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FX Options Weekly Report

Macro Commentary

The oversupply of oil due to demand destruction, and fall out of OPEC+ has caused oil prices to decline 50% YTD. This week we look at USDCAD map out the impact on the economy ahead of the OPEC meeting.

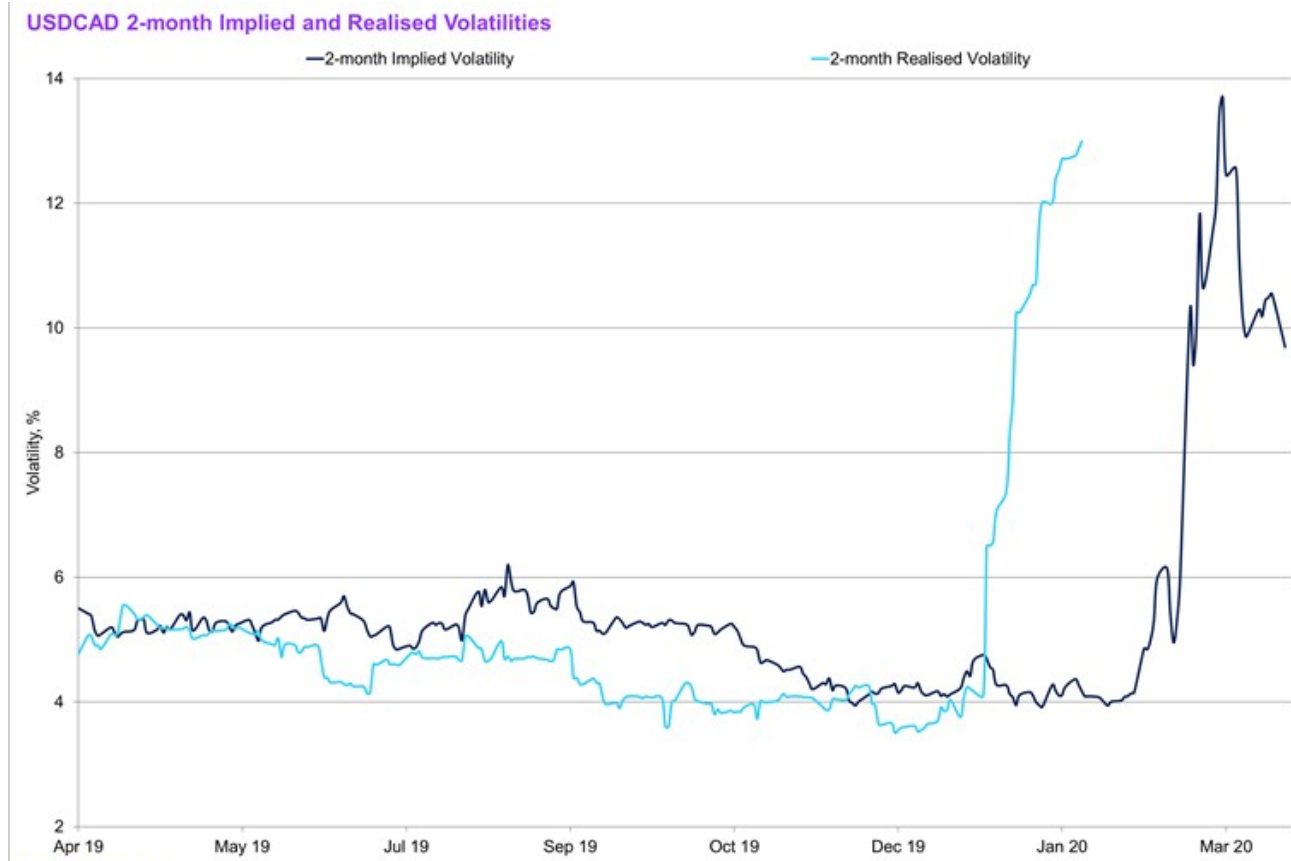
Oil market turbulence

- OPEC+ failure to agree on a 1.5m additional production cut causing a price war
- This caused OPEC to increase production to 28.06m bpd
 - — The kingdom has increased production to 12m bpd
- The U.S. is currently the largest producer of oil in the world, at 13m bpd, despite the Baker Hughes data falling 62 rigs to 562 the week before last
 - — The biggest decline since March 2015 when the rig count fell 121
- Russia have increased their output by 200-300k bpd
- Oil demand has fallen by a third due (30mbpd) to the virus, and we do not see a recovery in the near term
- There is no clearer sign of the oversupply thanks to the DOE's crude oil inventories change; we saw a 13.833m barrel rise in the week to March 27th
- Inventories have been rising w/w since January 17th
- Regional pricing shows that West Texas Sour oil can be bought at \$18.27/bl, Implied Bitumen in Canada is \$9/79/bl
- Both WTI and Brent are in steep contango, and the spread stands at \$2.55/bl, narrowing from \$7.96/bl last week
- The delay to OPEC+'s meeting damaged hopes of a production cut of 10m bpd that was first touted by President Trump
- They are due to meet later this week with Norway set to join in an observational capacity
 - — Oil producers need an end to the price war as the majority is losing money at current prices, and storage space is running low

Canada

- The Canadian economy was on the back foot before the virus, and the fall in oil prices will further damage their trade balance
- The Bank of Canada announced QE, liquidity support, as well as reduced interest rates three times to 0.25% in March
- OPEC deal aside, we do not expect a V-shaped recovery in the global economy, let alone in Canada
- Despite low prices, lack of storage facilities, as well as pipeline capacity, will limit Canada's oil exports
- We expect unemployment to increase from 5.6% in February towards 10% in the coming months
