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# FX Options Weekly Report

## Macro and Vol Commentary

New COVID cases in major Euro-area economies have started tail off, causing some governments to ease lockdown measures. What does this mean for euro?

### The data

- GDP data for Q1 is released tomorrow, and it is expected to be a taste of things to come
  - — Forecasts suggest that we will see a contraction of 3.7%; the Italian economy is expected to decline by 4%
  - — We anticipate Q2 GDP to be significantly weaker, with economy's hitting double-digit declines
  - — The ECB have developed several scenarios for this years GDP with estimates are between -5% and -12%
  - — Mfg PMI has weakened in recent weeks to 33.6 in April, down from 44.5 in March
  - — Services and composite PMIs were considerably weaker in April at 11.7 and 13.5, down from 22.8 and 25 in March respectively
  - — Mfg confidence in German, France, Italy, and Spain has weakened considerably in Q1 to -17.2, -6.5, -7.0, and -1.0 respectively
  - — Consumer confidence has fallen the most in Italy, Spain, and Germany to -10.5, -10.5, and -8.4 respectively
  - — Q2 consumer confidence for the Eurozone and EU 28 have fallen to -22.7% and -22% respectively
  - — February unemployment was 7.3%, but we expect this to see a sharp rise in March and April through 8%
  - — CPI for March is forecast to be 0.7% y/y and 0.5% m/m; core CPI was stronger at 1% y/y
  - — The EU announced that banks would be able to hold less capital for funds, in an attempt to support lending

ECB April Meeting: Where do we stand?

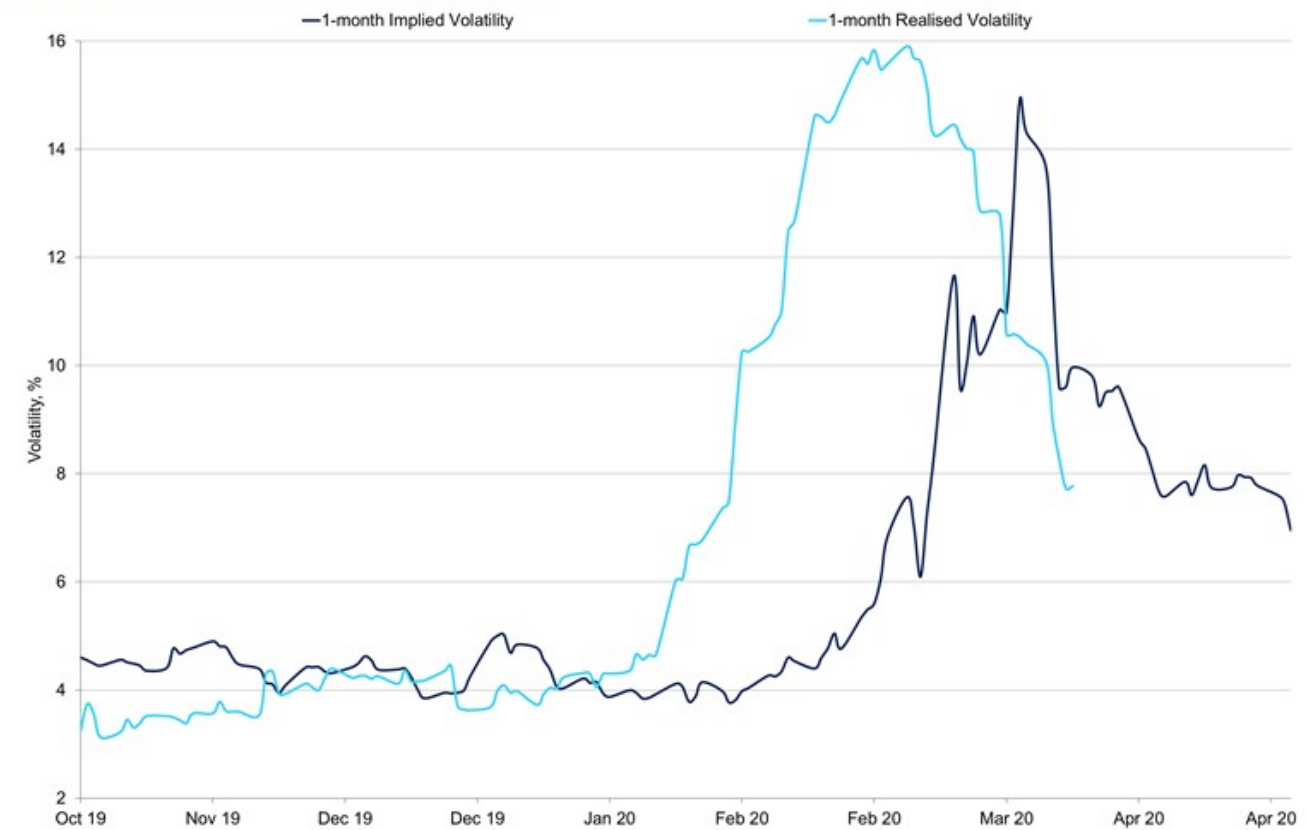
- The ECB has allocated 750bn euros to the emergency plan; this is expected to increase by another 500bn to reach 1.25trn euros
- Cut of interest rates on TLTRO III to 25bp below the deposit rate and for banks hitting their 'lending performance threshold' to 50bp below refi and 50bp below the deposit rate
- Spreads between 10yr bonds are widening, and this is creating a risk for the ECB
  - — Italy's debt to GDP ratio was elevated before the pandemic at 133%

