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FX Options Weekly Report

Macro and Vol Commentary

The Singapore dollar has rallied strongly despite weak economic data but can the rally continue.

Singapore Economy

- GDP data was predictably weak in Q2, at -13.2% Y/Y and -42.9% on a Q/Q basis. The sector performances give more clarity to the current economic environment, with the manufacturing declining 31.7% Q/Q (SAAR), the service sector down a similar amount by 37.4% Q/Q; but it was the construction sector that fell the most, declining 97.1% Q/Q and 55% Y/Y
- The outlook for the construction sector remains softer than the recovery of other sectors, and project restarts have been more gradual
- The manufacturing PMI returned to expansionary territory for the first time since January in July, at 50.2. This helps to confirm the recovery of the sector as on a sequential basis; new orders, exports, factory output, and the inventory index all improved. There was some weakness in the finished goods, imports and input prices. We expect the recovery to continue but need to see more from finished goods and imports
- July non-oil domestic exports Y/Y improved to 6.0%, slower growth than the month prior, which was 16.1% Y/Y but revised to 13.9% Y/Y. On an M/M basis, growth was stronger than expected, at 1.2%, an improvement from June's figure of 0.5%.
- This improved export data, in conjunction with manufacturing export orders, suggest the export market is waking up
- Retail sales have improved on a sequential basis to 51.1% M/M, but on Y/Y basis retail sales are down 27.8% in June, but this was an improvement on May, which was -52.0%
- Food and beverage sales declined between April and May, contracting 47% and 51% respectively Y/Y. Jewellery, watches, clothing, and footwear sales were down in the same period by 85%
- The mobility of the economy has rebounded strongly in June and July but remains below pre-pandemic levels
- The labour market weakened in Q2 as unemployment increased to 2.9%.

- The travel sector saw a large cut to headcount, as did construction, which is a reason why this sector is struggling to restart strongly
- 'Domestic Orientated', such as food and beverage, and retail also reduced headcount, but we expect these sectors to increase headcount once again as the economy recovers
- We are seeing less over-time hours and more short working week indicators, which highlight the shift in the economy
- The vacancies to the unemployed ratio has fallen below 0.8, and vacancies in the labour market stand at just below 1.0
- As business optimism picks up, and we see a more sustained recovery, the labour market should improve
- Inflationary pressure has fallen negative in recent months in Singapore. CPI Y/Y and CPI Core Y/Y in June were -0.5% and -0.2% respectively
- Price increases for food services have started to slow in Q2 2020, but food inflation is a threat going forward, and we watch the data points carefully
- We expect inflation to remain soft going forward due to weak economic sentiment, labour market and domestic consumption

Singapore Government and Monetary Authority Stimulus

- The government released an additional stimulus of $5.8bn this week. This involved additional wage subsidies and extra support for the aviation and hospitality sectors
- The funds will be provided by unused money from earlier budgets
- The previous stimulus saw S$33bn in May, extending foreign-worker levy, and wage subsidy until August, whilst raising the wage support to 75% for badly hit sectors
- The Monetary Authority of Singapore offered S$500mb of 6-month floating-rate notes. They are linked to Singapore Overnight Rate Average (SORA)
- Monetary policy is deemed 'appropriate', and we expect the majority of support to come from fiscal spending

The Singapore economy is showing signs of recovery, much like other economies, but it is exposed to the weak export market and lack of tourism. Electronic exports grew again in July but only by 2.8% Y/Y, down from 22.2% in June. With cases rising in Europe, governments are keen to prevent going into full lockdown once again; however, consumer demand for electronics could waver as employment support schemes come to an end and unemployment increases. Stimulus measures from the Singapore government and Monetary authority are sufficient at this time and have the capacity to increase support if needs be. The dollar has struggled in recent weeks, and we expect this to continue as hedge funds and other institutions increase short positions. We expect the trend to continue to favour SGD in the immediate term but remain wary of a correction to the upside.