- February and March retail sales will be supported by panic buying from civilians, but we expect this momentum to dissipate in the long run
 - — Canada's ratio of household debt to disposable income is high at 176.20% (according to Bloomberg)
 - — Household GDP spending has been falling recently to 1.40%
- Bank of Canada may increase its QE policy to support the economy

We have seen some CAD shorts take profit in the last week of March; this may take some risk off the table as the virus rips through the West. Relations between the U.S. and Canada have deteriorated following the dispute over face masks. Even if we see oil production cut this week by OPEC+, the market will remain in surplus and energy prices will find a new equilibrium below previous levels. The dollar strength looks set to continue for a little while longer, despite a 13% deficit to GDP ratio, rise in total debt/GDP and the Fed's increasing balance sheet. We expect CAD to remain under pressure.



Volatility Commentary

As with most FX vol pairs USDCAD vols spiked in March as the Coronavirus spread further into Western economies, in parallel with an oil price war between Saudi Arabia and Russia also adding to market uncertainty (in addition with Canada being a large oil exporter). As seen below using 2mth implied volatility, implied vols and spot have come off from the March highs but still trade at elevated levels.

Though the vol and spot market has come off since the March spike we still see there is much more to go with the Coronavirus situation in the world's biggest economy/USA likely to worsen further and the oil price war with Saudi Arabia and Russia still unresolved we favour long vol positions in USDCAD which favour spot higher.

Trade Idea – 2-month Expiry

- Buy USDCAD Call Spread in 10m USD Notional a leg, strikes at 1.4200 and 1.4500 for premium cost circa 44k USD
- Sell USDCAD Put Spread in 5m Notional a leg, strikes at 1.3800 and 1.3600 for premium receive circa 20k USD
- Total structure has premium cost of circa 24k USD

Charts and Tables

FX Expiries

Currency Pair	Thursday 2 th	Friday 3 rd	Monday 6 th	Tuesday 7 th	Wednesday 8 th
GBP/USD					
USD/JPY		550mio @ 108.4 550mio @ 109	850mio @ 107.5	580mio @ 111	500mio @ 108
EUR/USD	507.85mio @ 1.083				
EUR/GBP		636.92mio @ 0.8835			
USD/BRL		100mio @ 5.19			
AUD/USD					
USD/ZAR					
USD/INR					

