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# FX Options Weekly Report

## Macro and Vol Commentary

Following the ECB last week, we have seen some improvement in risk appetite. We analyse Europe this week and reassess what could be next for EURPLN.

### Poland data

- Poland's PMI fell to 31.9 in April, down from 42.4 in March
  - This is the 18th month of contraction as new orders fell to 17.1 vs 34.2 in March
  - Retail sales for March declined 7.1% y/y, with m/m readings down 3.3%
  - Sold industrial output declined 2.3% y/y as construction output was positive at 3.7% y/y
  - We anticipate significant downside to these data readings in April and unemployment to rise from 5.4% in March
  - The PFR CEO has indicated that the economy may shrink at 5-10% in Q2
  - The national bank of Poland held rates the same in their meeting today, but if the economic outlook worsens in the near term, will they cut then?
  - Zloty liquidity is limited and has been used as a funding currency against other Emerging Markets.
  - The upcoming presidential election is creating some controversy and further uncertainty. The election is scheduled for May 10th, and if no candidate gains 50% of the vote, there will be a run-off two weeks later
  - Voters are unable to go to the polls, and current plans suggest that the election will be carried out using a postal vote system
  - Lawyers and constitutionalists believe it is against the constitution and the opposition have said they will not run
- We expect election risk to be the main driver for zloty in the near term

### Euro flow

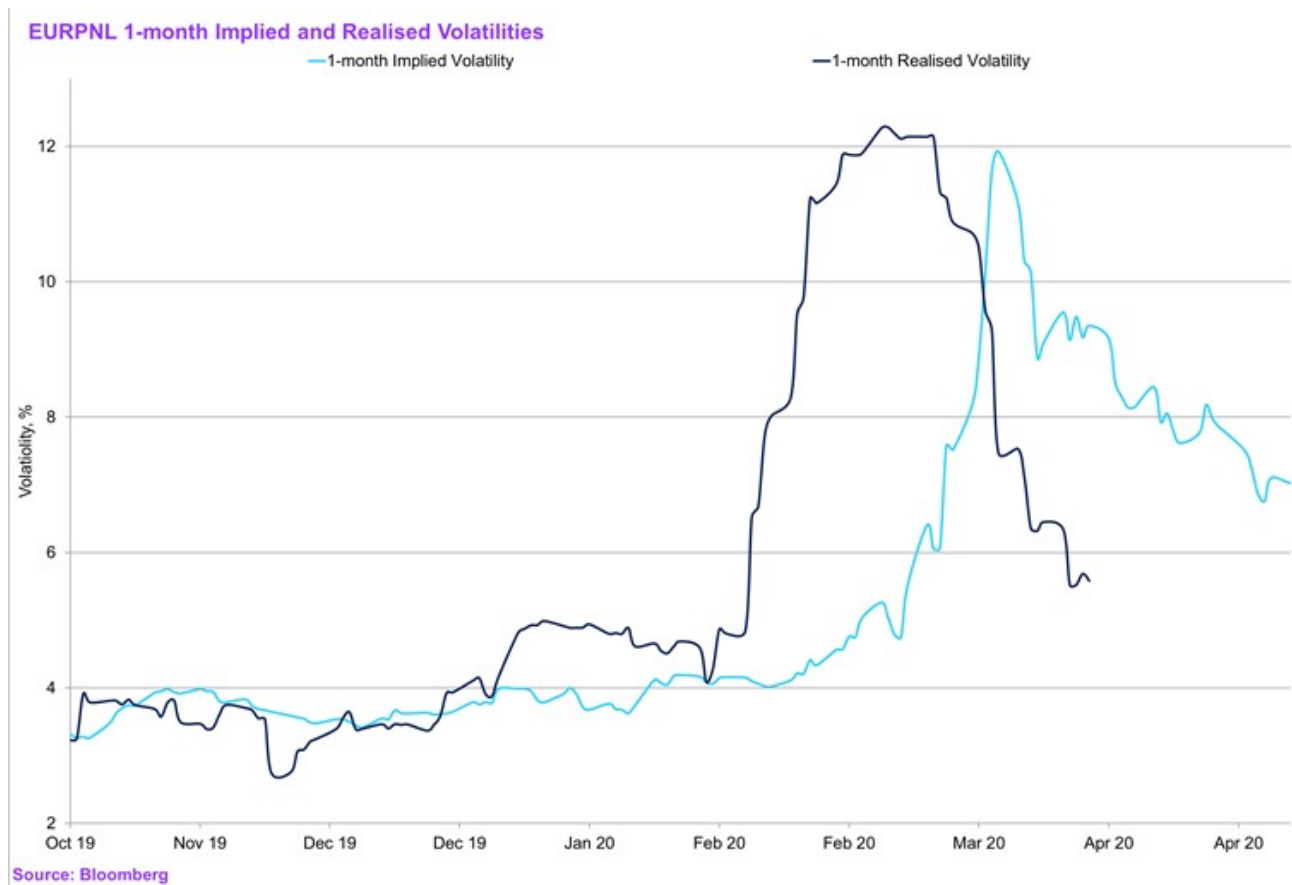
- We have seen some positive flow into the Euro in the last week from real money and corporates
- In the longer term, cumulative flow for banks, corporates and leveraged money has been weak for some time now, but real money flows continue to rise
- We did expect there to be more risk appetite which would benefit the Euro in the near term, but Friday's data release from the U.S. outlines the dark cloud of a looming global recession
- The decision by Germany's top court has meant that the ECB has to justify its policies within 3-months after they ruled that the QE plan isn't back by EU treaties.
- This was exemplified by the Eurozone's PMI, next month we could see some moderate improvement but investors would do well to remember that this data is sequential and not based on historical data
- The European Commission will be proposing their planned recovery fund on 6th, we expect this to be significant in size
- As mentioned last week, Spain, France, and Italy are loosening lockdown restrictions and this is expected to improve confidence in the market
- However, there is a long way to go and economic data will remain very weak in the medium to long term