We expect the European economy to weaken in Q2. This will mean further support from the ECB in June when their latest economic forecasts are released. The furlough scheme will benefit the Euro-area, and the UK in recovery as saving rates have increased during the lockdown. These savings may help boost the economy after lockdown. Another benefit to the Euro-Area is Germany's handling of the virus; this should help a recovery, especially if China is nearly back at full capacity. We are cautiously optimistic for the euro in the near term but the dark cloud of dire economic data in the medium term is a dark cloud.

# EURUSD Vol Comment

As with FX Macro, vols EURUSD vols spiked in March due to the COVID-19 crisis. However, since then, we've seen implied vols come off slightly. Shorter-dated realised vols have also begun to come off (see 1-month expiry graph below) with the realised vols from the tail end of March, realising lower than implied. As mentioned above, Eurozone COVID-19 cases are tailing off, and some governments (e.g. Germany & Italy) are implementing gradual rollbacks of certain lockdown measures. Given these measures are safely implemented without a "second spike", we could see the potential for vols to realise lower than current implied levels in Europe (with contractions in EUR economies over the short to medium term/ECB support already priced into the spot level). As such, we favour slight short vol/gamma positions on EURUSD.

EURUSD 1-month Implied and Realised Volatilities



Source: Bloomberg

# Trade Idea

- Priced in 1-month expiry, 10m EUR a leg, sell 25 delta Strangle for circa 6.85 vols
- Trade gives short circa 20k USD Vega, delta hedge short Gamma position
- Note that this is only suitable for investors set up to dynamically delta hedge and manage short gamma positions

# Charts and Tables

## FX Volatility Grid

Time	EURUSD			GBPUSD			USDJPY			EURGBP		
Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	-0.45	0.25	7.19	-1.47	0.33	8.83	-1.02	0.30	7.41	1.12	0.35	6.50
1M	-0.50	0.29	6.53	-1.81	0.42	8.72	-1.39	0.32	7.43	1.34	0.38	6.73
2M	-0.58	0.32	6.71	-1.95	0.46	9.20	-1.73	0.35	7.69	1.43	0.42	7.23
3M	-0.65	0.34	6.76	-2.03	0.49	9.33	-2.03	0.37	7.89	1.47	0.44	7.40
6M	-0.76	0.37	6.89	-2.22	0.56	9.66	-2.54	0.41	8.30	1.60	0.50	7.98
1Y	-0.90	0.41	7.14	-2.42	0.63	10.19	-2.88	0.47	8.25	1.77	0.56	8.48

