



Authors

Daria Efanova
Head of Research

Mohammed Said
Junior FX Options Trader

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FX Options Weekly Report

Macro and Vol Commentary

Increased expectations of further tightening from the Fed and higher dollar offset the impacts of the US debt ceiling uncertainty, pushing the precious metal to lows of \$1,950/oz in recent weeks. With a pause priced in for June, what is the outlook for the July meeting, and how will it impact gold prices?

Gold

- As mentioned in our quarterly metals report, gold's support at \$1,950/oz is holding firm, and the metal is finding comfort at these levels.
- While, historically, prices are remaining near record highs, our longer-term view highlights growing tailwinds for the metal, and in particular, those coming from a monetary policy outlook.
 - — Earlier in the year, markets have begun to price in a pause in interest rate hikes from key central banks before cuts later on in the year.
- However, even amid deteriorating global economic growth, sticky inflationary pressures raised the chances for further hikes in recent weeks. That could be supportive of local currencies and, in particular, the dollar.

The Federal Reserve

- The US economy, while slowing, is showing signs of resilience.
 - — Inflation is calming at a steady rate, and wage pressures have begun to show signs of cooling, growing at 4.3% in May vs 4.4% y/y a month prior.
 - — However, the labour market is yet to show protracted signs of a slowdown, with ADP employment at 278k and nonfarm payrolls at 339k, both highlighting labour market tightness.
 - — Positive labour data stoked risk-on sentiment, diminishing appetite for safe havens in recent weeks.
 - — This is unlike something we saw last year, when economic resilience weighed on riskier assets, as markets would have priced in a tighter monetary policy environment.
 - — Now, while this data helped to increase the expectations of a hike, markets remain hopeful that the previous tightening is not going to result in a sharp recession, and hence strong labour market

report is underscoring the market's view of economic resilience.

- Higher expectations of further tightening from the Fed reduced the appetite for safe havens in favour of the dollar, but we remain cautious about the possibility of a hike in July.
 - _ While the pause in June is priced in by the markets, our view is that if the price softness is sufficient, the rhetoric for further pauses is more likely to pertain.
 - _ A lot will hinge on June's minutes and subsequent rhetoric in regard to July's meeting outlook.
- In our view, a robust labour market is not enough to suggest that further tightening is yet needed, and given that it usually takes 2-3 quarters for the hikes to filter through the real economy, we are only beginning to feel the effects of increases that took place late last year.
- The continued higher-for-longer peak rate approach would allow policymakers to track the impact of higher interest rates on the real economy and create more room to adjust expectations in case of a flare-up in inflation expectations.
 - _ That would also help ensure that policymakers are not front-loading the rates too much to cause a hard landing, something that is integral to the Fed's balancing approach to monetary policy.
- If the hike in July does not materialise, despite market expectations, this could create a significant upside for gold prices.
 - _ Over the longer term, the fundamentals suggest that tailwinds for gold are building up: the end of a tightening cycle from central banks, slowing economic growth, and further geopolitical and financial risks.
 - _ While the Fed may be slow to cut rates as inflation remains a concern, a deteriorating economy should ultimately face rate cuts, and that could remove support for the dollar and help to lift gold prices.

With the Fed approaching a possible pause in June, pressures are mounting for rate increases again in July. At the same time, the close-call decisions on other key central banks offer some foresight as to what US officials have in store in the coming months. In particular, the RBA, the central bank that was forecast to keep the rates unchanged, increased its cash rate by 25bps in June, opening the door to further hikes and putting markets on edge for further action elsewhere. We believe that the Fed's approach is to move gradually and adjust market expectations ahead of the decision-making process. Hence, while we expect the Fed to skip a rate hike in June, we will pay close attention to any potential changes in rhetoric for the July meeting to help guide our outlook for the months ahead. Historically, gold returns are often weak over the summer months, but our view is that by the end of this quarter, we will see further upside for gold. In the meantime, expectations of a hike in July and, in turn, a stronger dollar will be headwinds for gold.