Since the ECB meeting last week, options liquidity has been weak for EURPLN, Monday's activity was 32.81m after the last week's peak of just under 600bn on 27th of April. While near term momentum has favoured the EUR, historically, going short EURPLN around 4.60 has been fruitful. However, during the GFC, EURPLN held above this 4.60, suggesting a flight the bloc currency as safety. This may be true a bit further down the line and we expect EURPLN to give back some of its recent gains in the immediate term, especially after the German court ruling. We caveat this with the election risk in Poland.

# EURPLN Commentary

As with most FX vols, EURPLN has come off in the last few weeks following the peak of the Coronavirus sell-off in March. The situation is seemingly stabilising/peaking in most of Europe with countries gradually reducing lockdown measures or planning to do so in the next few weeks. As seen in the vol graph of 1-month vols, we see since the peak volatility realising lower than implied, a trend we expect to continue over the next few weeks should there be no second peak in Coronavirus numbers.

As mentioned above there are potential risk factors on the PLN side which may favour EURPLN moving up extremely short term, but should the Coronavirus situation be stable we expect to EURPLN give up some of its gains. Below we suggest a trade idea to benefit from such moves.



# Trade Idea

- Priced in 3-month expiries of 10m EUR notional a leg
- Buy EURPLN KI Put option with strike 4.5400 and (American style) KI level 4.58 for circa 56k EUR premium (for reference vanilla equivalent premium is circa 123k EUR)
- Against this sell 4.6500 call option for receive premium of circa 69k EUR to reduce upfront premium (bearing in mind comments above about realised vs implied vols)
- The overall strategy has upfront receive circa 13k EUR

# 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
1W	-0.79	0.28	8.12	-1.94	0.36	9.55	-1.12	0.28	7.44	1.38	0.37	7.52
1M	-0.77	0.33	7.45	-2.23	0.45	9.56	-1.60	0.30	7.72	1.58	0.42	7.55
2M	-0.82	0.35	7.35	-2.32	0.49	9.82	-1.94	0.33	7.98	1.65	0.44	7.82
3M	-0.86	0.36	7.33	-2.35	0.52	9.84	-2.21	0.36	8.13	1.65	0.46	7.94
6M	-0.96	0.40	7.51	-2.51	0.59	10.25	-2.62	0.43	8.47	1.78	0.51	8.38
1Y	-1.07	0.42	7.52	-2.60	0.64	10.50	-2.91	0.46	8.40	1.85	0.56	8.80

