	23/05	14:45	S&P Global US Manufact PMI	May		53.6
USD	23/05	15:00	New Home Sales	Apr	660k	683k
USD	24/05	12:00	MBA Mortgage Applications	May 19		-5.7%
TRY	25/05	12:00	One-Week Repo Rate	May 25		8.5%
USD	25/05	13:30	Initial Jobless Claims	May 20		6.3%
USD	25/05	13:30	GDP Annualised QoQ	1Q	1.1%	1.1%
TRY	25/05	12:00	One-Week Repo Rate	May 25		8.5%
JPY	26/05	00:30	Tokyo CPI YoY	May	3.5%	3.5%
GBP	26/05	7:00	Retail Sales Inc Auto Fuel YoY	Apr		-3.1%
USD	26/05	13:30	Personal Income	Apr	0.4%	0.3%
USD	26/05	13:30	Personal Spending	Apr	0.4%	0.0%
USD	26/05	13:30	Durable Goods Orders	Apr	-1.0%	3.2%
USD	26/05	15:00	U. of Mich. Sentiment	May		57.7

Source: FXStreet

### Risk warning

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