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FX Options Weekly Report

Macro and Vol Commentary

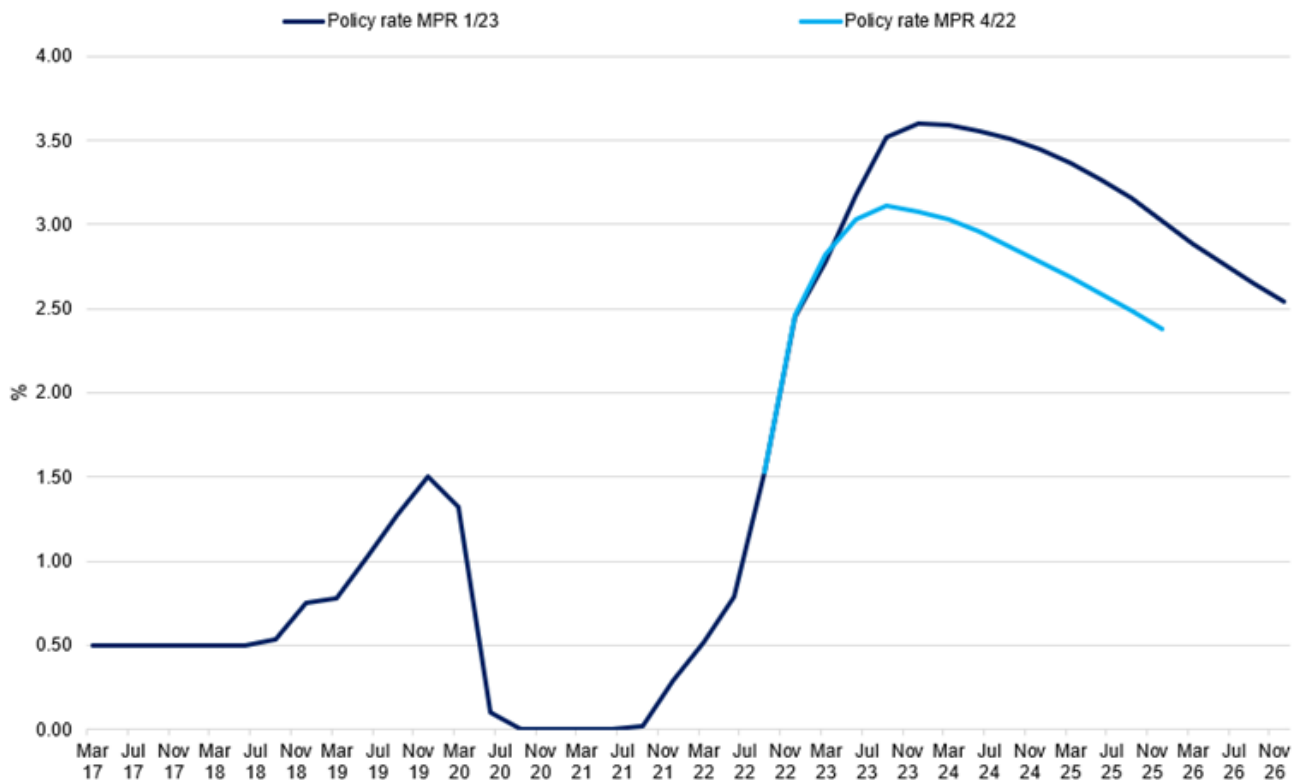
EURNOK continued to climb higher in recent months, extending the upward trend that started in October last year. Despite recent euro softness, May's moves on the upside persisted, suggesting that krone momentum is key to driving the currency pair outlook. With both central banks set to continue to hike interest rates in the coming months, what is the outlook for EURNOK?

Norway

- Despite a volatile Q1 performance, mainland GDP growth proved to be resilient, growing by 0.2% q/q after a flat performance by the end of last year.
- Household purchases of goods and housing investment declined, while business investment and exports grew.
- Manufacturing surprised on the upside in April, strengthening back into the expansionary territory at 51.2.
- Meanwhile, consumer confidence is showing some signs of recovery after two years of consecutive declines.
- The indicator rose to -34.4 in Q1, up from -36.5, driven mostly by consumers' view of their own finances over the past year.
- The labour market, albeit softening, remains tight.
- The jobless rate rose to 1.8% in April, marking the highs not seen in more than a year; the unemployment rate remains low at 1.80%
- The data adds to the picture of a more resilient Nordic economy than expected by Norges Bank
- While the near-term outlook looks promising, the central bank forecast still predicts household consumption to shrink by 1.1% in 2023.
- Inflation path from the peak of 7.50% in October has been volatile, with prices struggling to break below the 6.0% level so far this year.
- Core inflation is also remaining elevated, at 6.30% y/y.
- In the meantime, wage growth continued to gain ground, with the Q1 figure rising to 2020 highs of 4.4%, underlying the stickiness of pricing pressures.

Policy Rate Implications from Norges Bank

Since the start of the year, expectations for higher peak rates softened, but further tightening is expected to quell inflation.



Source: Norges Bank

Norges Bank

- The Central Bank increased deposit rates by 25bps in May, as inflation continued to beat expectations.
- The rates began to increase already in 2021 ahead of many advanced nations.
- The level now stands at 3.25%, and another 25bps is on the table in June, and possibly another hike later on in the year.
- Norges Bank's policymakers have struggled to rein inflation, as currency weakness, strong wage growth and a robust labour market underpinned bets that the central bank will extend its monetary policy tightening.
- Still, resilient economic performance and the expectation of further hikes struggled to prop up the local currency, given recent market turmoil and reduced liquidity conditions for an already-illiquid G10 currency.
- At the same time, the recent cut in daily FX purchases came in short of expectations and added further pressure on the already weak krone.