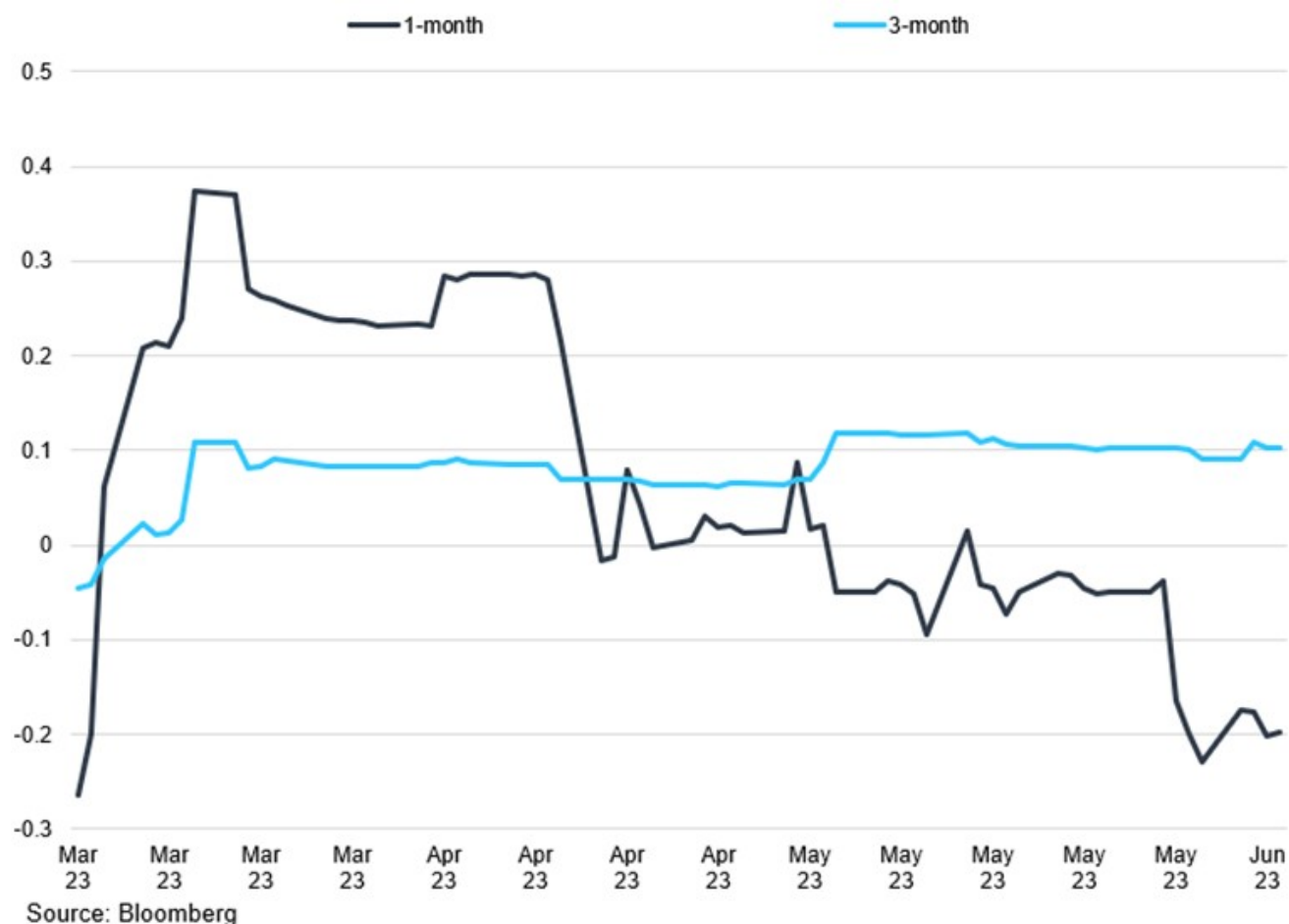
Sources: Bureau of Labour Statistics, Federal Reserve

Volatility Comment

Option, Volatility and Skew

- Spot 1m gold volatility fell from 23 to 11.7 from start of May till June.
- The 3m gold spot volatility dropped only from 16.9 to 16.4 from May to June.

Skew



- Interestingly we see the 1 month realised skew at -0.1942 while the 3 month at 0.1094.
- We interpret this as the risk is to the downside in the 1 month expiry, ie in the short term we expect gold is nudge lower or remain at current levels.
- However we do believe that over the 3 months the potential is to the upside.
- Looking further at the volatility by delta for the 1m, 3m and 6m. We can see that the implied volatility for the OTM calls are higher than OTM puts, suggesting further that the risk is to the upside.

XAUUSD Trade Idea

- Buy XAU call at 1965 in 1k XAU
- Sell XAU call at 2000 in 1k XAU
- Sell XAU put at 1850 in 1k XAU

Expiry in 08/09/2023.

