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FX Options Weekly Report

Macro and Vol Commentary

The AUD has recovered well in recent months against a basket of currencies, however, as AUDJPY consolidates around the highs, can AUD kick on?

Economic data

- The country has started to get the second wave of cases under control, and cases have fallen back below 200 per day. Deaths have remained low throughout both waves; however, the lockdown in Victoria has been extended into September
- Data will be impacted by the regional lockdown, as we saw in the recent payrolls. Payrolls up to July 24th showed that jobs were down -4.9% and wages were -6.2% since mid- March.
- Data for Victoria showed that jobs were down -7.8%, with wages down -6.7%
- Ex-Victoria we saw that jobs were down -3.9% and wages down 5%
- The unemployment rate in Australia has been rising, and reached 7.49% in Q3, up from 7.45% in Q2. Total number of employed stood at 12.46mn, with the majority of this figure in full-time employment e.g. 8.5mn with the remaining 3.91mn part-time
- The hourly wage index has been rising as well, and the index reached 134.4 in Q2
- We anticipate the unemployment rate to continue to rise in August
- Government stimulus will support incomes, and in turn, consumption with approximately 30% of Australia's working-age population receiving the JobKeeper, and JobSeeker or equivalent payment
- The JobKeeper programme has been extended to March 2021 but with much tighter restrictions
- The Jobseeker recipient and Coronavirus Supplement have also been extended through September
- The AIG Australian Performance Mfg index increased in July to 53.5, buoyed by manufacturing employment, new orders and production
- The CBA Australia PMI Mfg Index was 53.9 as a preliminary number for August, but the Services and Composite PMI contracted sharply from the previous month's readings of 58.2 and 57.8 to 48.1 and 48.8, respectively

- Retail sales continue to grow but at a slower rate on a month-on-month basis with August retail sales at 2.7% M/M, down from 16.9% in July

Australia Trade

- Exports improved in June, growing 3% M/M, to A\$36,186m; conversely, imports also increased by 1% to A\$27,984. The balance of goods and services was aA\$8,202 up 12% M/M
- Australia has benefited from the strong recovery from China. This is exemplified by China's increase in Met Coal imports in July by 13% Y/Y
- Exports of Iron Ore have increased as well, back to 230.6m tonnes in Q2, with China importing 188.2m tonnes. We expect these numbers to remain elevated in Q3 despite tensions
- We did see a decline in LNG imports into China from Australia by 9.3% Y/Y in July
- We continue to watch the relationship between Australia and China as this can present a significant headwind to the Australian economy. If China perceives Australia acting in a way that they believe is inimical to Chinese interests, they will reassess the current relationship
- Australia continues to watch the US-China trade talks closely as well, which were constructive recently aiding AUD

Stimulus measures in Australia have benefited the economy and will continue to do so, but the government and household debt will be a headwind to the economy in the longer run. Monetary policy is accommodative as interest rates are at a historic low at 0.25%, funding costs for banks are also at historic lows. AUDJPY is consolidating around pre-pandemic levels; the global recovery is continuing, but we remain apprehensive about the potential increase in unemployment levels as support schemes run out. The US election presents some risk, and there is a strong argument for safe havens, but as we get closer to a vaccine, this premium may start to dissipate. The notional value of AUD traded on August 24th was 3.85bn on futures, the put/call breakdown for JPY for August is skewed to Calls with \$30.2m vs \$4.95m. September data suggests that put/call split is \$2.59m and \$14.30m, implying that the market is bullish JPY until November when the split is \$0 for calls and \$79.6m for puts. We could see a modest correction to the downside with AUDJPY, as employment data softens but strong exports, infrastructure stimulus and a strong construction order book suggest we could see AUDJPY continue to strengthen.

