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# FX Options Weekly Report

## Macro and Vol Commentary

With risk-off sentiment hampering the recent rally for EM currencies, this week we look at USDZAR.

### South African Data

- The trade budget balance for South Africa significantly disappointed to the downside, coming in at – 35bn Rand for April, the survey was at 13bn
  - \_ The previous month was 23.9bn Rand
- The monthly budget was equally as weak at -51.2bn Rand for April
- ABSA manufacturing PMI improved in May to 50.2 from 46.5. The month on month improvement does not reflect a strength on a historical basis
  - \_ The government allowed the underground mines to start running at 50% capacity and open cast mines, and oil refineries to increase to 100% on April 16th
  - \_ We expect the manufacturing sector to oscillate between positive and negative territory but remain weaker on a historical basis
  - \_ The mining sector will also start to improve
- Mining production improved in April, to -47.3% y/y from 59.4% y/y in March, and -34.1% m/m from -59.3% in March
- However, high-frequency indicators such as power consumption and production may be a more realistic representation of the economy
  - \_ Electricity production for April -22.8% y/y
  - \_ Electricity consumption for April -23.3% y/y
  - \_ GDP in South Africa strongly correlated to electricity, but the drop off demand in demand should help Eskom
- We expect the Rand to struggle with capital inflows from foreign investors after South Africa was

downgraded to junk by Moody's and S&P, and Fitch

- \_ This may result in funds seeking different homes, acting as a headwind to Rand
- Risk aversion from a finance perspective from banks and lenders may weigh on South African businesses and households in the medium to long term
- Weak consumer demand and falling wages will significantly impact retail sales. This may result in an increase in household debt levels in the longer term
- \_ Energy prices have fallen which will present headwinds to inflation
- The threat of a second wave in the U.S. and China has damped market sentiment in the last week, halting the rally for risk assets, this is not conducive to business sentiment in South Africa

The central bank has cut interest rates recently, and we expect monetary policy to remain accommodating. The downgrading of the Rand will also prevent some funds flowing into the economy. Capacity utilisation has been weak recently, but this will start to bottom out and show signs of improvement on a month-on-month basis. The government is releasing a supplementary budget next week, and it has never been so important for this stimulus to hit the right tone. Following the GFC in 2008, globally, we saw large stimulus packages which failed to have the desired impact due to poor implementation. South Africa's deficit will limit the ability to support the economy, banks have not injected the total support package into the economy, and we could see changes to the scheme next week to help improve allocations. In the immediate term, we expect headwinds to ZAR to prevail, but if risk appetite improved once again and the supplemental budget hits the spot, we expect USDZAR to weaken.

# Volatility Commentary

Over the last few months, we've seen USDZAR implied and realised vol come off since the CV19 peak (as with most macro FX vols). Though with the global economy still fragile and lingering concerns of second waves, USDZAR vol is still trading higher than pre-CV19. We've seen over the last week a slight tick up in the spot, implied and realised volatility, as recent risk-off sentiments of a second wave being present, with the vol curve being inverted out to about 6 months. We favour slight long vol/gamma positions on USDZAR, and though we may see a short term continue in USDZAR rallying, we favour positions that favour a longer-term USDZAR weakening.

USDZAR 1-month Implied and Realised Volatility



Source: Bloomberg

## USDZAR Trade Idea

- Both priced in 10m USD Notional
- Buy Vanilla USDZAR Put with 16.00 strike with 6-month expiry for circa 127k USD upfront premium
- To reduce upfront vol cost/premium offset this by selling Vanilla USDZAR Put with 16.00 strike with 2-month expiry for circa 39k
- Overall trade has a premium cost of circa 88k USD

# Charts and Tables

## FX Expiries

Currency Pair	Wednesday 17 <sup>th</sup>	Thursday 18 <sup>th</sup>	Friday 19 <sup>th</sup>	Monday 22 <sup>nd</sup>	Tuesday 23 <sup>rd</sup>
GBP/USD					
USD/JPY	600mio @ 107.25		850mio @ 109	850mio @ 108	500mio @ 106.73
EUR/USD		539.13mio @ 1.15	643.48mio @ 1.15	610.61mio @ 1.13	
EUR/GBP				640mio @ 0.906	
USD/BRL	250mio @ 5.12 250mio @ 5.22				
AUD/USD		143.88mio @ 0.695	457.14mio @ 0.7	735.3mio @ 0.68 724.64 @ 0.69	143.58mio @ 0.6965
USD/ZAR	500mio @ 16.8 500mio @ 17.1 500mio @ 17.4	950mio @ 17 750mio @ 17.3			
USD/INR				250mio @ 74.83 250mio @ 75.3 250mio @ 75.42 250mio @ 75.6 300mio @ 76.1 250mio @ 77.36	