Volatility Commentary

Macro Comment

We are still seeing a generally weaker USD, and risk-off asset XAUUSD is still riding high, as the US stimulus talks stalled between Democrats and Republicans, unable to find a middle ground on the amount that should be spent. On the whole short date, Macro FX vols remain steady. However, we may see that change in Q4, with the UK-EU transition period cliff edge looming, and the US Presidential election further being complicated by President Trump's attack on the post office with mail-in voting being a major issue this year amidst remaining high CV19 cases in the US.

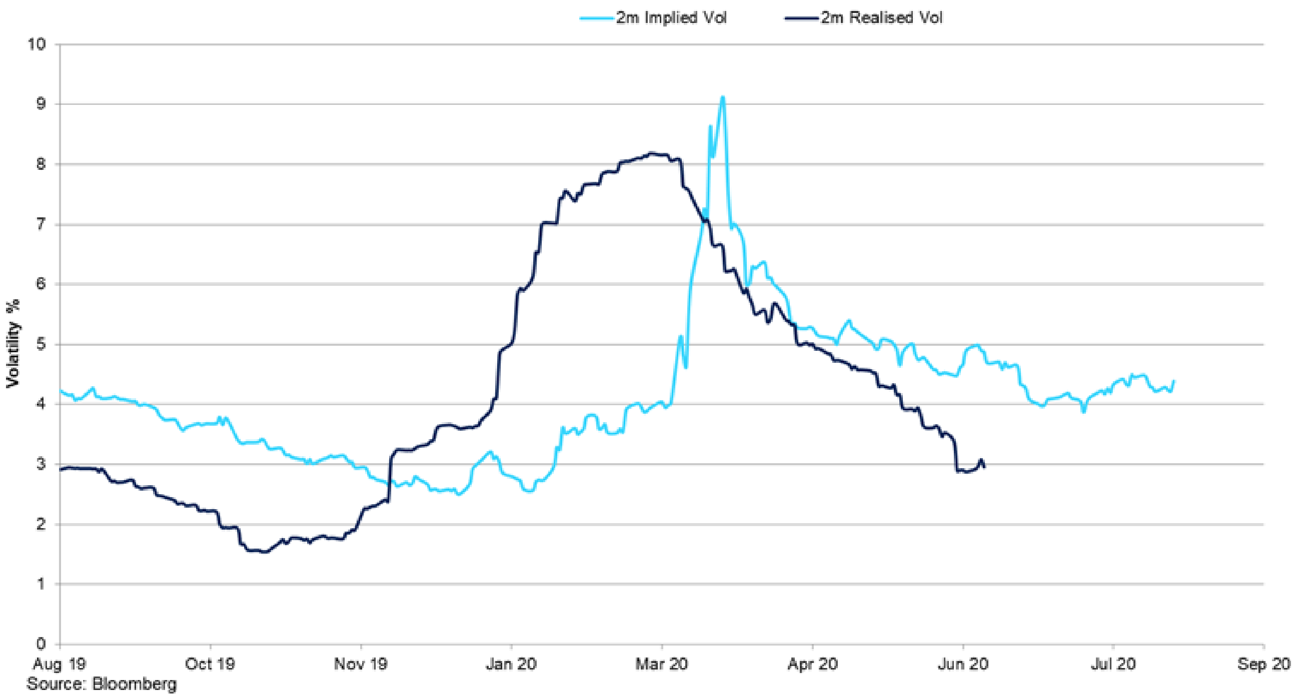
USDSGD Vol Comment

We're seeing USDSGD spot and vols approaching near pre-CV19 levels. As with all economies, the Singapore economy has been hit with a recession, and the government has recently introduced a fiscal stimulus package to help further keep the economy afloat. In terms of FX spot and vol, we expect the general trend of vol realising lower than implied to continue, especially with the MAS consciously managing the SGD against other currencies and likely not wanting to inject volatility into the SGD on the FX market as the government tries to manage their recovery.