Time	USDINR			USDTRY			USDJPY			AUDUSD		
	Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	ATM	25d RR	25d BF	ATM
1W	1.94	0.45	9.41	7.21	1.22	19.52	4.58	0.59	25.93	-2.47	0.56	13.45
1M	2.16	0.51	9.48	9.11	1.57	20.72	5.42	0.67	23.75	-3.12	0.69	13.22
2M	2.24	0.52	9.20	9.29	1.65	21.10	5.55	0.70	22.33	-3.40	0.72	12.90
3M	2.33	0.54	9.11	9.42	1.66	21.25	5.62	0.74	21.21	-3.58	0.76	12.61
6M	2.46	0.55	8.82	9.62	1.72	22.39	5.69	0.79	19.86	-3.87	0.80	12.38
1Y	2.47	0.55	8.43	9.86	1.86	22.80	5.72	0.88	18.54	-4.02	0.83	11.93

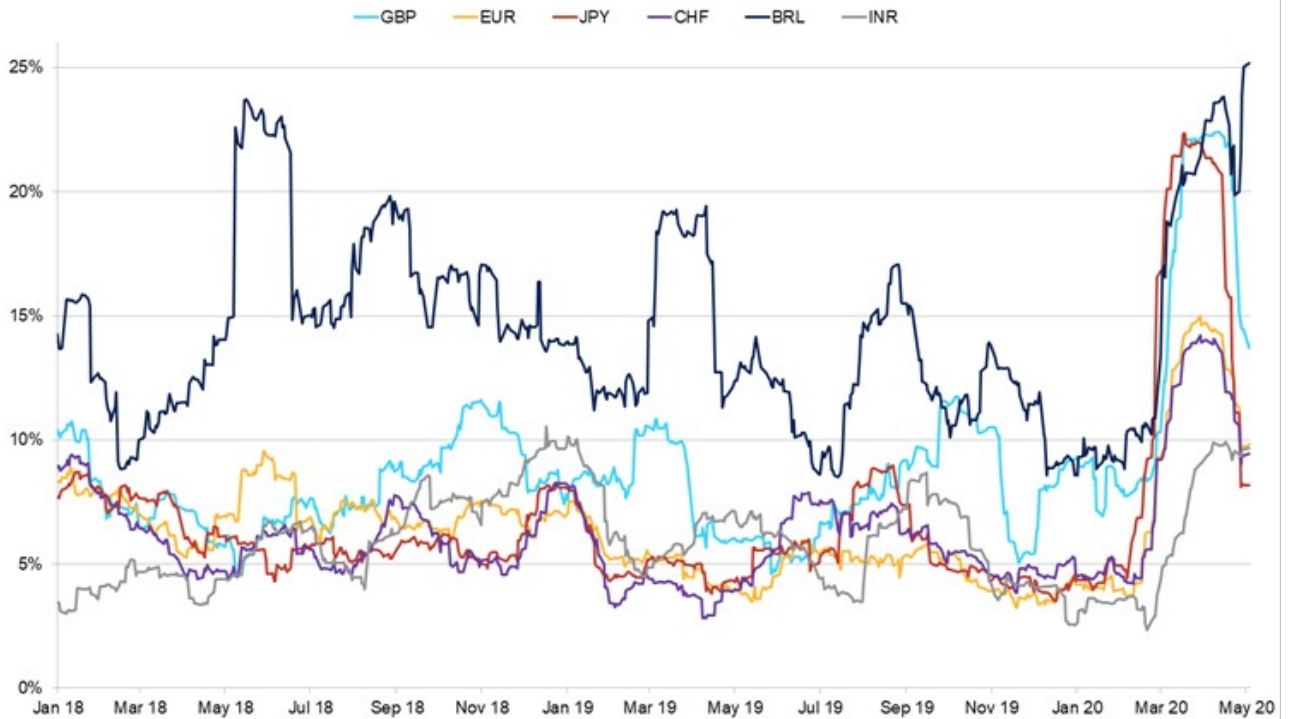
Source: Sucden Financial

## FX Expiries

Currency Pair	Wednesday 6 <sup>st</sup>	Thursday 7 <sup>th</sup>	Friday 8 <sup>th</sup>	Monday 9 <sup>th</sup>	Tuesday 7 <sup>th</sup>
GBP/USD					
USD/JPY		500mio @ 107	550mio @ 105 600mio @ 108		1.11bio @ 1.098
EUR/USD	897.18mio @ 1.07 583.33mio @ 1.08 518.28mio @ 1.0805 596.76mio @ 1.106			506.9mio @ 1.085 574.29mio @ 1.097	
EUR/GBP				699.77mio @ 0.86 440.67mio @ 0.861 681.82mio @ 0.88	
USD/BRL			200mio @ 5.62		100mio @ 5.6
AUD/USD	171.88mio @ 0.64	100mio @ 0.63 150mio @ 0.64 389.71mio @ 0.6415 382.91mio @ 0.6529		150.79mio @ 0.63 200mio @ 0.65	100.76mio @ 0.655
USD/ZAR		100mio @ 18.5			
USD/INR		100mio @ 74.75			

Source: Bloomberg DTCC Data 2% from spot levels as of 05/05/2020

## Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2376	1.0806	0.0094	1.0264	0.7115	0.6436	0.6050
GBP	0.8080	-	0.8732	0.7610	0.8294	0.5749	0.5201	0.4888
EUR	0.9254	1.1452	-	0.8715	0.9499	0.6584	0.5956	0.5599
JPY	106.1900	131.4150	114.7500	-	108.9960	75.5500	68.3430	64.2450
CHF	0.9742	1.2057	1.0528	0.9175	-	0.6931	0.6270	0.5894
CAD	1.4055	1.7395	1.5189	0.0132	1.4427	-	0.9046	0.8504
AUD	1.5537	1.9229	1.6790	1.4632	1.5948	1.1054	-	0.9400
NZD	1.6529	2.0456	1.7861	0.0156	1.6965	1.1760	1.0638	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.72	-0.60	0.46	-0.04	-1.25	-1.83	-1.34