Volatility Commentary

General Comment

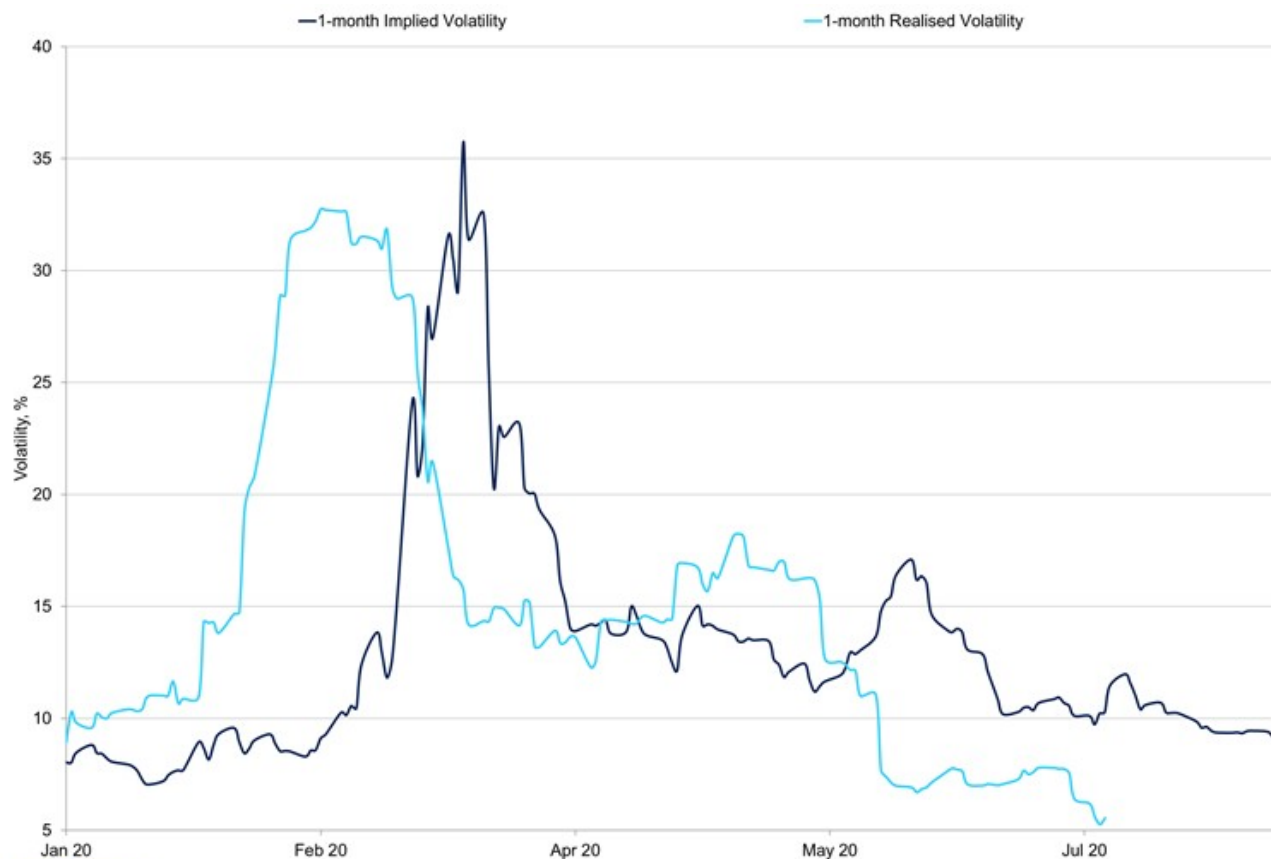
We continue experiencing ongoing USD weakness, and US-China tensions as well as a macroeconomic outlook that remains far from certain. However, with the across the board easing that has occurred with all major central banks, implied vols remains relatively stable. We suspect that on a macro level we will see vols remain stable relatively for the next month or two, however, we'd expect that to change once we get to mid Q4 with US election and UK-EU deal or no deal coming in Q4.