Source: Bloomberg DTCC Data 2% from spot levels as of 15/06/2020

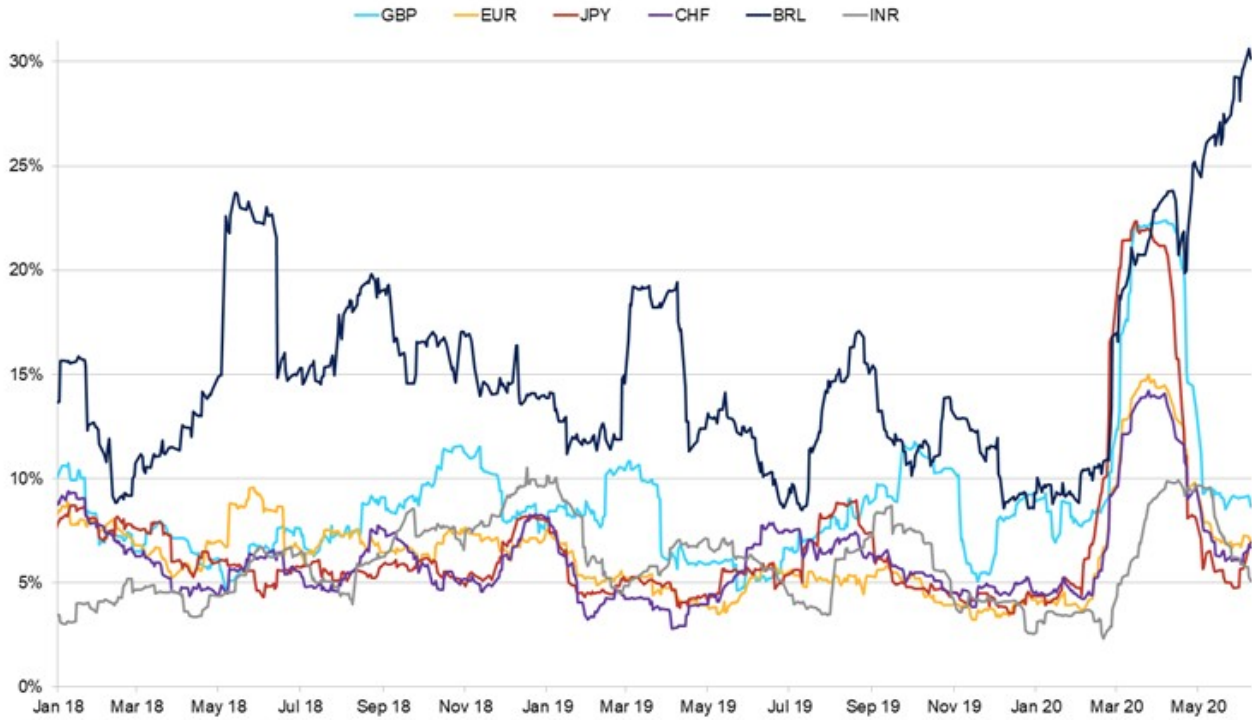
## FX Volatility Grid

Time Period	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	-0.04	0.20	8.42	-1.16	0.23	10.34	-0.98	0.31	6.23	1.16	0.19	7.85
1M	-0.13	0.23	7.73	-1.73	0.27	9.66	-1.50	0.36	6.50	1.67	0.25	7.45
2M	-0.20	0.26	7.42	-1.95	0.32	9.69	-1.95	0.41	6.67	1.75	0.29	7.49
3M	-0.26	0.29	7.23	-2.06	0.36	9.56	-2.34	0.44	6.70	1.81	0.32	7.48
6M	-0.45	0.35	7.29	-2.49	0.45	10.00	-3.01	0.49	7.32	1.98	0.39	7.93
1Y	-0.64	0.41	7.04	-2.76	0.52	10.18	-2.97	0.49	7.14	2.11	0.46	8.15

Time Period	USDINR			USDTRY			USDJPY			AUDUSD		
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	ATM	25d RR	25d BF	ATM	
1W	1.09	0.27	6.64	3.57	0.85	12.64	3.30	0.56	29.82	-1.95	0.41	15.37
1M	1.30	0.31	6.51	5.96	1.08	14.90	3.96	0.61	23.73	-2.52	0.50	14.27
2M	1.33	0.34	6.59	6.60	1.17	15.95	4.14	0.64	21.42	-2.65	0.50	13.52
3M	1.38	0.37	6.56	7.08	1.23	16.54	4.30	0.67	19.92	-2.74	0.51	12.91
6M	1.51	0.42	6.71	7.89	1.36	17.93	4.71	0.72	18.32	-2.93	0.54	12.44
1Y	1.65	0.47	6.66	8.57	1.55	19.31	5.00	0.81	16.75	-2.92	0.55	11.65

