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FX Options Weekly Report

Macro Commentary

As the coronavirus continues to spread across the world, more and more countries face difficult decision on what public health and economic measures to implement. Now, much further along the spread trajectory, the economic costs are escalating, and predicting the further path of growth seems nearly impossible. As a result, governments and central banks have released an array of fiscal and monetary policy tools to shield the financial industry, with the biggest contributions coming from China, the US, and Europe. While we believe that the impact of the virus will be much larger than governments can support, we want to take a look at different ways the nations are attempting to support the economies from the virus disruption.

China Stimulus

- During the outbreak of the virus, the government released an array of policy tools to help support the economy that is forecast to post negative GDP growth in Q1 2020. These policies include:
 - _ Weekly provision for bank lending, with the latest injection worth CNH50bn
 - _ Lowering lending rates for companies affected
 - _ CNH100bn worth of liquidity injection as of March 16th
 - _ Since then, the PBOC has stopped injecting any liquidity, and on March 28th, withdrew CNH33bn
 - _ Cuts in 7- and 14-day reverse repurchase agreements
 - _ While access to debt will be easier, we think that the return of those debts will take much longer than expected
 - _ Fixing the yuan above 7 per dollar
 - _ Lowering back reserve requirements, freeing up \$79bn into the economy
 - _ Setting a higher cap on foreign debt
- Additionally, China will increase its fiscal deficit as a share of GDP, issue special sovereign debt and allow local governments to sell more infrastructure bonds as part of a package.
- Small and medium-sized companies will be supported through a waiver of some fees and taxes for travel agencies as well as an RMB800bn rise in quotas for special loans.
- PBOC is yet to implement a fiscal stimulus, as it did in 2008 and 2015.
- A rising number of cases in Europe and the Americas has resulted in China planning to ban travel into the country.
 - _ The Chinese president called on G20 nations to remove trade barriers and cut tariffs, to aid the economic recovery

US Stimulus

As of March 30th, the number of cases in the US counted 140,000, with more than 52,000 in New York alone. The number of deaths remains below the ones in Italy and China; however, this could be attributed to the early stages of virus spread in the country. The economy is already showing signs of weakness, as the number of people filing for unemployment jumped to a record high of 3.3m by the end of March. Overall, the Fed has been committed to supporting cash flow to companies and citizens, and introduced two emergency Fed rate cuts, by 50 and 100bps respectively.

FED

- Pledged \$700bn new asset purchases, injected \$1.5trn in new liquidity, and set up a \$500bn fund to purchase commercial paper.
 - _ The helicopter money might provide the needed boost to the economy and improve investor confidence.
- On March 23rd, the Fed pledged asset purchasing programme with no limit.
 - _ Purchase investment-grade securities in primary and secondary markets and through ETFs for the first time.

Government

- On March 28th, Trump signed the largest-ever US financial stimulus package worth \$2trn, including direct payment to affected individuals and companies, including:
 - _ \$1,200 to every American earning less than \$75,000 pa and \$500 per child.
 - _ \$250bn to bolster the unemployment benefits programme.
 - _ \$350bn in loans and tax breaks to companies that face going out of business.
 - _ \$450bn more to the Treasury
 - _ Funds towards airlines, hospitals and local governments

Overall, the Fed has offered more than \$3trn in loans and asset purchases. To take on more risk, the Fed contributed about \$50bn to absorb losses from Fed loans that default.