European Central Bank

- The ECB is showing no signs of slowing down in terms of the monetary policy tightening, with markets pricing two more 25bps hikes in June and July.
- While inflation continues to soften, the outlook could face significant upside risks, especially from wage pressures.
- This puts the path of the ECB in line with Norges Bank to tighten slightly further before pausing the rates in H2 2023.

Norges Bank is facing further pressures to tighten its monetary policy, and the weaker-than-expected krone is underscoring the need to hike beyond the projected 3.50% peak rate. While domestically the economic picture is seen improving, a lot of fundamentals for improving NOK are out of the central bank's control. Still, expectations of further tightness should help create resistance for EURNOK in the near term; we do not expect the trend to reverse until later this year. Volatility is set to remain high, with central bank moves driving the sentiment for the pair. For the 2-month outlook horizon, our view is for the currency to drift towards the 11.40 level.

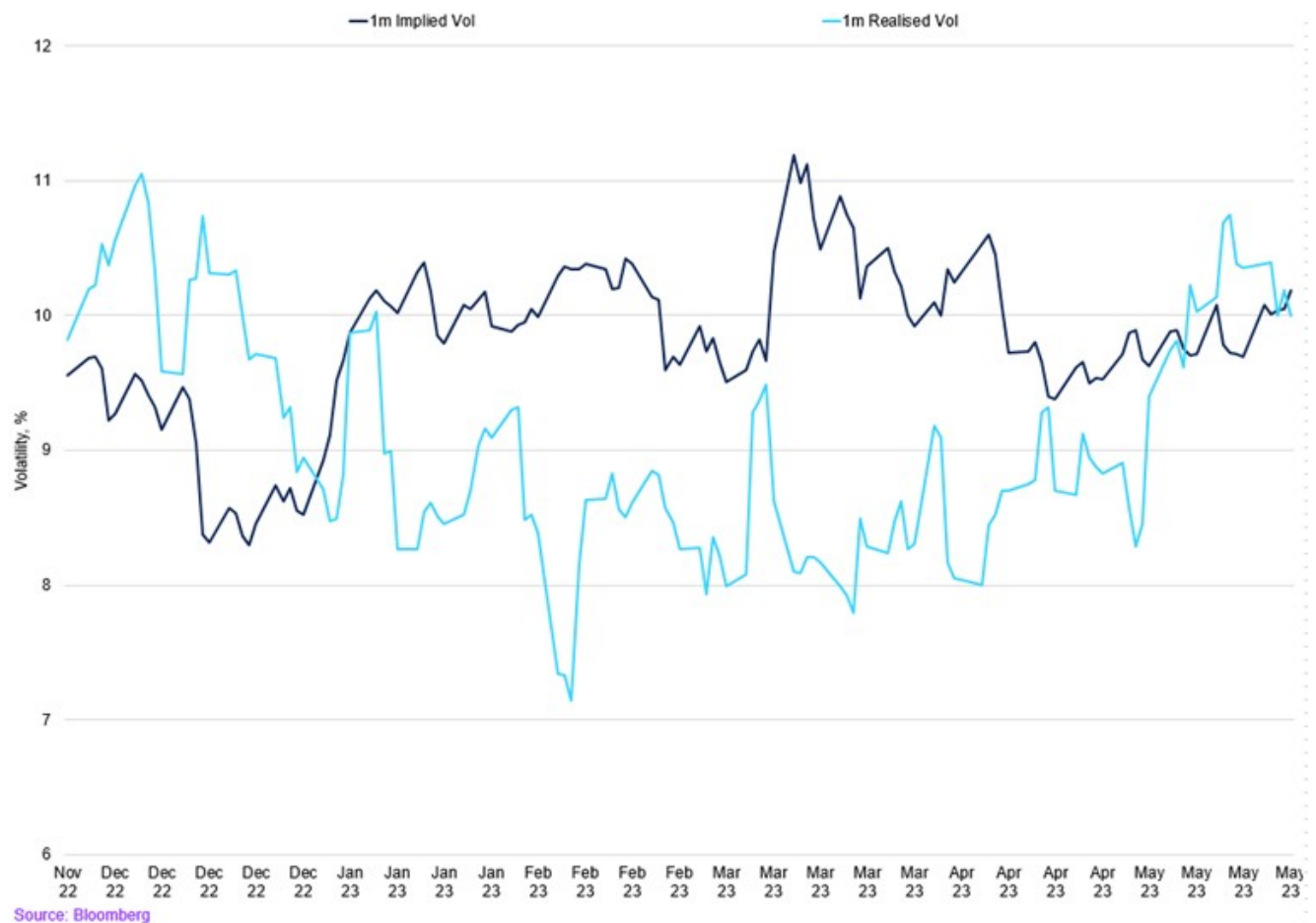
Sources: S&P Global, Statistics Norway, Central Bank of Norway, European Central Bank

Volatility Commentary

Norges Bank raised its policy rate by 25 bp as it continues to battle stubbornly high inflation. Higher wage growth and the weakness of the Krone points to further hikes ahead, which lead to a 3.8% gain in the Krone. In addition, the economic picture is improving with upside surprises in consumer confidence and manufacturing PMI.