AUDJPY

In terms of both spot and short date vol we have seen AUDJPY return largely to pre-CV19 levels. We would normally expect to see both this pair affected by US-China relations worsening (AUD weaker, JPY stronger) though given the state of the world economy the recent spats remain secondary to general economic reopening. In terms of the situation in Australia and Japan, both have experienced second CV19 peaks, though tentatively, it appears that they are both seeing their second peaks recede. We have seen that since Jun AUDJPY short date vol realised noticeably lower than implied, with short date implied vols having held relatively steady across July and August.

Over the longer term, we see the potential for AUDJPY to move lower on US-China tension returning to the limelight and volatility to increase, however in the short term we expect spot to remain relatively stable and would suggest being short gamma and vega on short date expiries.

AUDJPY 1-month Implied and realised Volatility



Source: Bloomberg

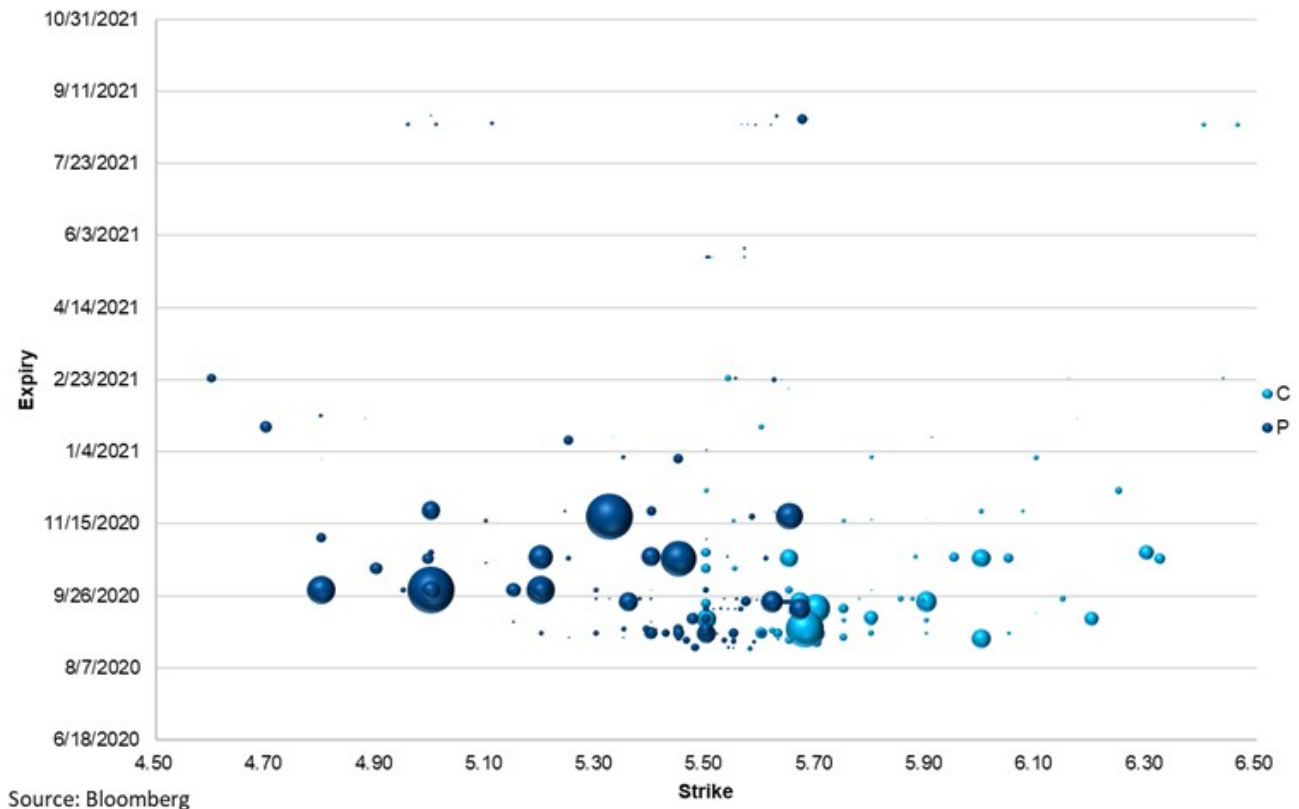
Trade Idea

- Priced in 10m AUD a leg
- Short AUDJPY straddle with 1-month expiry and delta hedge short gamma position
- Sell for circa 9.17 vols, trade gives short vega of approx 22.8k AUD Vega
- Note this strategy is only suitable for investors who are set up and capable to dynamically delta hedge short vega/gamma positions