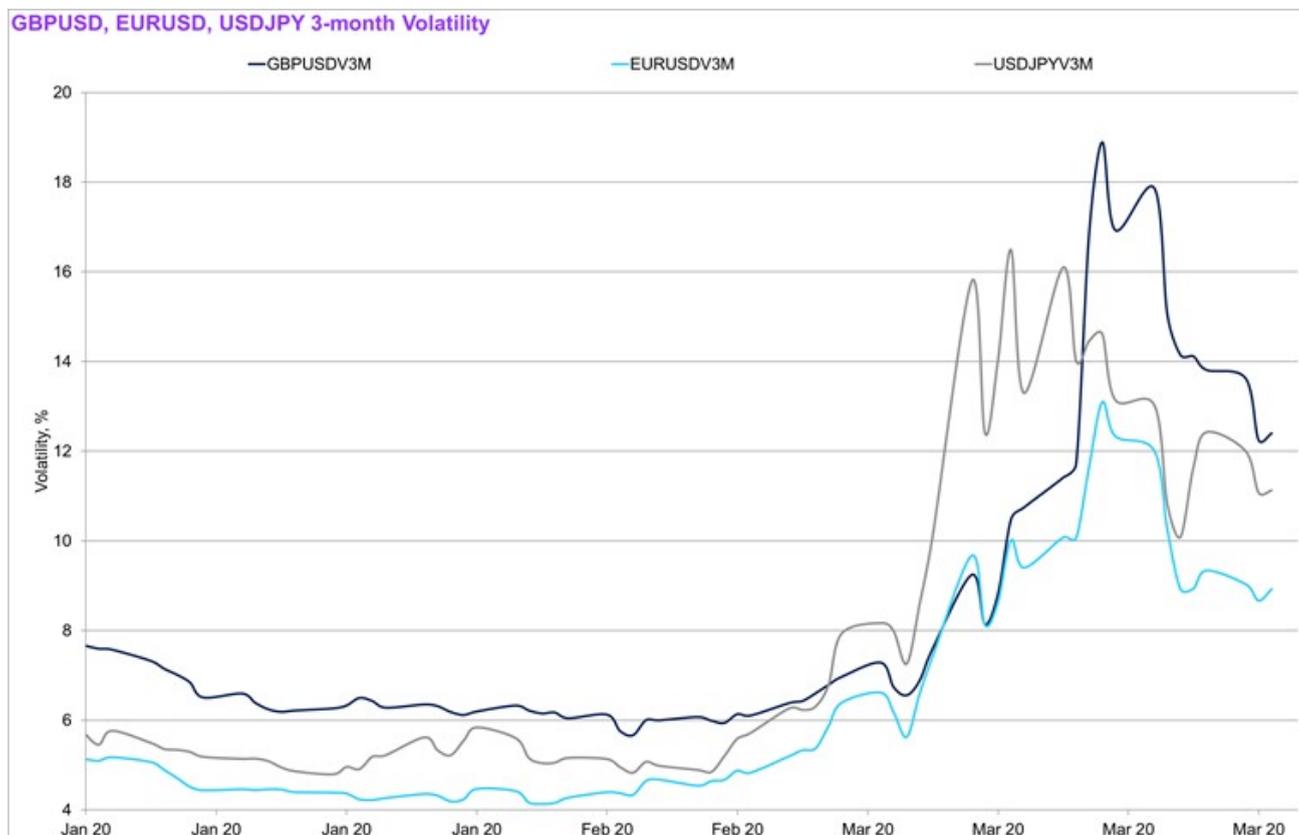
Europe Stimulus

In the Eurozone, the CB committed to net asset purchases of \$130bn in addition to the \$845bn announced on March 18th.

- The ECB left the deposit rate unchanged at historic lows of -0.500% and kept its marginal lending facility at 0.25%.
- Instead, it removed most of the bond-buying limits in its \$819bn pandemic emergency program.
 - — Allowing ECB to buy nearly unlimited quantities of the nation's sovereign debt, pushing down bond yields that could make fiscal stimulus harder to finance.
- Coronabonds, a much-debated tool, is being discussed as the next step to ease debt-issuing in Europe. These bonds are a shared debt instrument released to finance borrowing, where the money can be directed to the countries in need.
- A joint fiscal response is still in the works.

Bank of England is prepared to buy \$238bn worth of UK government bonds and investment-grade corporate bonds.

- For 2020, the deficit is expected to reach at least 7.5% of GDP.
- However, despite the sheer size of the fiscal stimulus, the government claims to have enough ammunition



Source: Bloomberg

Volatility Commentary

Following the worldwide realisation of the Coronavirus in early January, FX implied vols across major pairs were slow to react until the beginning of March, especially as the situation worsened drastically in Italy with other Western economies. Markets and Governments are realising this was not just an "Asia only" issue but a global pandemic.

As seen in the graph below FX vols then spiked, first in USDJPY, with JPY acting as a local Asia reserve currency which saw large moves in spot as JPY strengthened in the first half of March. This was followed by GBPUSD and EURUSD vols spiking as Western countries began to adopt lockdown/quarantine procedures and stock markets plummeted. Following the adoption of lockdown/quarantine procedures and both drastic fiscal stimulus and monetary easing in the US, UK and Eurozone economies stock markets have recovered slightly from the bottom felt earlier this month and as seen below FX vols have come off.

Net, however, we would prefer being slightly long vol, with many Western European countries and the US still being near the start of this battle. The expectations of taking 3-6 months before a return to normal (alongside US specialists in the White House projecting deaths that could range into the hundreds of thousands), we feel there is still much more to come that the market has not necessarily yet factored/priced in for.