For this structure you pay circa 12k USD

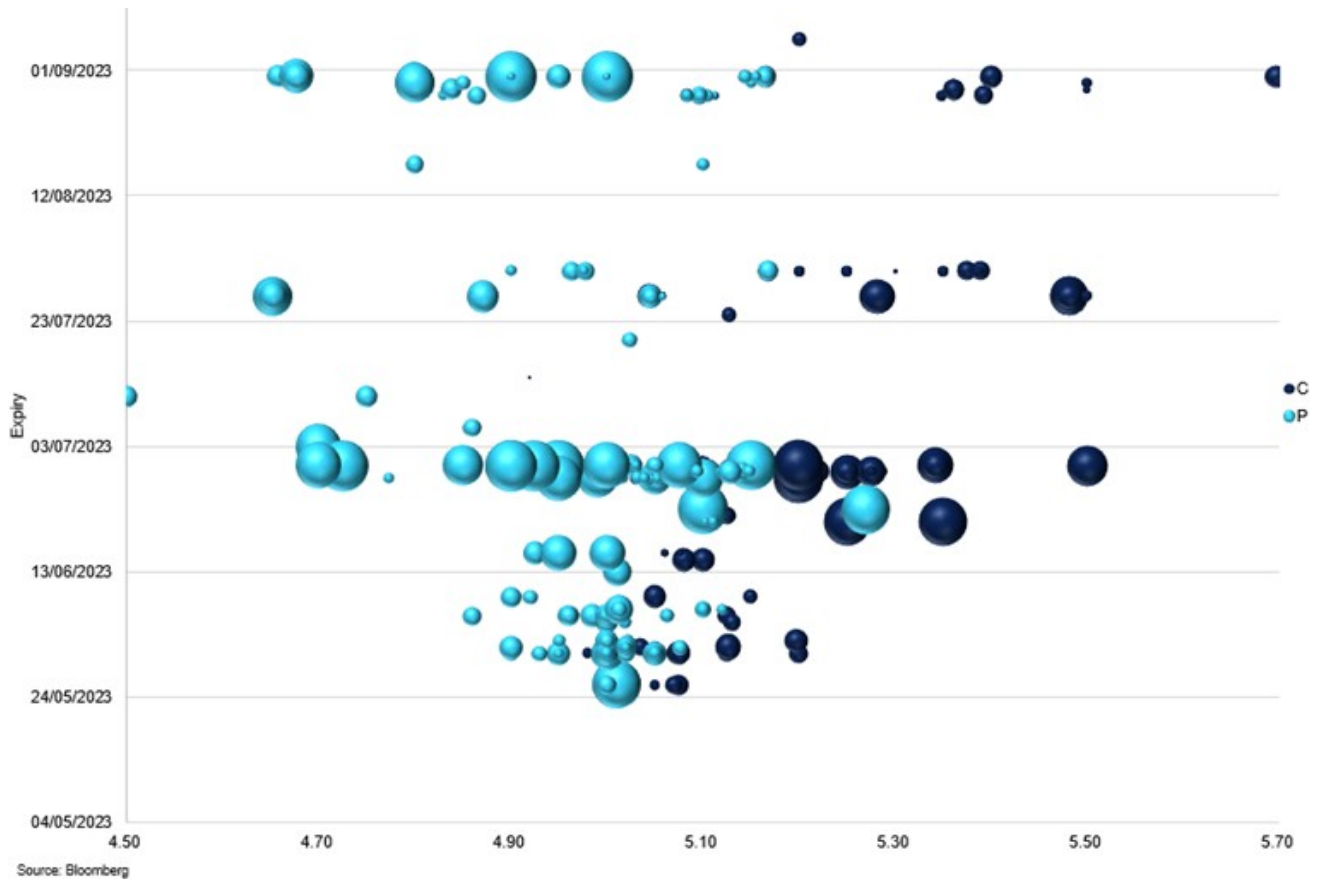
Potential Payoff

- We lock in pay out if spot finishes between 1965-2000 or above.
- Circa 35k potential pay out if spot finishes at 2000 USD or above.
- If spot finishes between 1850 and 1965 then nothing gets done and you lose your initial premium paid of 12k.
- Your biggest risk is if spot finishes below 1850 USD. If that scenario does play out before expiry then we can start thinking about delta hedging or execute offsetting options to limit losses.