However, the strength was short-lived and the Krone continued to underperform. It is down 10.6% against the USD on the year becoming the worst performing G10 ccy. With the EUR and NOK on similar rate paths and signs of increasing growth within the EU area, we expect a relatively correlated market in the near term. Implied vols are 10.1 % considerably higher than EURUSD where the rate cycle has diverged. SELL a strangle to benefit from the higher volatility with an upside call protection if the trend in EURNOK continues.

1-month Implied and Realised Volatility



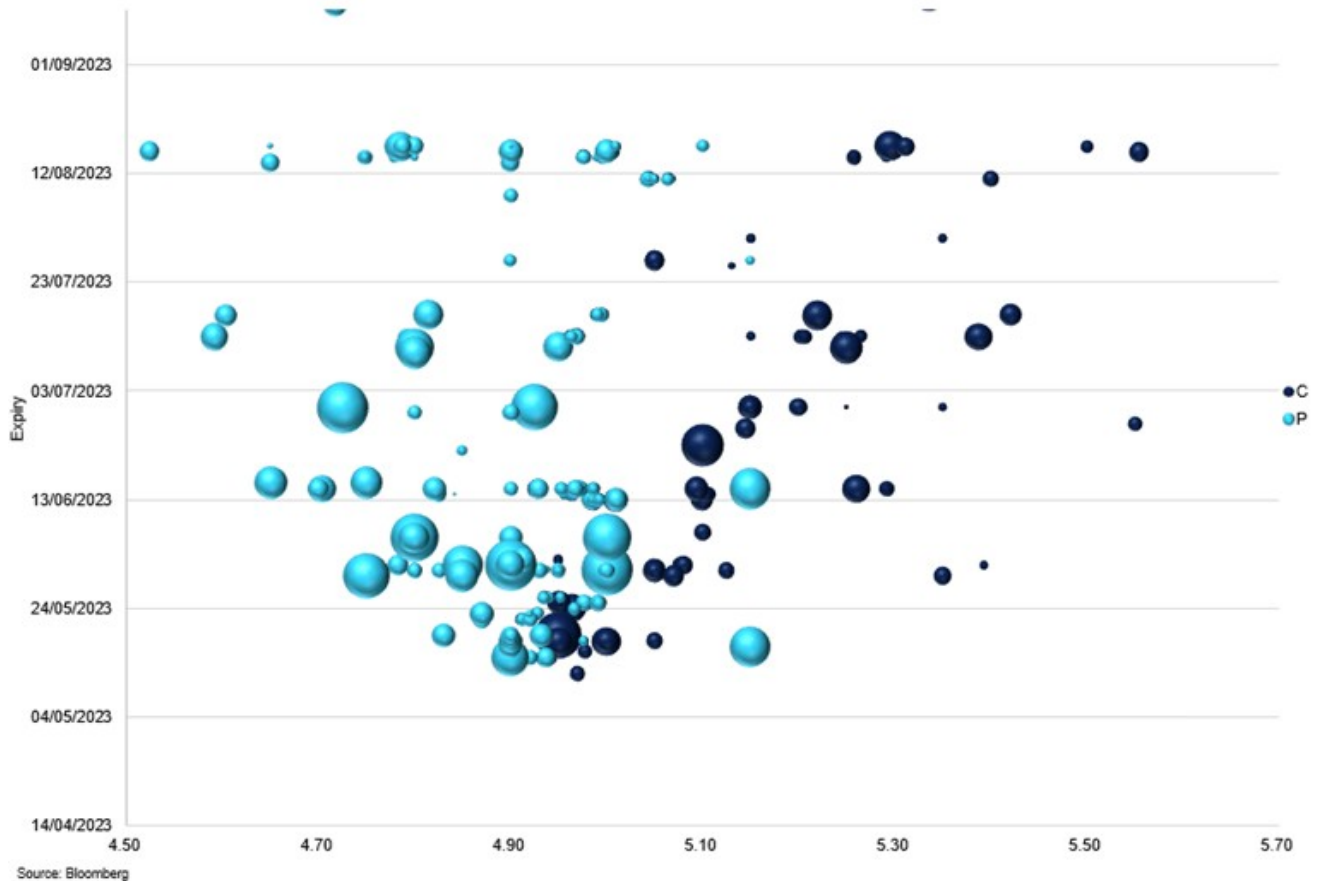
EURNOK Trade Idea

- SHORT STRANGLE, LONG CALL
- 2m Expiry
- SELL EURNOK 12.1 CALL
- SELL EURNOK 11.4 PUT
- BUY EURNOK 12.6 CALL
- RECEIVE 0.95 EUR %