Positioning Data

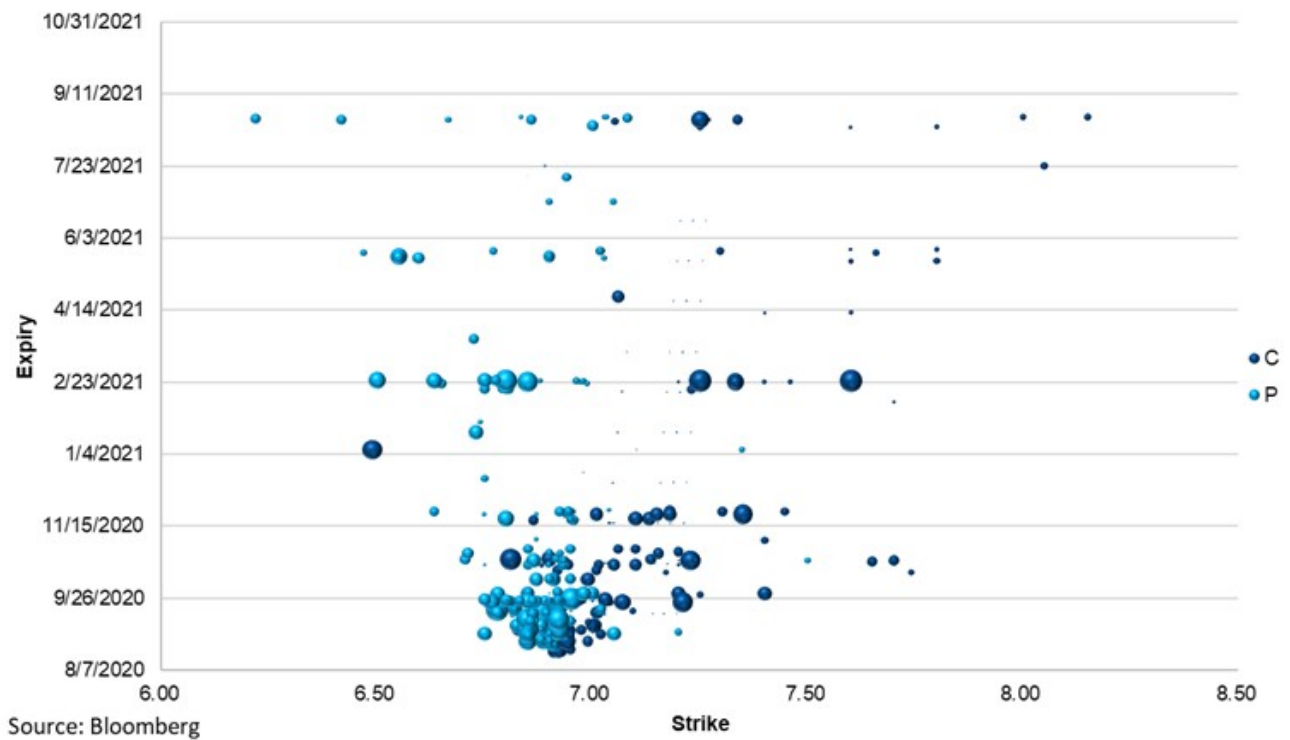
USDBRL Options Positioning Data 19/08/2020 to 26/08/2020

Positioning data for USDBRL for this week shows a shift lower in options sentiment. An increase in the volume of puts with a higher notional value below market with an expiry within 3 months has been observed. The strikes are more sporadic than the previous week but we not more volumes done in a range of 4.70-4.90 with and expiry before the end of September 2020. We have also seen a reduced appetite for call options but the majority are scattered around 5.70 with expiry at the end of next month. This shows a change in market sentiment and we could see the flat price strengthen back towards 5.30.