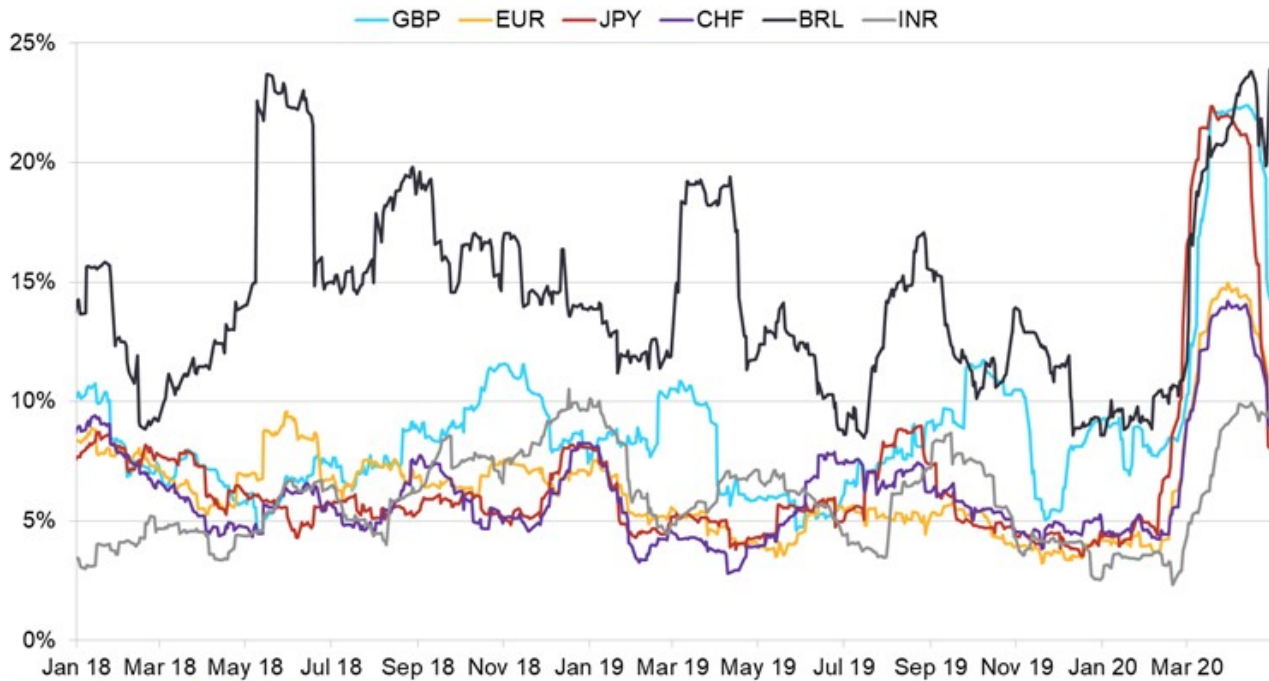
Time	USDINR			USDTRY			USDJPY			AUDUSD		
Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	USDJPY	ATM	25d RR	25d BF	ATM
1W	2.00	0.44	9.79	6.27	1.12	16.34	4.45	0.59	25.32	-2.79	0.58	14.62
1M	2.17	0.46	9.24	8.39	1.37	18.73	5.14	0.65	23.01	-3.15	0.65	12.76
2M	2.25	0.52	9.18	8.84	1.48	19.91	5.45	0.69	21.91	-3.37	0.68	12.48
3M	2.28	0.52	8.95	8.98	1.51	20.24	5.66	0.72	20.81	-3.48	0.71	12.13
6M	2.38	0.56	8.66	9.25	1.59	21.33	5.64	0.78	19.30	-3.67	0.74	11.83
1Y	2.44	0.55	8.39	9.49	1.76	22.19	5.68	0.87	18.35	-3.85	0.78	11.45

Source: Sucden Financial

## FX Expiries

Currency Pair	Friday 1 <sup>st</sup>	Monday 4 <sup>th</sup>	Tuesday 5 <sup>th</sup>	Wednesday 6 <sup>th</sup>	Thursday 7 <sup>th</sup>
GBP/USD					
USD/JPY					
EUR/USD			587.41mio @ 1.0725 1.19bio @ 1.075 638.98mio @ 1.0955	909.08mio @ 1.1	
EUR/GBP					
USD/BRL					
AUD/USD			100.7mio @ 0.6455 1.53bio @ 0.653	109.8mio @ 0.6465	
USD/ZAR	100mio @ 18.95		100mio @ 18.8	100mio @ 19	
USD/INR			200mio @ 77		