Source: Sucden Financial

## Historical Spot FX Volatility (30D Rolling)



Source: SucdenFinancial, Bloomberg

## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.2571	1.1249	0.0093	1.0539	0.7393	0.8901	0.6463
GBP	0.7955	-	0.8948	0.7409	0.8384	0.5882	0.5490	0.5141
EUR	0.8890	1.1175	-	0.8280	0.9370	0.6573	0.6135	0.5746
JPY	107.3600	134.9620	120.7700	-	113.1560	79.3820	74.0920	69.3900
CHF	0.9488	1.1927	1.0673	0.8838	-	0.7015	0.6548	0.6132
CAD	1.3524	1.7002	1.5214	0.0126	1.4255	-	0.9334	0.8741
AUD	1.4490	1.8216	1.6300	1.3497	1.5272	1.0714	-	0.9365
NZD	1.5473	1.9450	1.7404	0.0144	1.6308	1.1440	1.0678	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-1.39	-1.10	-0.21	-0.52	-0.83	-1.40	-1.13
GBP	1.40	-	0.29	1.19	0.88	0.56	-0.01	0.25
EUR	1.11	-0.28	-	0.90	0.59	0.27	-0.28	0.00
JPY	0.21	-1.18	-0.89	-	-0.30	-0.63	-1.18	-0.91
CHF	0.53	-0.87	-0.58	0.33	-	-0.33	-0.89	-0.62
CAD	0.85	-0.56	-0.27	0.63	0.33	-	-0.56	-0.29
AUD	1.41	0.01	0.29	1.20	0.89	0.56	-	0.28
NZD	1.13	-0.27	0.02	0.91	0.62	0.28	-0.29	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
UK	17/6	07:00	CPI YoY	May	0.5%	0.8%
EU	17/6	10:00	Core CPI YoY	May	0.9%	0.9%
ZAR	17/6	12:00	Retail Sales YoY	Mar	1.2%	2.0%
US	17/6	12:00	MBA Mortgage Applications	Jun 12		9.3%
US	17/6	13:30	Housing Starts MoM	May	1.093m	0.891m
UK	18/6	12:00	BoE Interest Rate Decision		0.1%	0.1%
US	18/6	13:30	Initial Jobless Claims	Jun 12	1295k	1542k
JP	19/6	00:50	BoJ Monetary Policy Meeting Min			
CN	22/6	02:30	PBoC Interest Rate Decision			3.85%
JP	23/6	01:30	Jibun Bank Mfg PMI	Jun		38.4
GE	23/6	08:30	Markit Mfg PMI	Jun	39.2	36.6
ZAR	23/6	10:30	Unemployment Rate	Q1		29.1%
EU	23/6	09:00	Markit Mfg PMI	Jun	38.0	39.4
UK	23/6	09:30	Markit Mfg PMI	Jun		40.7
US	23/6	14:45	Markit Mfg PMI	Jun		39.8
US	23/6	14:45	Markit Services PMI	Jun	30.0	37.5
US	23/6	15:00	New Home Sales MoM	May	0.63m	0.623m

Source: FX Street

# Technical Charts

## JP Morgan Global FX Volatility Index



The index held above the 200DMA this week keeping momentum on the front foot. However, the stochastics are falling and the MACD is negative and diverging on the downside. The index has remained supported despite the selloff in the indicators the index has held above the moving averages. Recent rallies have been sold off and to confirm the outlook of lower prices, the index needs to break below the moving averages and then support at 7.60. On the upside, if the index can hold above the moving averages and then target 10. We expect prices to soften in the immediate term.

## Dollar Index



The index has improved in the last week after finding support below 96. The stochastics are rising towards the overbought territory, and the MACD diff is positive and diverging suggesting higher prices in the near term. Near term, trend support has held firm and to confirm the outlook of higher prices, to confirm the continuation pennant the index needs to take out-trend resistance. This would help confirm the bullish engulfing candle, with secondary resistance at 100 DMA. A target in the medium term is 98.601. On the downside, a rejection of the pennant trend resistance could trigger losses back through trend support to 96. The index needs to take out the recent low at 95.716 in order to regain downside momentum. Near term momentum favours the upside but we could see prices



fail into the 100 DMA as apprehension in the market increases.

## USDZAR



The pair was well bid at trend support and this triggered a break above the 38.2% fib level at 17.0137. The stochastics are rising towards overbought and the MACD diff is negative and is starting to diverge. If support at the 100 DMA and the 38.2% fib level hold firm this could trigger gains towards the 200 DMA and the 23.6% fib level 17.9038. Conversely, rejection of prices at 17.30 could trigger losses through the 38.2% fib level before trend support. A breach of trend support would help confirm the triple top around 17.30. The death cross in May is yet to be confirmed but if the pair breaks through trend support, this may pave the way for lower prices to the 61.8% fib level at 15.5748.

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