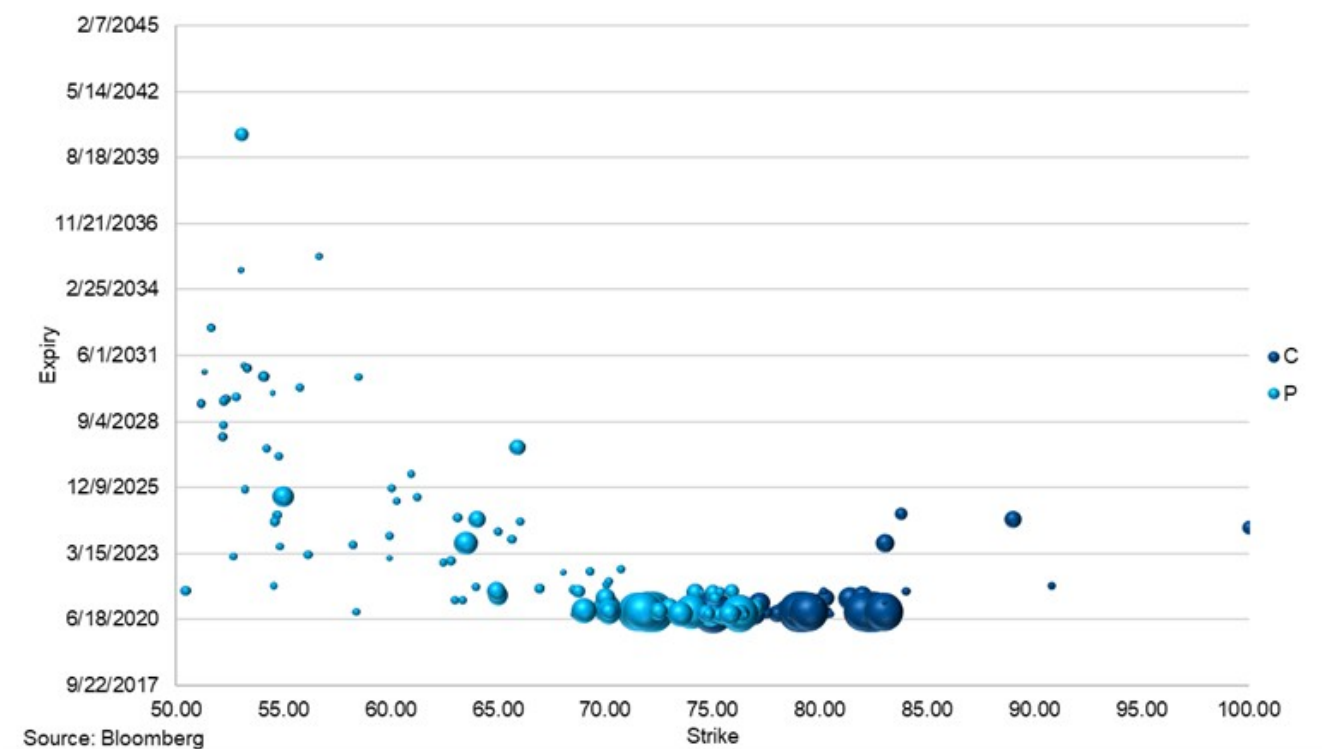
USDCNY Options Positioning Data 19/08/2020 to 26/08/2020

USDCNY positioning data for this past week shows a greater bias for longer data options below the current strike. Near dated calls above the market suggest that we may see some protection for some dollar strength, in the next month or so. Indeed, we have seen some calls above the market and after the U.S. election which is likely to be protected against USD strengthen also. In the immediate term, the market remains in favour of puts just below the flat price which suggests further CNY strengthening.