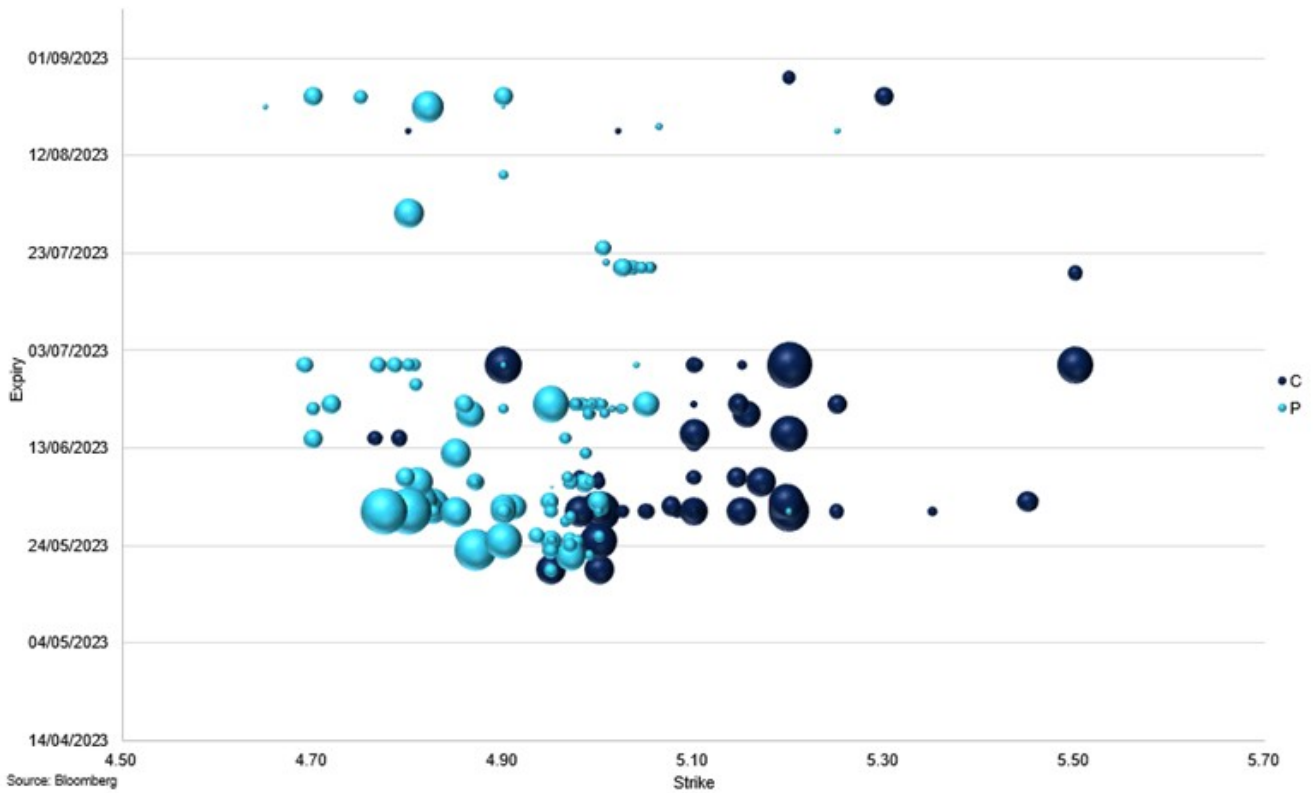
Positioning Charts

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

USDBRL options positioning remained broadly unchanged in the near-term expiries; however, further down the curve, we have seen some positions - both puts and calls - removed. At the same time, the size of the notional decreased, suggesting that there is less appetite to trade the pair. The number of calls, however, is seen growing relative to puts, suggesting that the market is building for marginal upside momentum in the near term.