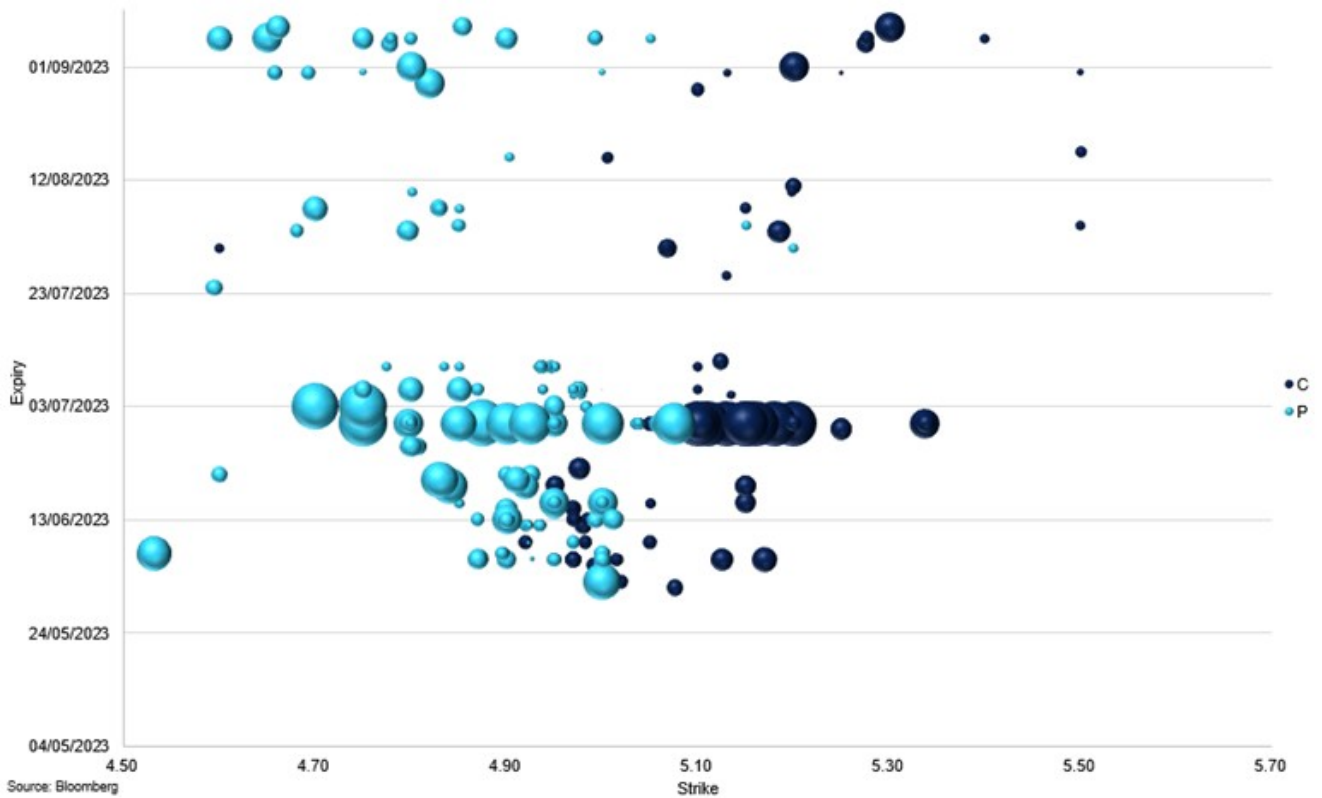
Positioning Charts

USDBRL NDO Positioning Data 25/05/2023 - 01/06/2023

USDBRL option expiries in the week ending June 8th have continued to show diminished appetite for the currency pair, with smaller notional size. At the same time, we saw greater interest for the expiry taking place in the first week of July, with extended upside and downside covers, suggesting that elevated volatility could take place then. Overall, the range has shifted slightly to the left, now in the 4.70-5.20 range, following the most recent downside moves.