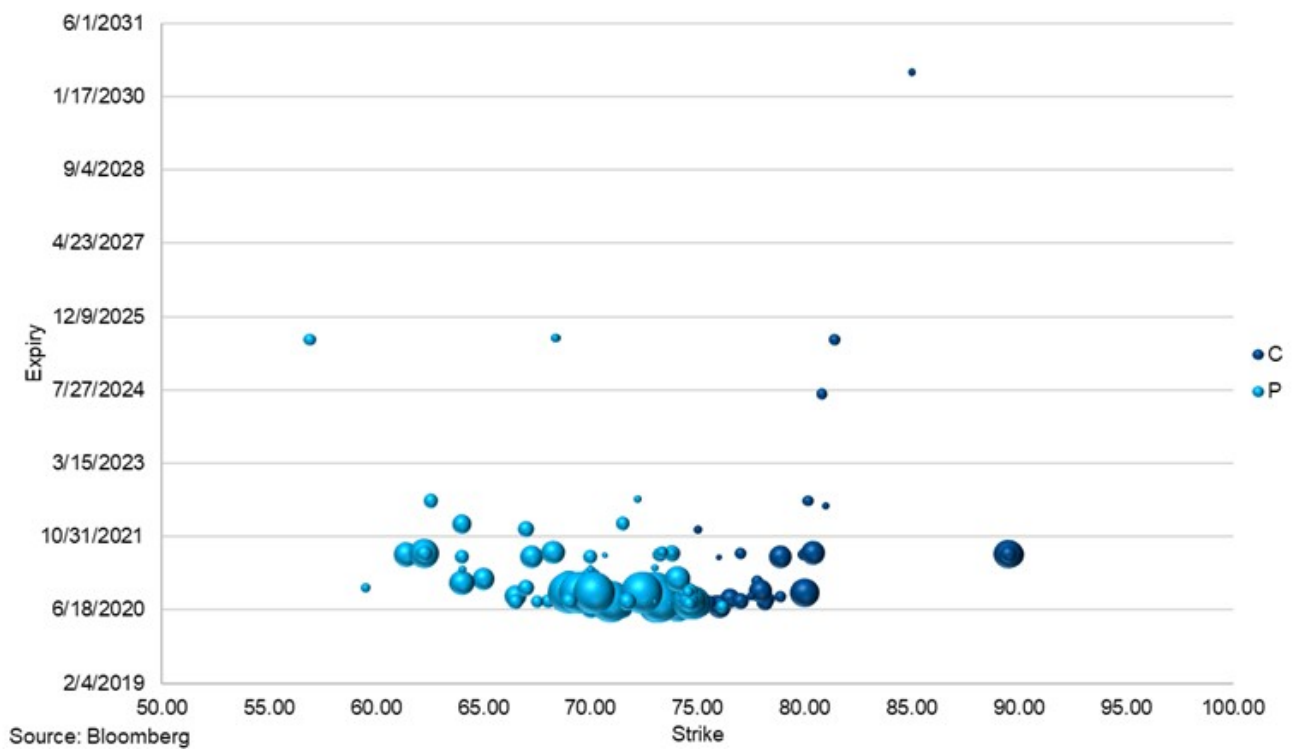


AUDJPY Options Positioning Data July 26th to August 26th

AUDJPY has continued to rally but we have the options market reduce upside activity with fewer call options executed above the market with a lower notional value as well. In July and August, we have seen more downside protection as put options in a range of 60-75. In the June-July chart, we saw some put options far below the market price. Options executed were in a much tighter range between July-August which is in keeping with the recent consolidation but the increase in put option volumes below market suggests we could see AUDJPY weaken in the near term.