Charts and Tables

FX Expiries

Currency Pair	Friday 3 rd	Monday 6 th	Tuesday 7 th	Wednesday 8 th
GBP/USD				
USD/JPY	500mio @ 108.35	500mio @ 107.5 1.2bn @ 108.6	500mio @ 106	
EUR/USD				
				505.88mio @ 1.107 645.75mio @ 1.115
EUR/GBP				
USD/BRL				
AUD/USD			132.26mio @ 0.62	
USD/ZAR				
				200mio @ 18
USD/INR				

Source: Bloomberg DTCC Data 2% from spot levels as of 01/04/2020 close

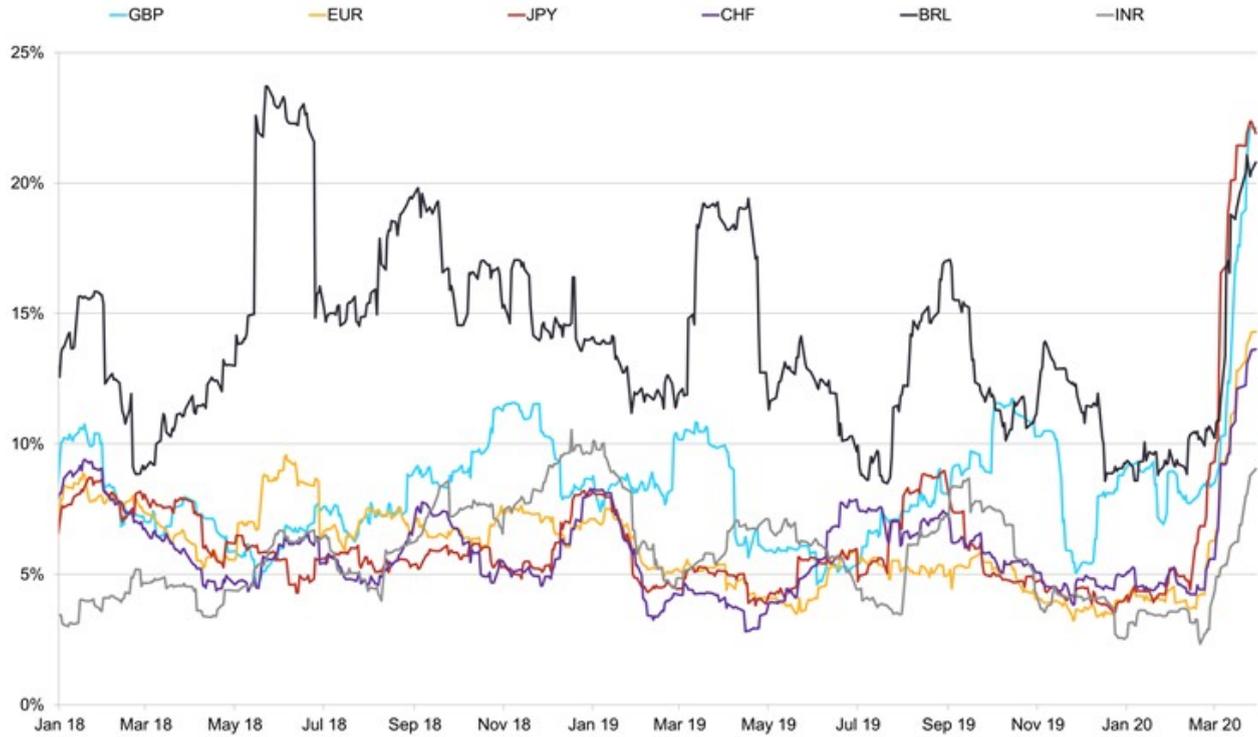
FX Volatility Grid

Time Period	EURUSD			GBPUSD			USDJPY			EURGBP		
	25d RR	25d BF	ATM									
1W	-0.52	0.50	11.19	-2.27	0.81	17.03	-4.15	0.63	15.86	1.59	0.59	12.41
1M	-0.69	0.55	9.56	-2.67	0.82	14.56	-4.28	0.62	13.31	1.86	0.66	10.77
2M	-0.78	0.55	9.05	-2.68	0.83	12.97	-4.36	0.64	11.69	1.91	0.67	9.96
3M	-0.87	0.58	8.95	-2.71	0.85	12.43	-4.41	0.68	11.10	1.95	0.69	9.71
6M	-1.00	0.61	8.61	-2.76	0.88	11.17	-4.51	0.71	10.08	1.95	0.70	8.99
1Y	-1.11	0.63	8.48	-2.81	0.90	10.33	-4.53	0.75	9.28	2.04	0.71	8.48

Time Period	USDINR			USDTRY			USDJPY			AUDUSD		
	25d RR	25d BF	ATM									
1W	3.07	0.63	13.71	7.27	1.18	24.70	5.93	0.52	26.83	-5.24	0.89	23.03
1M	3.29	0.67	11.38	8.02	1.49	22.96	6.29	0.63	23.07	-5.47	0.94	17.95
2M	3.38	0.69	10.65	8.03	1.39	21.97	6.39	0.65	20.63	-5.41	0.95	15.54
3M	3.44	0.70	10.21	8.02	1.49	22.05	6.45	0.66	19.58	-5.41	0.94	14.66
6M	3.49	0.70	9.33	8.29	1.60	22.00	6.32	0.72	17.95	-5.46	0.97	13.22
1Y	3.49	0.68	8.85	8.70	1.59	21.89	6.26	0.80	16.81	-5.56	1.00	12.09