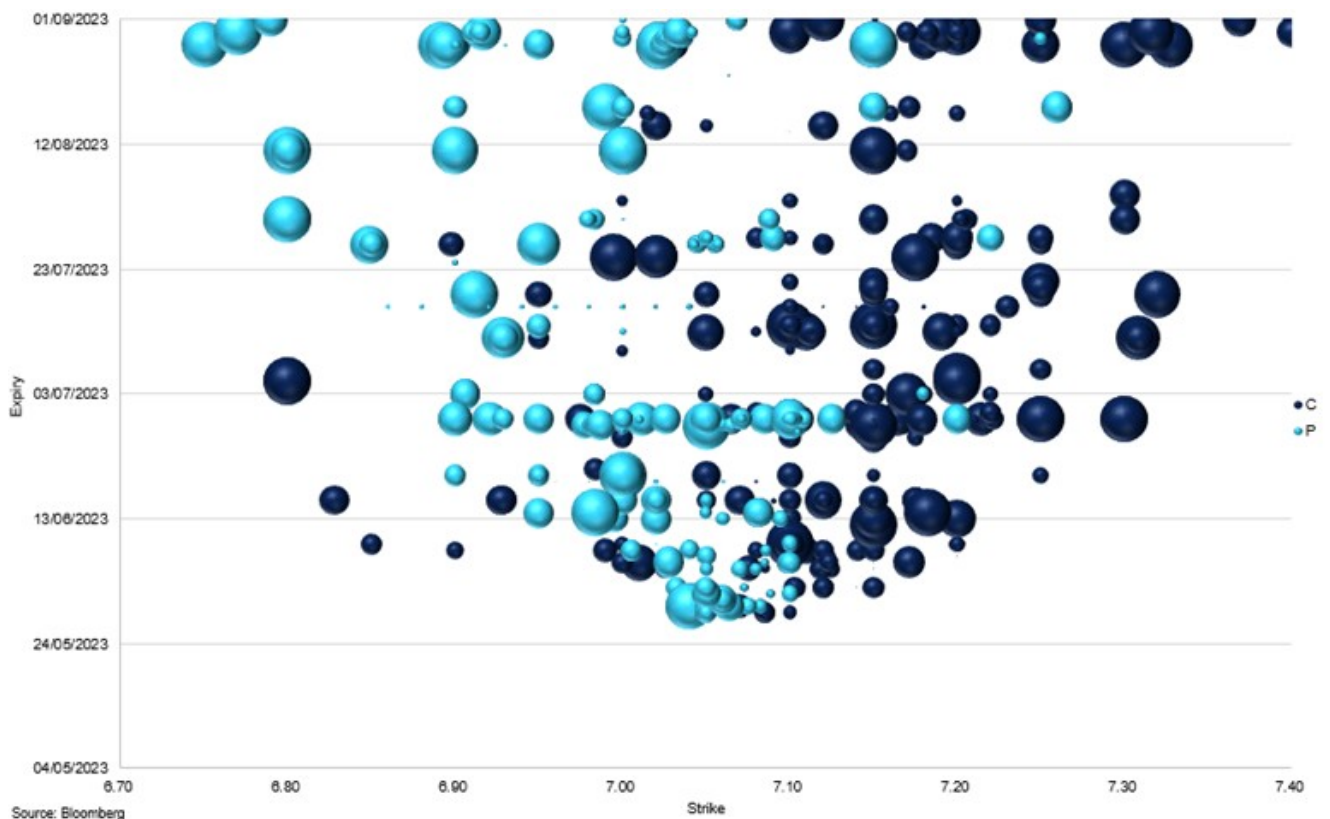


USDBRL NDO Positioning Data 01/06/2023 - 08/06/2023

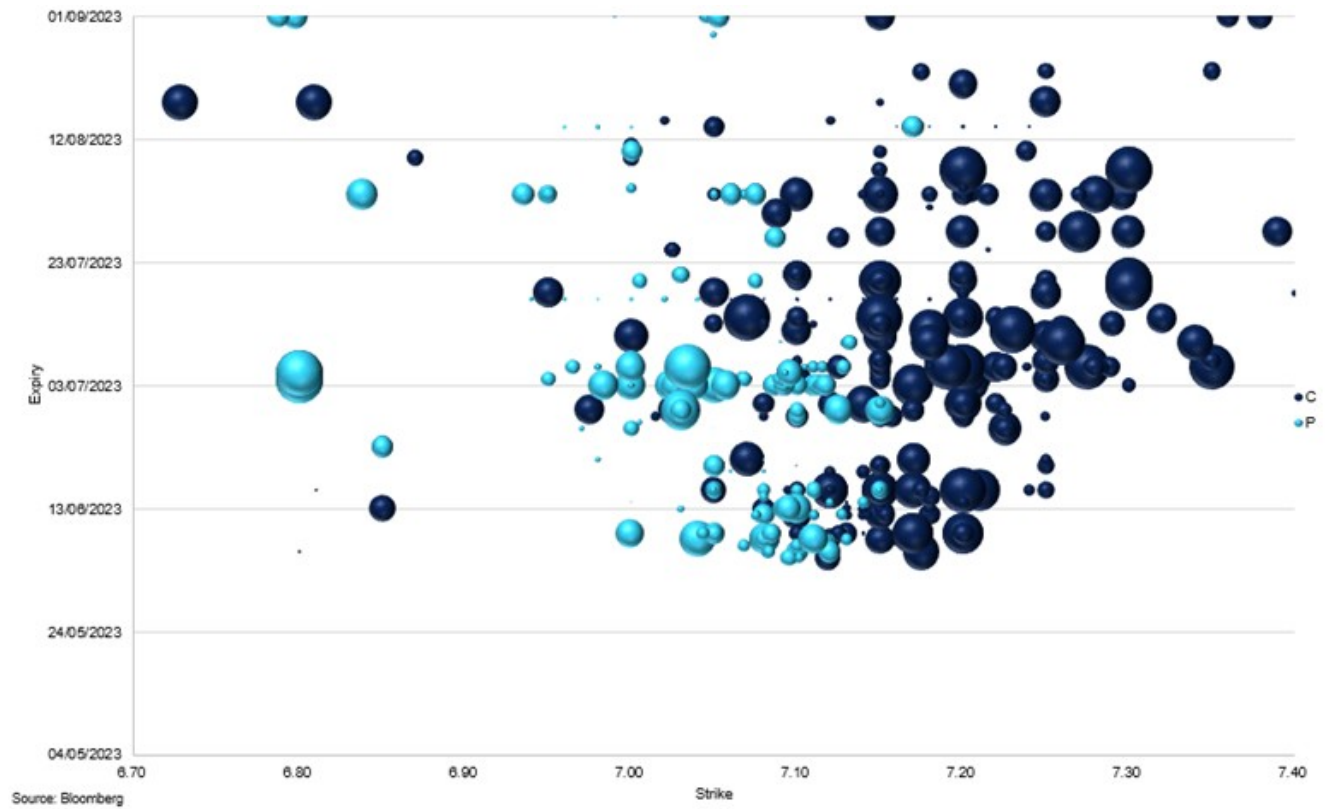


USDCNY Vanilla Positioning Data 25/05/2023 - 01/06/2023

USDCNY option positioning saw reduced appetite for levels below 7.00, and a greater number of calls, now outweighing the number of puts, suggesting growing upside momentum for the currency pair. Moreover, the puts are mostly positioned above the 7.00 level, highlighting little impetus to go below the level. We expect momentum on the upside to accelerate in the near term.