Trade Idea

- Priced in 10m USD a leg
- Short USDSGD straddle with 2-month expiry and delta hedge short gamma position
- Sell for circa 4.4 vols, and trade gives short vega of approx 32k USD Vega
- Note this strategy is only suitable for investors who are set up and capable to dynamically delta hedge short vega/gamma position

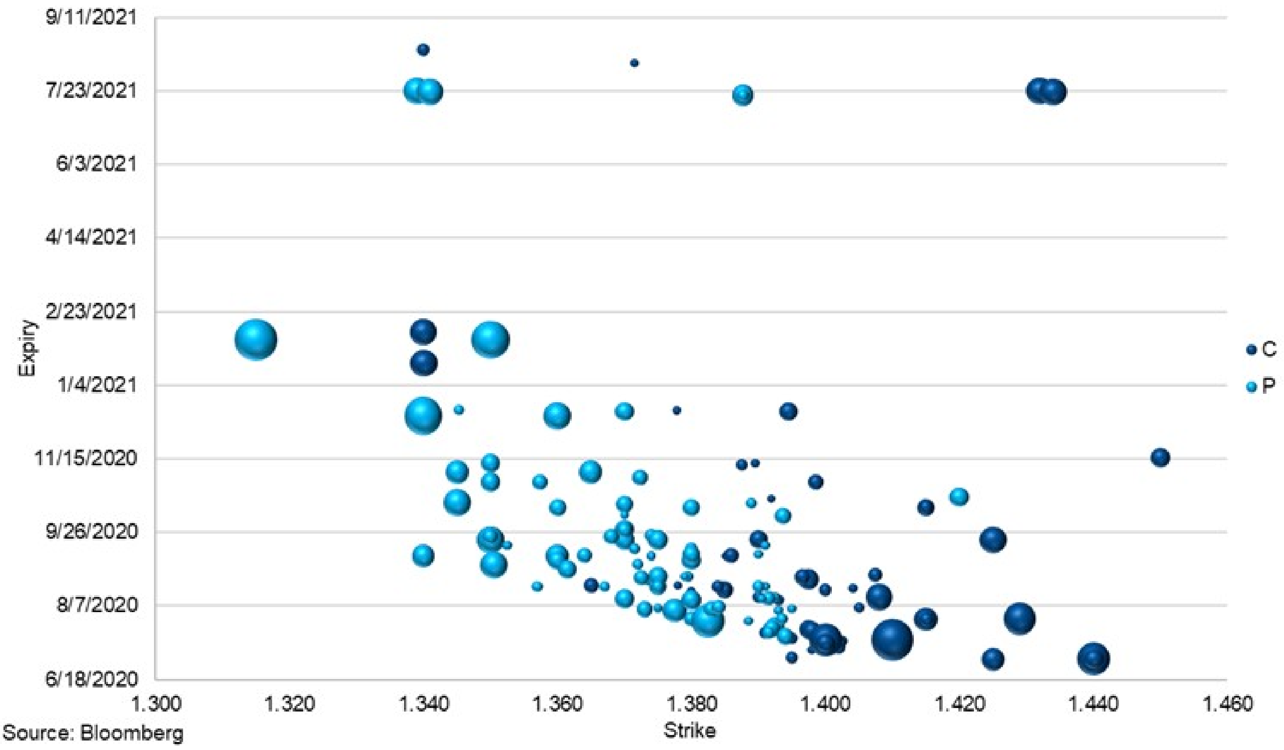
USDSGD 2-month Implied and Realised Volatility