GBP	0.74	-	0.09	1.21	0.68	-0.50	-1.08	-0.63
EUR	0.62	-0.14	-	1.10	0.58	-0.62	-1.21	-0.73
JPY	-0.47	-1.20	-1.08	-	-0.52	-1.70	-2.26	-1.81
CHF	0.04	-0.68	-0.61	0.50	-	-1.17	-1.77	-1.31
CAD	1.24	0.51	0.63	1.74	1.20	-	-0.59	-0.12
AUD	1.86	1.11	1.23	2.33	1.81	0.60	-	0.48
NZD	1.37	0.63	0.76	1.83	1.33	0.10	-0.49	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
GE	06/5	07:00	Factory Orders YoY	Mar		1.5%
IT	06/5	08:45	Markit services PMI	Apr	9.0	17.4
EU	06/5	10:00	Retail Sales YoY	Mar	-10.5%	3%
PL	06/5	10:00	Retail Sales MoM	Mar		-0.2%
US	06/5	12:00	MBA Mortgage Applications	May 1		-3.3%
US	06/5	13:15	ADP Employment Change	Apr	-20,000k	-27k
CN	07/5	02:45	Caixin Services PMI	Apr		43.0
UK	07/5	07:00	BoE Interest Rate Decision		0.1%	0.1%
US	07/5	13:30	Continuing Jobless Claims	Apr 24		17.992m
US	07/5	13:30	Initial Jobless Claims	May 1		3,839k
JP	08/5	01:30	Jibun Bank Services PMI	Apr	22.8	33.8
US	08/5	13:30	Average Hourly Earnings	Apr		3.1%
US	08/5	13:30	Unemployment Rate	Apr	14%	4.4%
CN	12/5	02:30	CPI YoY	Apr		4.3%
UK	12/5	07:00	GDP YoY	Q1		1.1%
US	12/5	13:30	Consumer Price Index MoM	Apr		-0.4%
EU	13/5	10:00	Industrial Production YoY	Mar		-1.9%
PL	13/5	10:00	Industrial Production MoM	Mar		1.3%
US	13/5	13:30	Producer Price Index YoY	Apr		0.7%

Source: FX Street



# Technical Charts

## JPM Global FX Volatility Index



The index was well bid below 8.70 and this triggered gains towards the 100 DMA. This level has held firm in recent weeks capping gains on the upside. The stochastics are falling but the MACD diff lacks conviction, the reaffirmation of resistance at the 100 DMA could trigger a break below the 8.70 and 8. This would help confirm the trend on the downside. Conversely, a breach of resistance at the 100 DMA may prompt the bulls could target the 200 DMA at 10.38. We expect the index to remain in the recent range despite the weakening stochastics.