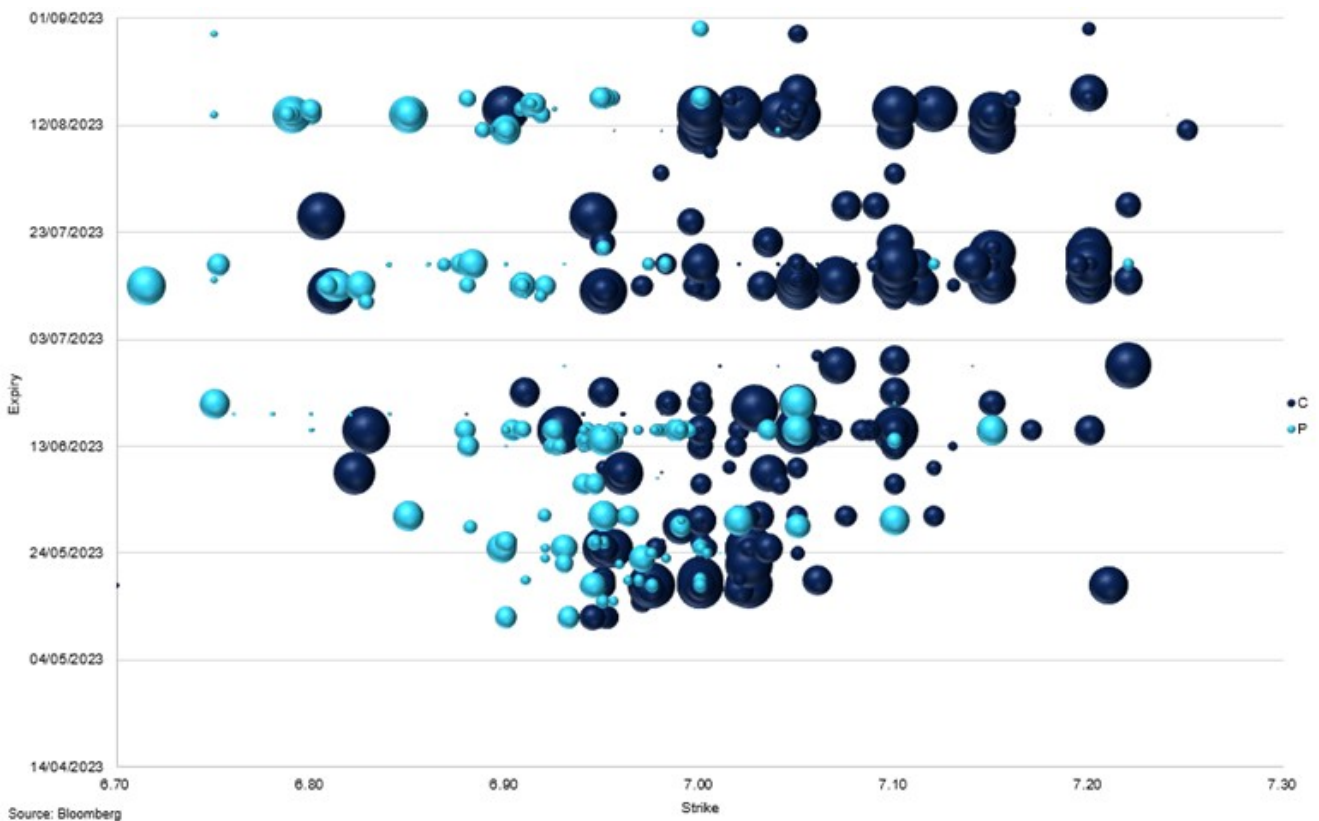


USDBRL NDO Positioning Data 18/05/2023 - 25/05/2023

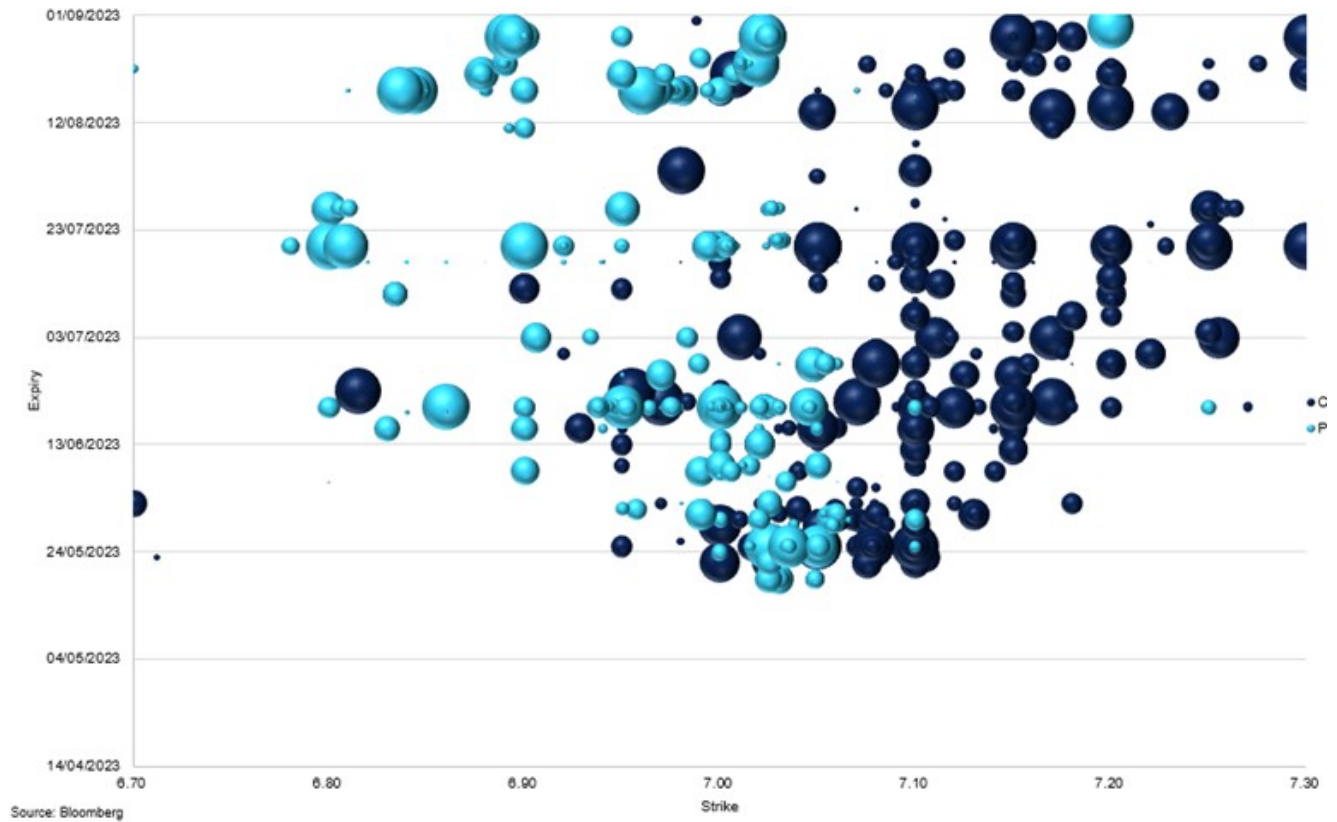


USDCNY Vanilla Positioning Data 11/05/2023 - 18/05/2023

USDCNY option positioning shifted to the right after the pair broke above the 7.00 level in recent days. At the same time, the number of calls increased and is now greater than that of puts, suggesting some upside pressures in the near term. A greater number of options in the week ending May 18th also highlights greater appetite to trade the pair, and we expect to see further gains in the near term.