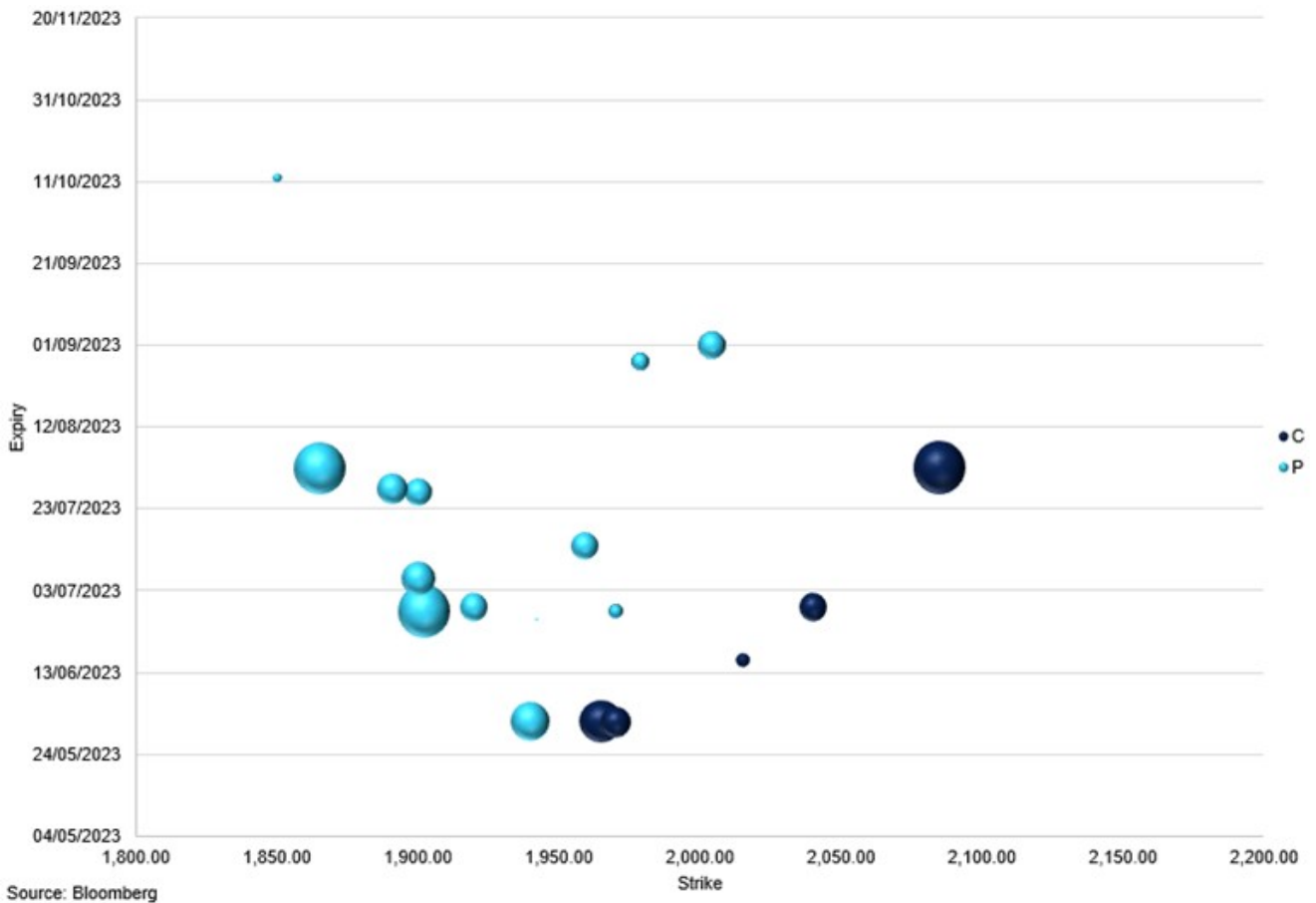


USDCNY Vanilla Positioning Data 01/06/2023 - 08/06/2023

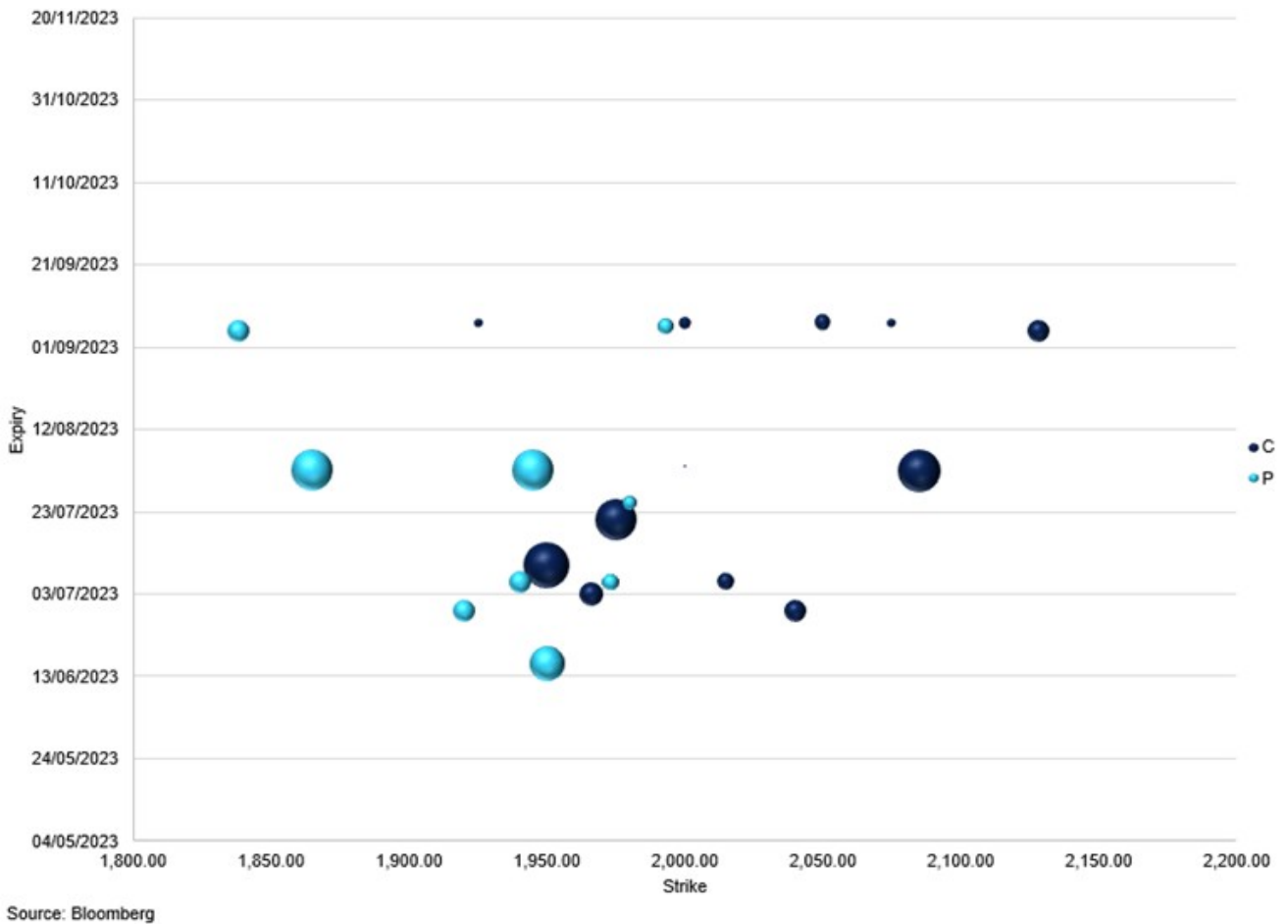


XAUUSD Vanilla Positioning Data 25/05/2023 -01/06/2023

XAUUSD option expiries have widened slightly in the week ending June 8th, with both downside and upside covers extending below 1,850 and 2,050, respectively. There is also greater interest seen building beyond September, but the majority of expiries are still taking place before then. The number of calls to puts remains fairly balanced, and the expiries are suggesting uncertainty around current levels in the near term.