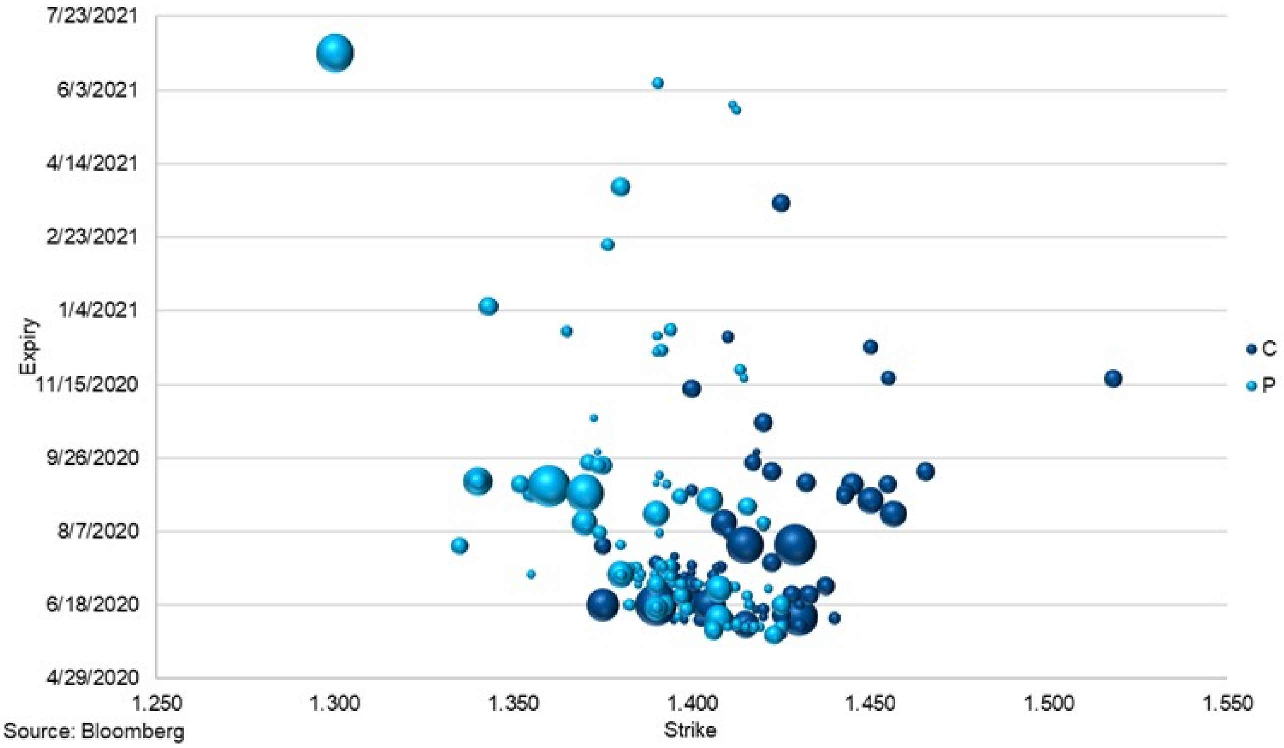
Source: Bloomberg

Positioning Charts

USDSGD July-August Vanilla Options Notional >$5m



USDSGD May-June Vanilla Options Notional >$5m



FX Expiries

Currency Pair	Wednesday 19th	Thursday 20th	Friday 21st	Monday 24th	Tuesday 25th
GBP/USD					
USD/JPY	1bn @104 800mio @ 105 900mio @ 107 500mio @ 108	600mio @ 107		550mio @ 104.9 500mio @ 106.07	550mio @ 105
EUR/USD	629.51mio @ 1.1755 1.13bn @ 1.19	743.6mio @ 1.17 621.29mio @ 1.175 1.06bn @ 1.185			600.85mio @ 1.165 632.92mio @ 1.185
EUR/GBP					
USD/BRL					100mio @ 5.46
AUD/USD		329.58mio @ 0.71 316.02mio @ 0.712 113.37mio @ 0.7145 260.2mio @ 0.7225 100.55mio @ 0.726 493.16mio @ 0.73	200mio @ 0.72		
USD/ZAR		150mio @ 17.4			
USD/INR		500mio @ 75.04	200mio @ 73.5 100mio @ 75.55	150mio @ 74.54	1bn @ 75.1