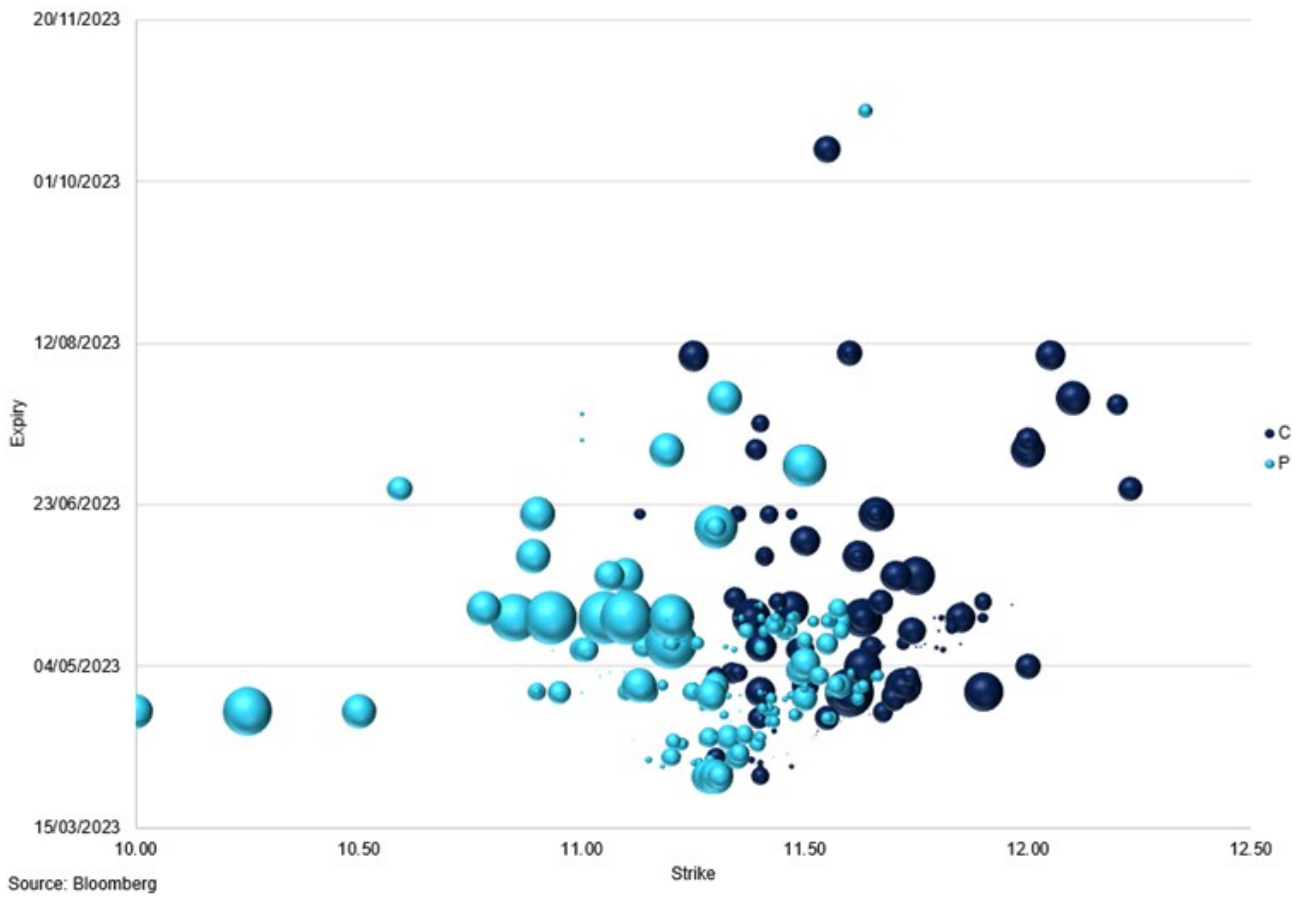


USDCNY Vanilla Positioning Data 18/05/2023 - 25/05/2023

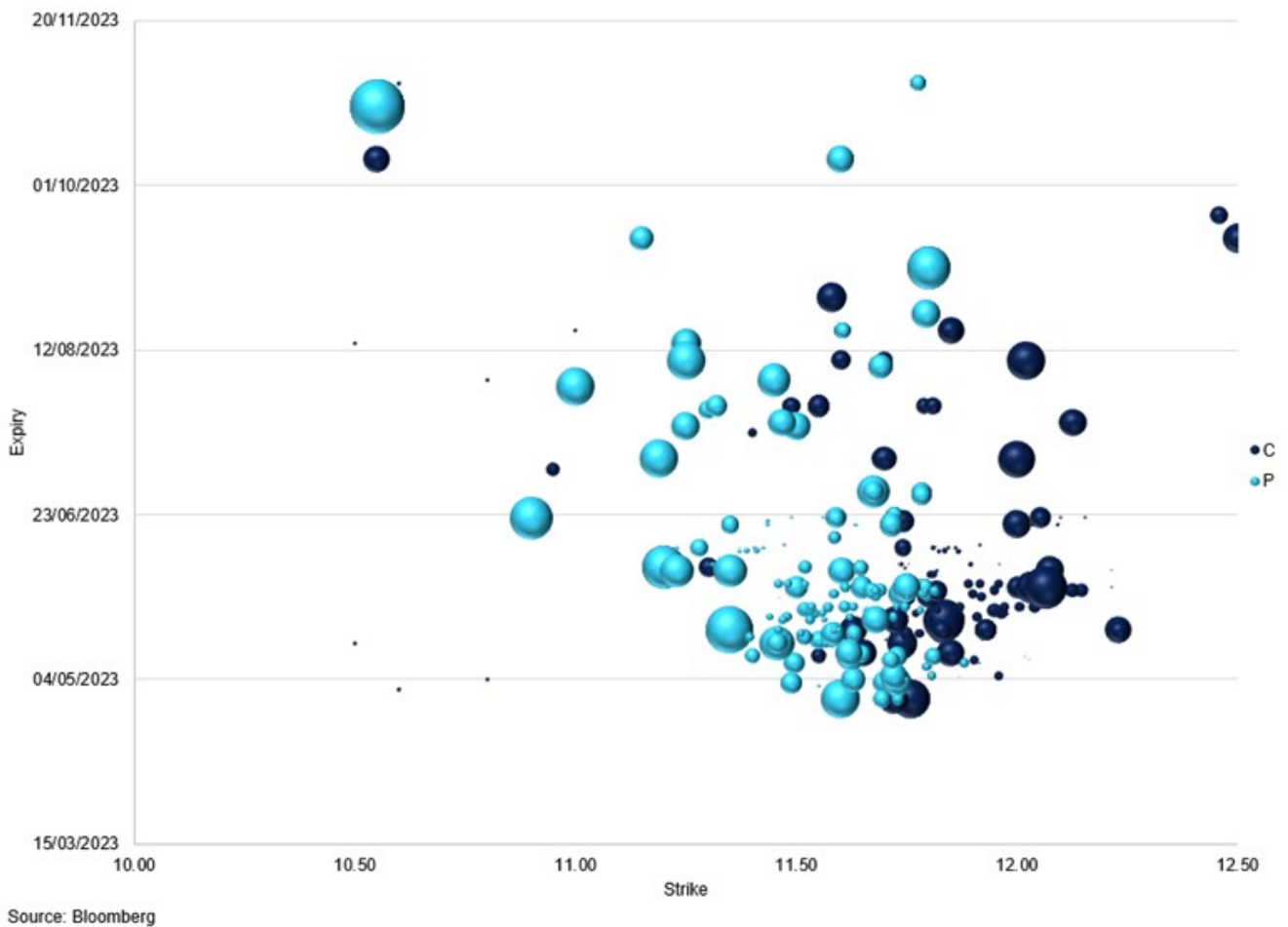


EURNOK Vanilla Positioning Data 25/03/2023 -25/04/2023

EURNOK option expiries shifted to the right after further gains were seen in currency pair performance. While the number of puts is seen slightly above calls, the near-term outlook seems fairly balanced, with markets not having a particularly strong view in either direction. Indeed, upside and downside covers were both reduced, suggesting that there is more appetite for trading in current ranges.