Source: Bloomberg DTCC Data 2% from spot levels as of 06/04/2020 close

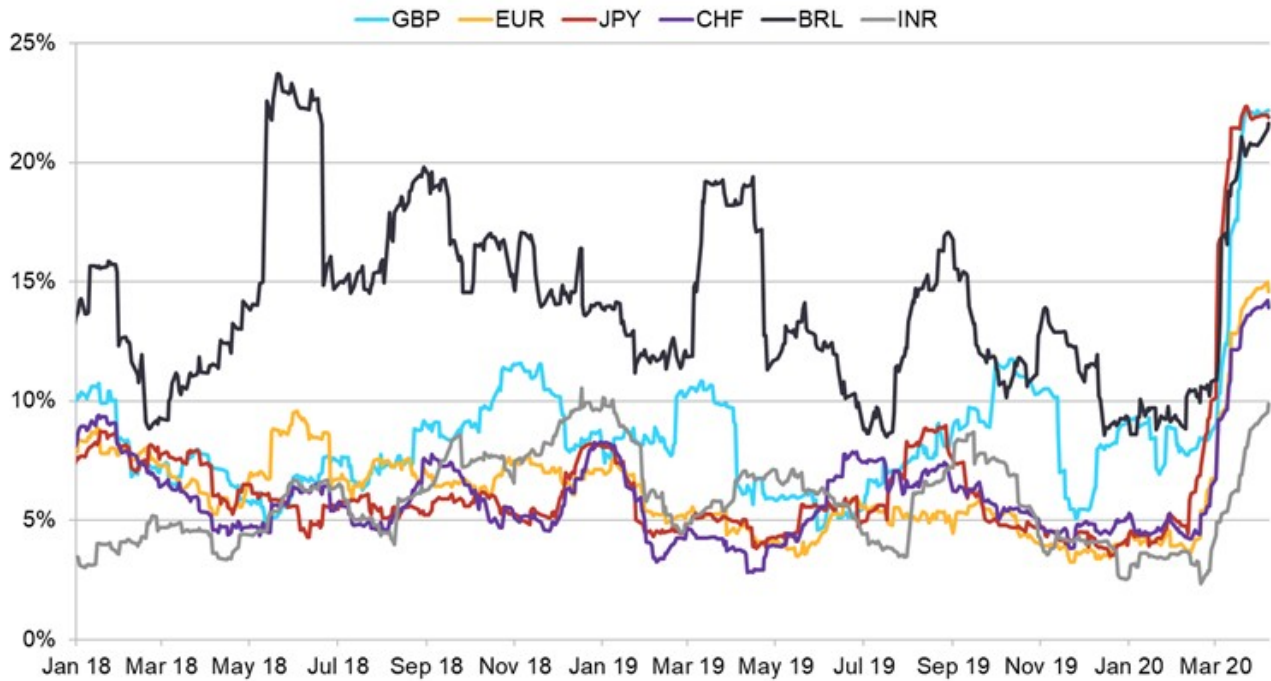
FX Volatility Grid

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	-0.43	0.46	8.10	-2.82	0.73	12.20	-2.83	0.40	9.83	1.54	0.53	9.91
1M	-0.73	0.51	8.48	-2.97	0.79	12.45	-3.47	0.43	9.73	1.93	0.61	10.17
2M	-0.81	0.54	8.39	-3.02	0.81	11.97	-3.65	0.47	9.43	1.94	0.64	9.84
3M	-0.88	0.55	8.26	-3.05	0.85	11.67	-3.72	0.51	9.17	1.99	0.65	9.67
6M	-1.00	0.58	8.22	-3.05	0.87	10.95	-3.83	0.56	8.85	2.01	0.67	9.25
1Y	-1.10	0.61	8.26	-3.04	0.89	10.57	-3.90	0.60	8.63	2.12	0.69	9.00

Time	USDINR			USDTRY			AUDUSD					
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM			
1W	3.09	0.59	11.64	8.51	1.27	25.35	5.34	0.57	23.24	-2.95	0.66	16.28
1M	3.51	0.64	11.11	9.64	1.52	24.75	5.90	0.66	22.07	-3.68	0.73	15.00
2M	3.62	0.64	10.54	9.60	1.43	24.18	5.90	0.73	20.32	-3.61	0.74	13.94
3M	3.53	0.63	10.02	9.47	1.46	23.94	5.93	0.76	19.15	-3.72	0.76	13.30
6M	3.63	0.64	9.30	9.40	1.69	23.79	6.07	0.81	17.81	-3.90	0.80	12.44
1Y	3.71	0.66	8.80	9.46	1.75	23.44	6.17	0.86	16.83	-4.16	0.86	11.67