Source: Bloomberg DTCC Data 2% from spot levels as of 17/08/2020

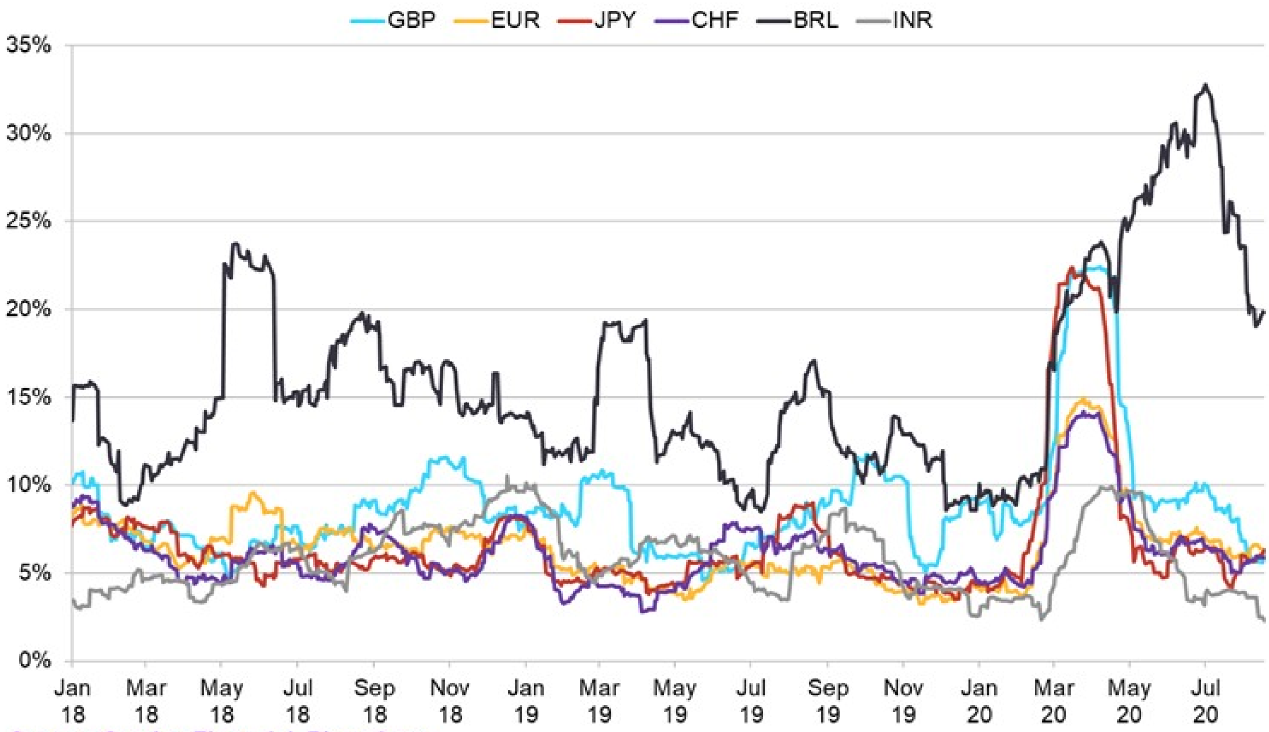
FX Volatility Grid

Time Period	EURUSD 25d RR	EURUSD 25d BF	EURUSD ATM	GBPUSD 25d RR	GBPUSD 25d BF	GBPUSD ATM	USDJPY 25d RR	USDJPY 25d BF	USDJPY ATM	EURGBP 25d RR	EURGBP 25d BF	EURGBP ATM
1W	0.41	0.10	8.07	0.27	0.12	8.45	-0.85	0.12	6.53	0.29	0.11	6.43
1M	0.67	0.13	7.95	0.03	0.16	8.44	-1.00	0.15	6.63	0.60	0.13	6.80
2M	0.70	0.15	7.88	-0.39	0.19	8.84	-1.23	0.17	6.82	0.79	0.16	7.28
3M	0.75	0.19	8.55	-0.69	0.23	9.36	-1.72	0.20	8.11	0.95	0.18	7.53
6M	0.76	0.24	8.02	-1.13	0.29	9.29	-2.04	0.24	7.69	1.24	0.24	7.62
1Y	0.76	0.28	7.86	-1.48	0.32	9.35	-2.34	0.27	7.63	1.54	0.27	7.78