EURNOK Vanilla Positioning Data 25/04/2023 - 25/05/2023



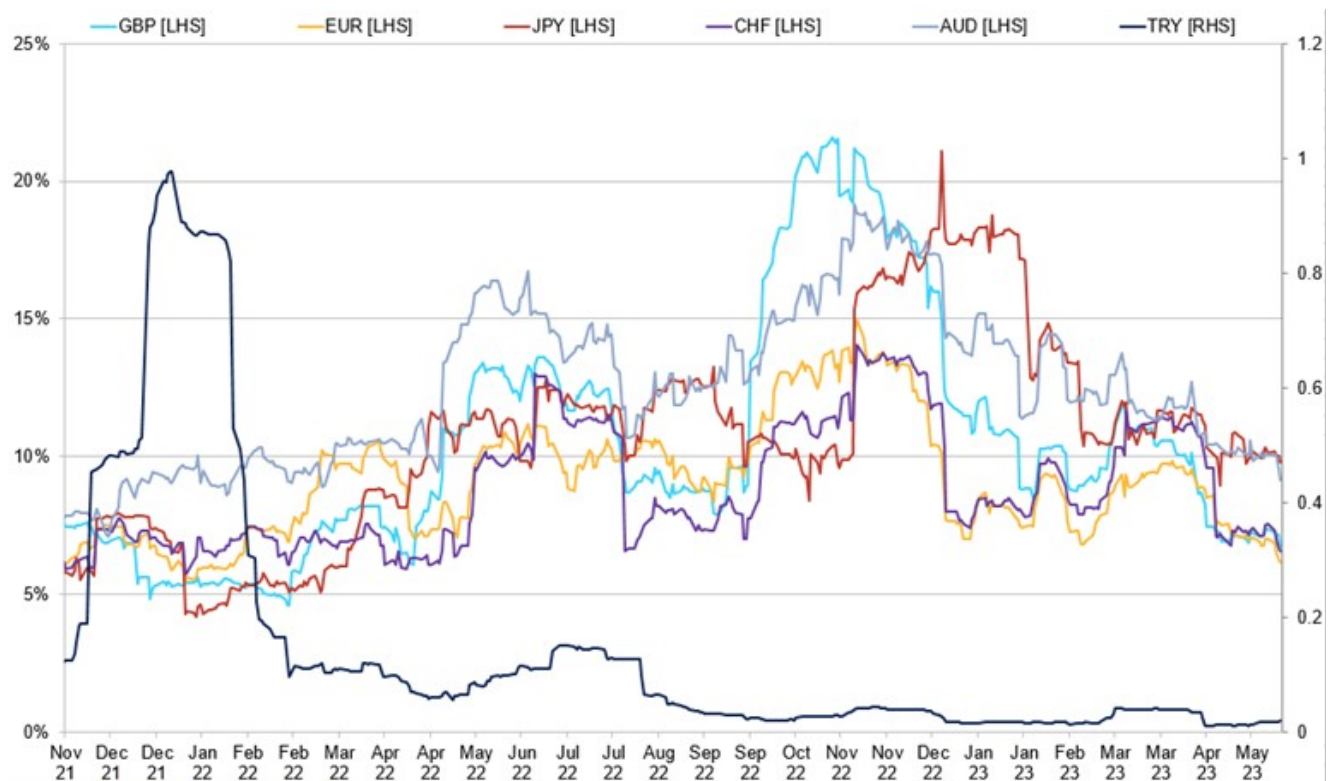
Charts and Tables

FX Expiries

Currency Pair	Friday 26 th	Monday 29 th	Tuesday 30 th	Wednesday 31 st	Thursday 1 st
GBP/USD					
USD/JPY				599.36mio @ 138 793.44mio @ 140	
EUR/USD	500mio @ 1.0655 616.67mio @ 1.08 699.5mio @ 1.0865 880.73mio @ 1.09 822.75mio @ 1.094 14.2bio @ 1.1	709.08mio @ 1.1		1.5bio @ 1.075 608.72mio @ 1.09	570mio @ 1.07 647.2mio @ 1.08
EUR/GBP		500mio @ 0.87			
USD/BRL				450mio @ 4.9 500mio @ 5.0	250mio @ 4.9
AUD/USD	250mio @ 0.66	200mio @ 0.6575	200mio @ 0.6525 140mio @ 0.6609 200mio @ 0.67	230mio @ 0.655 400mio @ 0.66 177.78mio @ 0.675 100.52mio @ 0.6765	241.7mio @ 0.6785
USD/ZAR	100mio @ 19.18 205.12mio @ 19.5 100mio @ 82 880mio @ 82.2		100mio @ 18.9 100mio @ 19.2		304.08mio @ 19.6
USD/INR	100.24mio @ 82.8 241.2mio @ 82.75 520mio @ 84	200mio @ 81.34 200.44mio @ 82.32		160mio @ 81.75	260mio @ 81.5 100.48mio @ 82.6

Source: Bloomberg DTCC Data 2% from spot levels as of 22/05/2023

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2364	1.0732	0.0072	1.1073	0.7341	0.6530	0.6083
GBP	0.8088	-	0.8681	0.5791	0.8956	0.5939	0.5282	0.4920
EUR	0.9318	1.1520	-	0.6672	1.0317	0.6840	0.6086	0.5668
JPY	139.6900	172.6840	149.9100	-	154.6510	102.5510	91.2230	84.9700
CHF	0.9031	1.1166	0.9693	0.6466	-	0.6630	0.5098	0.5493
CAD	1.3622	1.6841	1.4619	0.0098	1.5082	-	0.8895	0.8286
AUD	1.5313	1.8932	1.6434	1.0963	1.6954	1.1242	-	0.9314
NZD	1.6440	2.0326	1.7643	0.0118	1.8204	1.2070	1.0736	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.64	-0.68	-1.21	-0.37	-0.85	-1.82	-3.18