AUDJPY Options Positioning Data June 26th to July 26th



Charts and Tables

FX Expiries

Currency Pair	Wednesday 26 th	Thursday 27 th	Friday 28 th	Monday 31 st	Tuesday 1 st
GBP/USD					
USD/JPY	500mio @ 104 2.35bio @ 105 500mio @ 106.6 1.25bio @ 107.03	800mio @ 105	680mio @ 104.25 500mio @ 107 500mio @ 107.4	500mio @ 105	700mio @ 104.5 690mio @ 107.05
EUR/USD		554.62mio @ 1.19		510.65mio @ 1.175	
EUR/GBP					
USD/BRL	150mio @ 5.5 760mio @ 5.6			100mio @ 5.5 120mio @ 5.65	100mio @ 5.46
AUD/USD	100.07mio @ 0.7095 551.73mio @ 0.725	856.73mio @ 0.712		115.66mio @ 0.709 645.62mio @ 0.7125	
USD/ZAR		220mio @ 16.92 100mio @ 17 370mio @ 17.25			180mio @ 17.08
USD/INR	130mio @ 74.55 100mio @ 75.1	200mio @ 73.5 200mio @ 74.5			

Source: Bloomberg DTCC Data 2% from spot levels as of 24/08/2020

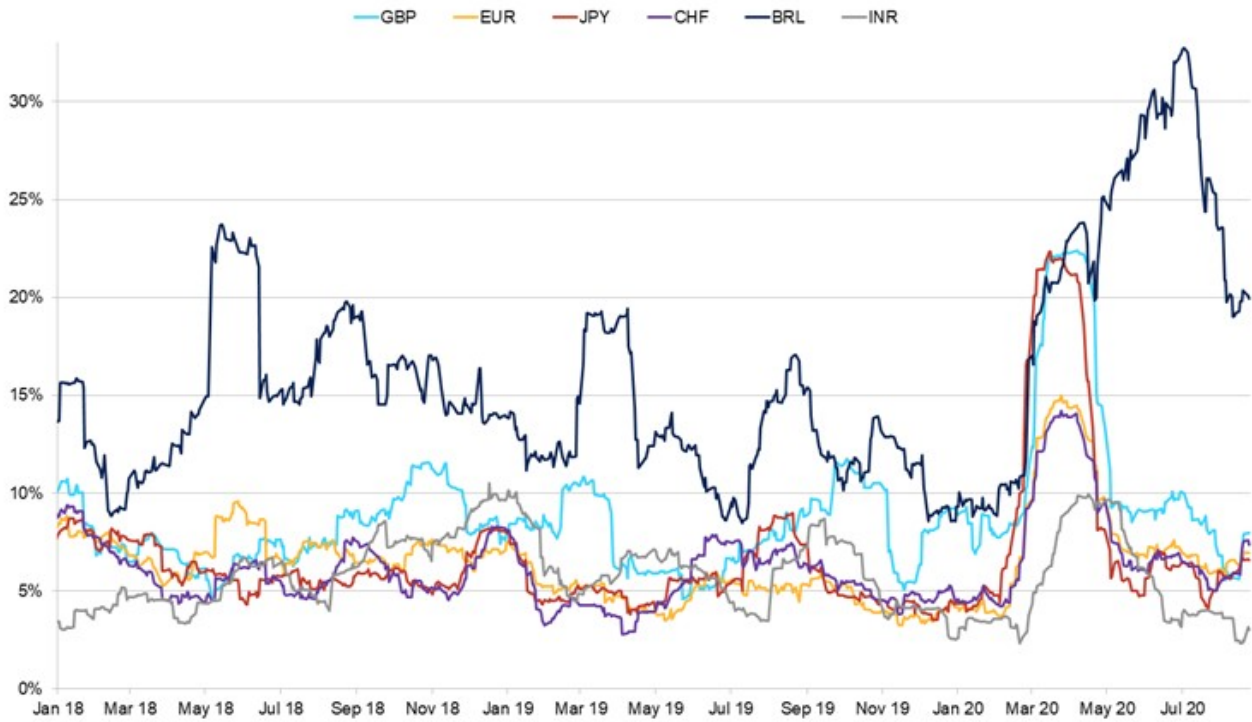
FX Volatility Grid

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	0.37	0.14	8.56	0.10	0.19	8.78	-0.94	0.20	7.34	0.32	0.17	6.23
1M	0.48	0.16	7.54	-0.17	0.23	8.56	-0.99	0.20	6.65	0.59	0.20	6.82
2M	0.52	0.19	7.36	-0.46	0.29	8.89	-1.23	0.24	6.75	0.78	0.23	7.26
3M	0.58	0.23	7.92	-0.72	0.34	9.37	-1.73	0.28	8.00	0.93	0.27	7.47
6M	0.63	0.31	7.41	-1.14	0.43	9.30	-2.01	0.35	7.55	1.21	0.34	7.56
1Y	0.66	0.38	7.27	-1.48	0.50	9.29	-2.27	0.38	7.50	1.53	0.41	7.66

Time Period	USDINR			USDTRY			USDJPY			AUDUSD		
	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W	0.10	0.25	6.41	6.55	1.28	17.85	0.91	0.38	22.36	-0.19	0.28	10.47
1M	0.27	0.27	5.84	7.85	1.59	19.11	2.10	0.47	21.50	-0.43	0.33	9.62