Source: Sueden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sueden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2460	1.1141	0.0093	1.0505	0.7152	0.8168	0.6035
GBP	0.8029	-	0.8938	0.7436	0.8439	0.5739	0.4949	0.4841
EUR	0.8980	1.1182	-	0.8315	0.9436	0.6418	0.5535	0.5417
JPY	107.9400	134.3440	120.2900	-	113.4490	77.2090	66.5440	65.1430
CHF	0.9517	1.1858	1.0600	0.8818	-	0.6804	0.5866	0.5739
CAD	1.3985	1.7432	1.5583	0.0130	1.4703	-	0.8621	0.8442
AUD	1.6225	2.0210	1.8073	1.5037	1.7042	1.1601	-	0.9786
NZD	1.6570	2.0651	1.8474	0.0154	1.7418	1.1855	1.0223	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-1.42	-3.09	-0.40	-2.55	-1.51	-2.98	-3.13
GBP	1.41	-	-1.65	1.00	-1.24	-0.05	-1.55	-1.67
EUR	3.14	1.73	-	2.75	0.48	1.67	0.13	-0.04
JPY	0.43	-0.89	-2.70	-	-2.18	-1.09	-2.52	-2.71
CHF	2.65	1.18	-0.49	2.19	-	1.15	-0.34	-0.49
CAD	1.50	0.02	-1.65	1.04	-1.18	-	-1.47	-1.69
AUD	3.00	1.57	-0.16	2.52	0.38	1.48	-	-0.16
NZD	3.22	1.73	-0.03	2.67	0.52	1.64	0.12	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JP	03/04	01:30	Jibun Bank Japan Services PMI	Mar	-	32.7
JP	03/04	01:30	Jibun Bank Japan Composite PMI	Mar	-	
CH	03/04	02:45	Caixin China Composite PMI	Mar	-	27.5
CH	03/04	02:45	Caixin China Services PMI	Mar	39	26.5
EU	03/04	09:00	Markit Services PMI	Mar	28.2	28.4
EU	03/04	09:00	Markit Composite PMI	Mar	31.4	31.4
US	03/04	13:30	Change in NFPs	Mar	-100K	273K
US	03/04	13:30	Unemployment Rate	3.8%	3.8%	3.5%
US	03/04	14:45	Markit Services PMI	Mar	38.5	39.1
US	03/04	14:45	Markit Composite PMI	Mar	-	40.5
JP	07/04	00:30	Labour Cash Earnings Y/Y	Feb	-	1.5%
CH	07/04	-	Foreign Reserves	Mar	-	\$3106.72
JP	08/04	00:50	Core Machine Orders M/M	Feb	-	¥612.3b
JP	08/04	00:50	BoP Current Account Balance	Feb	-	¥1612.3b
JP	08/04	00:50	Trade Balance BoP Basis	Feb	-	¥985.1B
US	08/04	12:00	MBA Mortgage Applications	Apr 3		
US	08/04	19:00	FOMC Meeting Minutes	Mar 18		

Source: Bloomberg

Technical Charts

Dollar Index



The index has gained ground in recent sessions after failing at 103. Trend support has held firm in recent sessions, and this could trigger gains back towards 102 in the longer run. The stochastics and MACD diff are improving outlining positive sentiment. The stochastics are overbought, but the breach of trend resistance helps confirm the medium-term trend of higher prices and rejection of the descending triangle. A break of the 23.6% fib level would help confirm the bullish engulfing candle. On the downside, a break of trend support would set the scene for lower prices back towards 96.604

JP Morgan Global FX Volatility Index



The index has consolidated recent losses, and the index has failed to break trend resistance. The stochastics are falling, the MACD diff is positive but lacks conviction. If trend resistance holds firm, the index could retreat towards trend support. The reaffirmation of support at this level would keep the market on the front foot, but the index needs to gain a footing above the 100 DMA 12.32. A break of support would trigger losses towards the 200 DMA at 8.69.

Spot Gold Prices



The market reaffirmed support at \$1,450/oz earlier on in March. The market has been well bid prompting a test of resistance at \$1,643.95/oz. The stochastics are overbought and are starting to converge suggesting we could see prices soften in the near term back through the 200 DMA. Secondary support stands at the 100 DMA and this level held firm in the last few days. To confirm the reaffirmation of support at the 100 DMA, prices need to take out trend resistance and then \$1,650/oz. On the downside, a break below support at \$1,600 and then the 100 DMA would confirm the rejection of trend resistance.

Risk warning

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