XAUUSD Vanilla Positioning Data 01/06/2023 - 08/06/2023



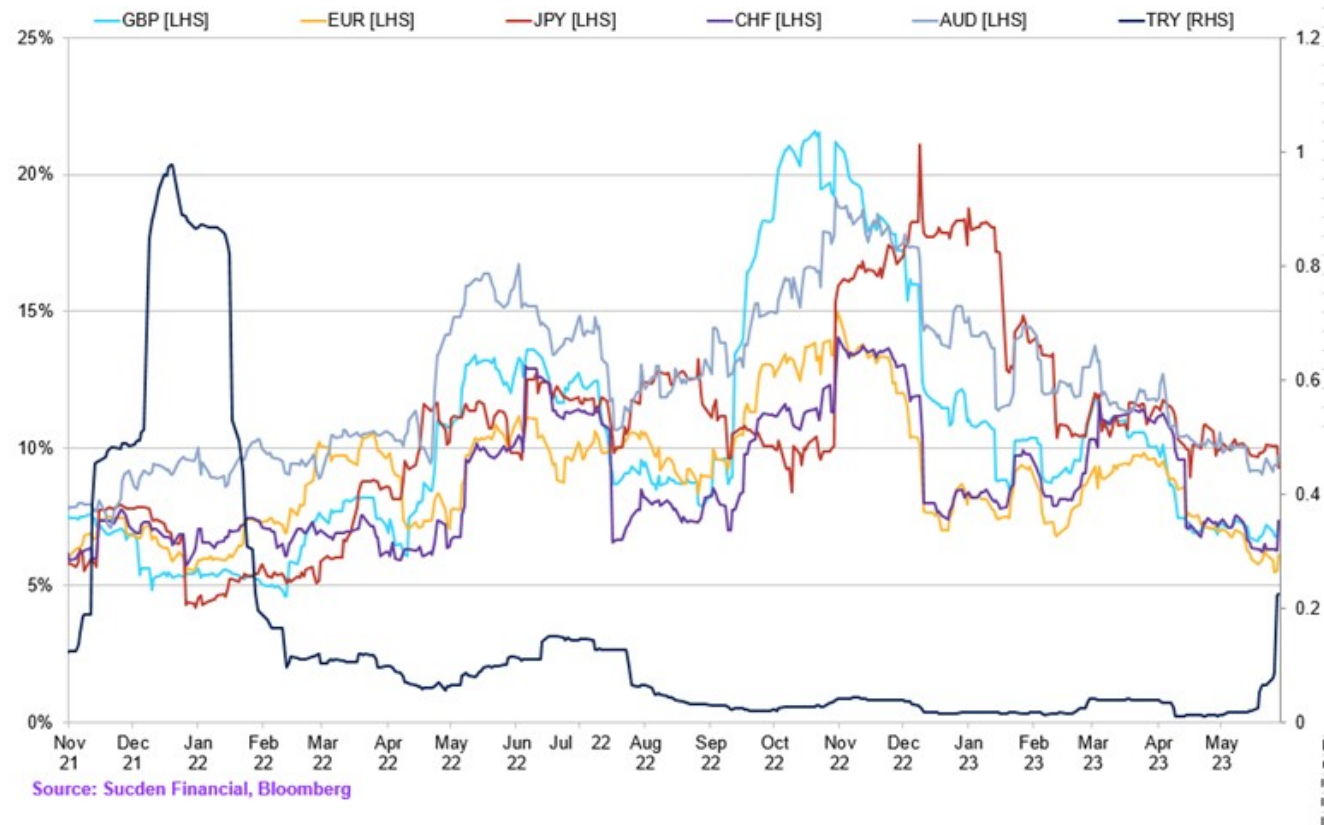
Charts and Tables

FX Expiries

Currency Pair	Friday 9 th	Monday 12 th	Tuesday 13 th	Wednesday 14 th	Thursday 15 th
GBP/USD					
USD/JPY	649.62mio @ 139	501.9mio @ 139.5			600mio @ 137
EUR/USD			883.5mio @ 1.06	612.33mio @ 1.07 697.69mio @ 1.073	
EUR/GBP					
USD/BRL		100mio @ 4.85	150mio @ 4.85 100mio @ 4.9 100mio @ 4.9725		
AUD/USD	160mio @ 0.66	100mio @ 0.654 100mio @ 0.655 100mio @ 0.674	100mio @ 0.6565	100.15mio @ 0.659 200mio @ 0.66 200mio @ 0.67	
USD/ZAR			202.6mio @ 19.25 100mio @ 19.3		
USD/INR					

Source: Bloomberg DTCC Data 2% from spot levels as of 08/06/2023

Historical Spot FX Volatility (30D Rolling)



FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2540	1.0763	0.0072	1.1098	0.7498	0.6716	0.6096
GBP	0.7974	-	0.8583	0.5712	0.8849	0.5979	0.5356	0.4861
EUR	0.9291	1.1652	-	0.6656	1.0312	0.6967	0.6241	0.5664
JPY	139.6000	175.0590	150.2400	-	154.9300	104.6760	93.7490	85.0990
CHF	0.9010	1.1299	0.9698	0.6452	-	0.6756	0.6051	0.5493
CAD	1.3336	1.6724	1.4353	0.0096	1.4799	-	0.8957	0.8130
AUD	1.4889	1.8671	1.6025	1.0666	1.6523	1.1164	-	0.9076
NZD	1.6404	2.0571	1.7655	0.0118	1.8204	1.2299	1.1018	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.68	0.49	0.22	0.87	0.66	1.60	0.46
GBP	-0.67	-	-0.20	-0.44	0.16	-0.02	0.95	-0.23
EUR	-0.50	0.19	-	-0.24	0.36	0.17	1.13	0.07
JPY	-0.23	0.46	0.31	-	0.61	0.45	1.38	0.36
CHF	-0.87	-0.15	-0.35	-0.59	-	-0.19	0.83	-0.36
CAD	-0.66	-0.01	-0.17	-0.43	0.17	-	0.91	-0.16
AUD	-1.57	-0.89	-1.12	-1.36	-0.79	-0.96	-	-1.04
NZD	-0.47	0.21	-0.06	-0.34	0.29	0.07	1.17	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	12/6	00:50	PPI YoY	May	5.0%	5.8%
GBP	13/6	07:00	ILO Unemployment Rate	Apr	4.0%	3.9%
EUR	13/6	10:00	ZEW – Economic Sentiment	Jun	-1.5	-9.4
USD	13/6	13:30	CPI YoY	May	4.2%	4.9%
USD	13/6	13:30	CPI ex. Food and Energy YoY	May	5.6%	5.5%
GBP	14/6	07:00	GDP MoM	Apr	0.0%	-0.3%
GBP	14/6	07:00	Industrial Production YoY	Apr	-2.6%	-2.0%
EUR	14/6	10:00	Industrial Production YoY	Apr	-0.1%	-4.1%
USD	14/6	12:00	MBA Mortgage Applications	Jun 9		-1.4%
USD	14/6	13:30	PPI YoY	May	1.1%	2.3%
USD	14/6	19:00	Fed Interest Rate decision			5.25%
JPY	15/6	00:50	Machinery Orders YoY	Apr	3.1%	-3.5%
CNY	15/6	03:00	Fixed Asset Investment YoY	May	4.8%	4.7%
CNY	15/6	03:00	Industrial Production YoY	May	2.9%	5.6%
CNY	15/6	03:00	Retail Sales YoY	May	14.5%	18.4%
EUR	15/6	13:15	ECB Rate on Deposit Facility			3.25%
USD	15/6	13:30	Initial Jobless Claims	Jun 9		261k
USD	15/6	13:30	Retail Sales MoM	May	-0.1%	0.4%
USD	15/6	14:15	Industrial Production MoM	May	-0.1%	0.5%
JPY	16/6		BoJ Interest Rate Decision			-0.1%
EUR	16/6	10:00	Harmonised CPI YoY	May	6.1%	6.1%

Source: FXStreet

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