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2388	1.0882	0.0092	1.0306	0.7130	0.6194	0.5990
GBP	0.8071	-	0.8785	0.7421	0.8318	0.5755	0.5000	0.4836
EUR	0.9190	1.1384	-	0.8450	0.9471	0.6552	0.5692	0.5505
JPY	108.7700	134.7360	118.3500	-	112.0850	77.5420	67.3730	65.1570
CHF	0.9704	1.2021	1.0559	0.8922	-	0.6918	0.6011	0.5813
CAD	1.4027	1.7376	1.5263	0.0129	1.4454	-	0.8688	0.8402
AUD	1.6144	1.9999	1.7568	1.4845	1.6638	1.1510	-	0.9670
NZD	1.6693	2.0679	1.8165	0.0154	1.7205	1.1903	1.0340	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.14	-0.76	-1.47	-0.46	1.19	2.04	1.34
GBP	-0.17	-	-0.88	-1.60	-0.62	1.04	1.86	1.07
EUR	0.75	0.90	-	-0.73	0.31	1.94	2.82	2.06
JPY	1.49	1.62	0.72	-	1.04	2.69	3.55	2.85
CHF	0.46	0.61	-0.25	-1.02	-	1.66	2.47	1.79
CAD	-1.17	-1.05	-1.92	-2.62	-1.63	-	0.85	0.13
AUD	-1.97	-1.87	-2.74	-3.44	-2.46	-0.84	-	-0.75
NZD	-1.24	-1.19	-2.07	-2.66	-1.69	-0.09	0.67	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
US	08/4	12:00	MBA Mortgage Applications	April 3		15.3%
US	08/4	19:00	FOMC Minutes			
US	09/4	13:40	Initial Jobless Claims	April 4	5000k	6648k
US	09/4	13:40	PPI YoY	Mar	0.5%	1.3%
US	09/4	15:30	U. of Mich. Sentiment	Feb	75.0	89.1
US	10/4	13:30	CPI YoY	Mar	1.6%	2.3%
US	10/4	19:00	Monthly Budget Statement	Mar	-\$135.0bn	-\$235.3bn
US	15/4	13:40	Retail Sales MoM	Mar	-5.0%	-0.5%
US	15/4	14:15	Industrial Production MoM	Mar	-2.2%	0.6%
US	15/4	14:15	Manufacturing Production YoY	Mar		
UK	09/4	07:00	Industrial Production YoY	Feb	-3.0%	-2.9%
UK	09/4	07:00	Monthly GDP Mom	Feb	0.1%	0.0%
GE	09/4	07:00	Balance of Trade	Feb	16.5b	13.8b
IT	09/4	09:00	Industrial Production MoM	Feb	-1.7%	3.7%
IT	15/4	09:00	Inflation Rate YoY Final	Mar		0.1%
CA	08/4	13:15	Housing Starts	Mar	172.5k	210.1k
CA	09/4	13:30	Unemployment Rate	Mar	7.5%	5.6%
CA	15/4	15:00	BoC Interest Rate Decision		0.25%	0.25%
CN	10/4	02:30	Inflation Rate YoY	Mar	4.9%	5.2%
CN	14/4	04:00	Balance of Trade	Mar	\$21.25b	\$47.29b
JP	08/4	00:50	Core Machine Orders MoM	Feb	-2.9%	2.9%