### Historical Spot FX Volatility (30D Rolling)



Source: Sudden Financial, Bloomberg

### FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2562	1.0975	0.0094	1.0386	0.7132	0.6455	0.6088
GBP	0.7961	-	0.8737	0.7448	0.8268	0.5677	0.5139	0.4847
EUR	0.9111	1.1446	-	0.8524	0.9463	0.6498	0.5882	0.5547
JPY	106.8900	134.2660	117.3100	-	111.0170	76.2290	68.9960	65.0750
CHF	0.9629	1.2095	1.0567	0.9008	-	0.6867	0.6215	0.5862
CAD	1.4022	1.7613	1.5389	0.0131	1.4562	-	0.9051	0.8537
AUD	1.5492	1.9460	1.7002	1.4493	1.6090	1.1049	-	0.9432
NZD	1.6425	2.0632	1.8026	0.0154	1.7059	1.1714	1.0602	-

### Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.57	1.41	0.58	1.03	0.54	1.32	1.18
GBP	-1.56	-	-0.16	-1.00	-0.52	-1.01	-0.53	-0.39
EUR	-1.39	0.19	-	-0.80	-0.36	-0.84	-0.39	-0.23
JPY	-0.59	0.96	0.79	-	0.47	-0.03	0.41	0.60
CHF	-1.05	0.48	0.36	-0.45	-	-0.49	0.29	0.14
CAD	-0.58	0.99	0.85	0.03	0.50	-	0.00	0.62
AUD	-0.97	0.52	0.04	-0.38	0.07	-0.42	-	-0.10
NZD	-1.16	0.36	0.23	-0.58	-0.13	-0.63	-0.04	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JP	01/5	00:50	Tokyo CPI YoY	Apr	0.4%	0.4%
UK	01/5	08:30	Markit Mfg PMI	Apr	32.8	32.9
US	01/5	14:45	Markit PMI	Apr	36.9	36.9
US	01/5	15:00	Construction Spending MoM	Mar	-3.5%	-1.3%
CN	04/5	02:45	Caixin Mfg PMI	Apr	50.3	49.4
GE	04/5	07:55	Markit Mfg PMI	Apr		34.4
EU	04/5	09:00	Markit Mfg PMI	Apr		33.6
US	04/5	15:00	Factory Orders MoM	Mar	-9.5%	0%
EU	05/5	10:00	PPI YoY	Mar	-0.7%	-1.3%
US	05/5	13:30	Trade Balance	Mar	-\$38bn	-\$39.9bn
EU	06/5	09:00	Markit Services PMI	Apr	28.4	11.7
US	06/5	12:00	MBA Mortgage Applications	May 1		-3.3%
JP	07/5	00:50	BoJ Mon Policy Meeting Mins			
CN	07/5	03:00	Trade Balance	Apr		\$19.9b
UK	07/5	11:00	Monetary Policy Summary			
US	08/5	13:30	Nonfarm Payrolls	Apr		-701k
US	08/5	13:30	Unemployment Rate	Apr	14%	4.4%
JP	08/5	01:30	Jibun Bank Services PMI	Apr		33.8
GE	08/5	07:00	Trade Balance	Mar	€17.5bn	€21.6bn

Source: FX Street



# Technical Charts

## JP Morgan Global FX Volatility Index



The index has continued to consolidate in recent sessions, however, the indicators continue to suggest lower prices. The stochastics are falling and are heavily oversold. The RSI is falling but the MACD diff is negative. Support at 8.90 has held firm in recent weeks, a break of this level would help confirm the descending triangle. The 100 DMA is providing strong resistance and this could suggest lower prices. On the upside, the index needs to break above this level and then target 200 DMA.

## Dollar Index



The index has remained within the recent trend channel even though indicators suggest lower prices. The stochastics are falling further into oversold territory, the RSI is falling but due to the consolidation in prices, the MACD diff is negative. A break of the lower trend channel would help confirm the weak indicators and rejection of moving averages and shooting star candle. This could trigger losses to 98.886 with the 61.8% fib level at 97.815. On the upside, appetite for prices below the lower trend channel could trigger gains through 99.766 back towards the 23.5% fib level.

## EURUSD





The pair broke out of the descending triangle, and now tests appetite around the 200 DMA. The stochastics are rising into overbought territory, the RSI is also positive and to confirm the bullish engulfing and hammer candles, prices need to gain a footing above the 38.2% fib level and challenge 1.1060 at the 50% fib retracement level with tertiary resistance at 1.1161. On the downside, rejection of prices above the 200 DMA could trigger losses back through support at 1.0900 with trend support at 1.0708.

## Risk warning

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