GBP	0.65	-	-0.02	-0.62	0.28	-0.20	-1.16	-2.59
EUR	0.68	0.03	-	-0.58	0.30	-0.20	-1.10	-2.39
JPY	1.23	0.62	0.62	-	0.85	0.26	-0.54	-1.87
CHF	0.38	-0.26	-0.30	-0.72	-	-0.39	-1.55	-2.80
CAD	0.86	0.19	0.19	-0.40	0.49	-	-0.96	-2.20
AUD	1.84	1.16	1.16	0.53	1.43	0.93	-	-1.30
NZD	3.29	2.65	2.55	1.82	2.84	2.26	1.35	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
USD	26/5	13:30	Core PCE – Price Index YoY	Apr	4.6%	4.6%
USD	26/5	13:30	Durable Goods Orders	Apr	-1.0%	3.2%
USD	26/5	13:30	Personal Spending	Apr	0.4%	0.0%
USD	26/5	13:30	Wholesale Inventories	Apr	0.0%	0.0%
USD	26/5	15:00	Michigan Consumer Sentiment	May	57.7	57.7
JPY	30/5	00:30	Unemployment Rate	Apr	2.6%	2.8%
EUR	30/5	10:00	Consumer Confidence	May		-17.4
USD	30/5	15:00	Consumer Confidence	May		
JPY	31/5	00:50	Industrial Production YoY	Apr		-0.6%
JPY	31/5	00:50	Retail Trade YoY	Apr	4.8%	7.2%
CNY	31/5	02:30	NBS Manufacturing PMI	May	49.5	49.2
JPY	31/5	06:00	Consumer Confidence Index	May	34.6	35.4
USD	31/5	12:00	MBA Mortgage Application	May 26		-4.6%
USD	31/5	15:00	JOLTS Job Openings	Apr	9.283m	9.59m
USD	31/5	19:00	Fed's Beige Book			
JPY	01/6	01:30	Jibun Mfg PMI	May		50.8
CNY	01/6	02:45	Caixin Mfg PMI	May	49.7	49.5
NOK	01/6	07:00	Current Account	Q1		361.2bn
EUR	01/6	10:00	Core Harmonised CPI YoY	May		5.6%
EUR	01/6	10:00	Unemployment rate	Apr	6.5%	6.5%
USD	01/6	13:15	ADP Employment Change	May	-22k	296k
NOK	02/6	09:00	Registered Unemployment	May	60.518k	61.64k
USD	02/6	13:30	Nonfarm Payrolls	May	180k	253k

Source: FXStreet

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