Time Period	USDINR 25d RR	USDINR 25d BF	USDINR ATM	USDTRY 25d RR	USDTRY 25d BF	USDTRY ATM	USDJPY 25d RR	USDJPY 25d BF	USDJPY ATM	AUDUSD 25d RR	AUDUSD 25d BF	AUDUSD ATM
1W	0.34	0.14	4.61	6.75	0.87	19.19	0.89	0.47	24.01	-0.33	0.19	9.89
1M	0.54	0.16	5.00	7.96	1.06	19.67	2.17	0.50	21.78	-0.66	0.24	9.85
2M	0.66	0.19	5.35	8.24	1.08	19.81	2.67	0.56	20.94	-0.88	0.26	10.03
3M	0.82	0.22	6.26	8.58	1.13	20.59	3.07	0.61	21.15	-1.18	0.28	10.83
6M	0.99	0.25	6.33	9.07	1.25	20.91	3.65	0.73	19.28	-1.34	0.30	10.33
1Y	1.16	0.30	6.62	9.49	1.36	21.72	4.17	0.83	18.00	-1.59	0.33	10.30

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
UK	19/8	07:00	CPI YoY	Jul	0.7%	0.6%
UK	19/8	07:00	CPI YoY	Jul	0.7%	0.6%
US	19/8	19:00	FOMC Minutes			
US	20/8	13:30	Continuing Jobless Claims	Aug 7		15.486m
US	20/8	13:30	Phil Fed Mfg Survey	Aug	21.0	24.1
JP	21/8	00:30	National CPI YoY	Jul		0.1%
UK	21/8	07:00	Retail Sales YoY	Jul	0.0%	-1.6%
EU	21/8	09:00	Markit PMI Composite	Aug	54.7	54.9
UK	21/8	09:30	Markit Services PMI	Aug	57.0	56.5
US	21/8	14:45	Markit Mfg PMI	Aug	51.5	50.9
US	21/8	14:45	Markit Services PMI	Aug		50.0
US	24/8	13:30	Chicago Fed National Activity Index	Juk		4.11
US	25/8	15:00	Consumer Confidence			

Source: FX Street

Technical Analysis

JP Morgan Global FX Volatility Index

The index has rallied in recent weeks with the index then holding above key support at 9. The stochastics are starting to fall but are in overbought territory, the MACD diff is positive but is not diverging anymore. This is in keeping with the consolidation as it suggests buying pressure is waning but to confirm a change in trend, the index needs to break below trend support and the 100 DMA at 8.90 to indicate a change in trend towards the 200 DMA at 8.24. On the upside, if the index holds above-trend support this could trigger a test of 9.50. A break of this level would confirm the trend and prompt a test of resistance at 10.

Dollar Index

The index has sold off to test support around 92, this level held firm and the index has rebounded to test resistance at the 100 DMA. The indicators suggest we could see higher prices in the near term as the stochastics are positive with the %K overbought, the MACD diff is positive and diverging suggesting higher prices in the immediate term. The bullish engulfing candle and three white soldiers suggest we could move higher but the index needs to break above the 100 DMA and then target 94. The gap between the stochastics suggests a move higher but the 100 DMA has held firm in recent weeks. If this holds firm, we may see the index decline back towards 92 but the index needs to break below this level in order to suggest a continuation of the downtrend. Superseding this level support stands at 91.125. We anticipate the downtrend to remain intact.

USDSGD

The recent trend has been strong as USDSGD has weakened but support at the 1.3635 has held firm prompting a correction to the upside back to the 100 DMA. The stochastics are rising with the %K stochastic is overbought, the MACD diff is positive and diverging and this could trigger a break of the 100 DMA in the near term. A break of this level would bring into play trend resistance, a breach here would confirm the three white soldiers and bullish candles. However, the upside tails into the 100 DMA suggests lack of higher prices, to confirm the two shooting star candles prices need to break back towards 1.3635. A breach of this level would reaffirm the trend on the downside with the 23.6% fib level at 1.3562.