Source: Bloomberg

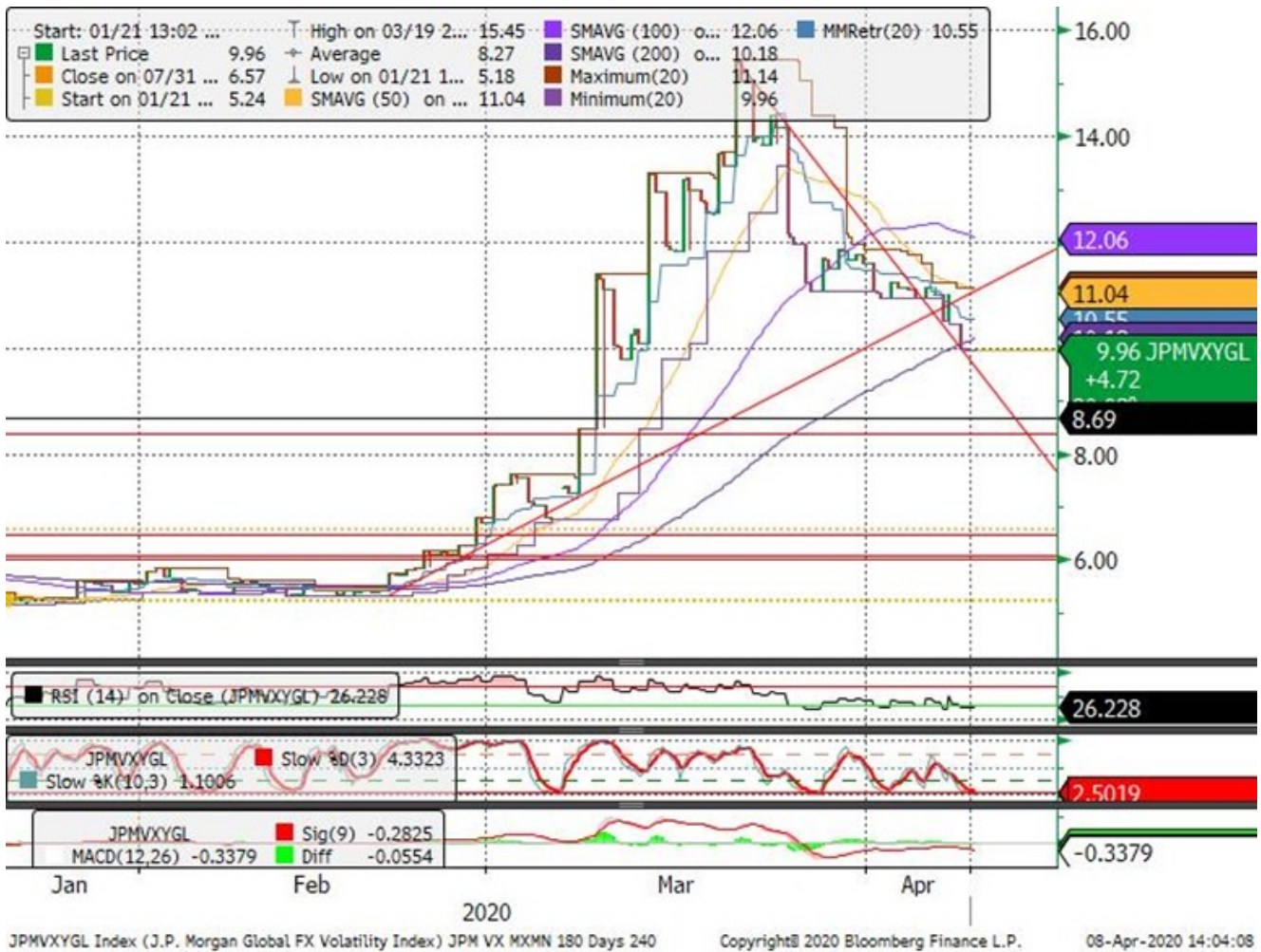
Technicals

The Dollar Index



The index has remained on-trend in the last week, support has held firm, but the stochastics are falling. The MACD diff is negative and is relatively flat, and this could trigger gains through the 23.6% fib level at 100.974. A break of this level would confirm the ascending triangle and the breakout of the symmetrical triangle. On the downside, a breach of trend support would bring into play the 200 DMA at 99.007. Near term, momentum is on the back foot, but if the index holds above 99.76, this will set the scene for higher prices.

JPM VX Global index



The index has weakened in the last few days as trend support was broken, prompting a test of the 200 DMA. The indicators are falling; the stochastics are in oversold territory as the MACD diff is also negative. The break of trend support and the 200 DMA compounds downside momentum. This could set the scene for lower prices towards support at 8.69. On the upside, appetite for prices below the 200 DMA could trigger gains towards previous trend support and then the 100 DMA at 12.06. The immediate trend is on the downside and we expect prices to soften.

USDCAD



The market failed above 1.46 in mid-march and has prompted a test of support at 1.40. The stochastics are rising out of overbought territory, but the MACD diff is negative but is converging suggesting selling pressure is waning. The descending triangle is still intact, and support below 1.40 could trigger a test of trend resistance. A break below support at 1.3961 would confirm the descending triangle with secondary support at 1.3887. Tertiary support stands at 1.37. On the upside, a break of trend resistance would improve market sentiment and confirm the rejection of the descending triangle. The key level is 1.4600, which seems a long way off this time, but a breakout of the triangle could bring it into play.

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