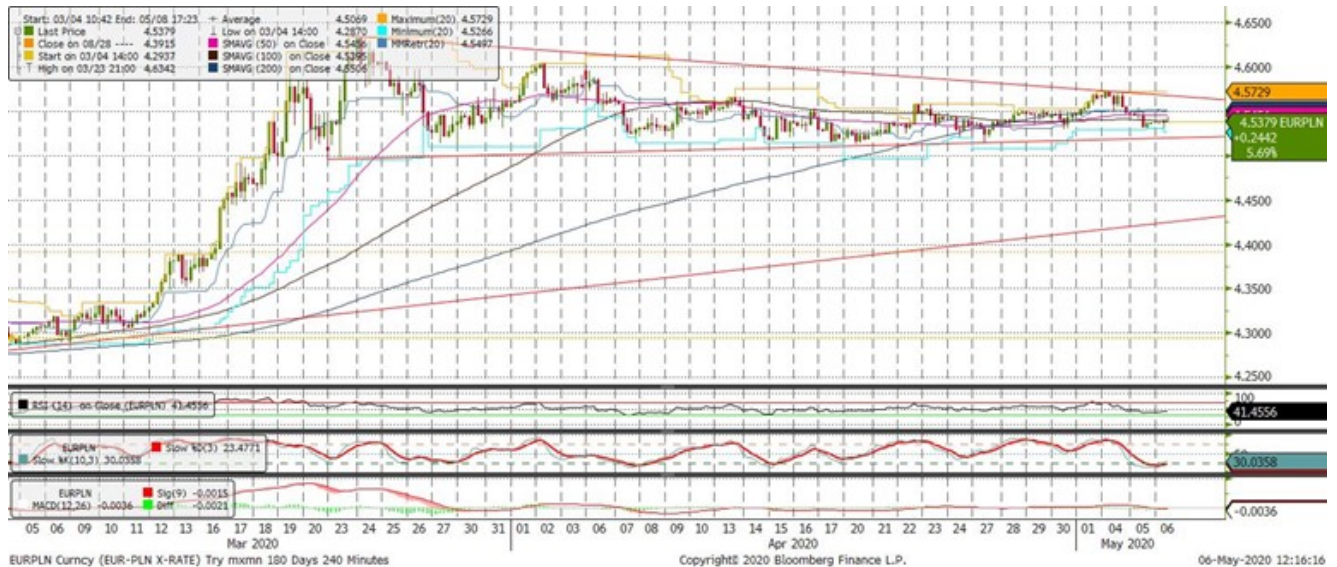
## DXY Index



The index has oscillated between the 50% fib level and 200 DMA in the last week. The MACD diff is positive but still lacks conviction. The stochastics are in overbought territory but the RSI has started to fall. Lack of appetite above the 200 DMA could trigger losses back towards the 50% fib level. Previous challenges of this level have resulted in a retracement, to reaffirm downside momentum the index needs to break below the 50% fib level. Conversely, to confirm the bullish engulfing candle the prices need to gain a footing above the 200 DMA and then target 101. The market lacks conviction and we expect this to remain the case in the near term.



## EURPLN



Prices have consolidated recent gains in the last weeks, forming a pennant. The stochastics have given a buy signal but the MACD diff lacks conviction. The reaffirmation of trend resistance could trigger losses through trend support and 4.50, this would confirm the bearish engulfing candle and reaffirmation of resistance at the 200 & 50 DMA this week. Superseding this level support stands at 4.4500. The moving average has converged and we could see a death cross in the coming sessions if prices can confirm the rejection of trend resistance. On the upside, the reaffirmation of support at 4.5183 could set the scene for higher prices through 4.5729 to 4.60 and the recent high at 4.6366.

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