2M	0.44	0.28	5.93	8.18	1.64	19.44	2.42	0.54	20.73	-0.65	0.37	9.81
3M	0.64	0.32	6.68	8.56	1.74	20.20	2.79	0.60	20.94	-0.89	0.40	10.58
6M	0.87	0.38	6.63	8.86	1.82	20.60	3.39	0.73	19.33	-1.13	0.44	10.16
1Y	1.11	0.44	6.86	9.31	1.99	21.49	4.09	0.85	18.19	-1.37	0.50	10.11

Source: Sueden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3204	1.1815	0.0094	1.0989	0.7611	0.7247	0.6631
GBP	0.7574	-	0.8948	0.7142	0.8323	0.5764	0.5489	0.5023
EUR	0.8464	1.1175	-	0.7981	0.9301	0.6442	0.6134	0.5613
JPY	106.0500	140.0210	125.2900	-	116.5390	80.7110	76.8540	70.3270
CHF	0.9100	1.2015	1.0751	0.8581	-	0.6926	0.6595	0.6035
CAD	1.3140	1.7349	1.5524	0.0124	1.4439	-	0.9522	0.8713
AUD	1.3799	1.8220	1.6303	1.3012	1.5164	1.0502	-	0.9151
NZD	1.5079	1.9910	1.7816	0.0142	1.6571	1.1477	1.0928	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.08	-0.38	-0.23	-0.25	0.37	0.76	1.47
GBP	0.07	-	-0.30	-0.15	-0.17	0.44	0.84	1.54
EUR	0.38	0.30	-	0.14	0.13	0.75	1.14	1.87
JPY	0.24	0.16	-0.14	-	-0.01	0.60	1.00	1.72
CHF	0.24	0.17	-0.13	0.02	-	0.61	1.00	1.72
CAD	-0.36	-0.44	-0.74	-0.60	-0.61	-	0.39	1.10
AUD	-0.76	-0.83	-1.13	-0.99	-1.00	-0.38	-	0.70
NZD	-1.44	-1.52	-1.83	-1.66	-1.69	-1.09	-0.70	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JP	26/8	06:00	Leading Economic Index	Jun	85.0	85.0
US	26/8	12:00	MBA Mortgage Applications	Aug 21		-3.3%
US	26/8	13:30	Durable Goods Orders	Jul	4.3%	7.6%
US	27/8	01:00	Jackson Hole Symposium			
JP	28/8	00:30	Tokyo CPI YoY	Aug	0.8%	0.6%
EU	28/8	10:00	Consumer Confidence	Aug	-14.7	-14.7
JP	31/8	00:50	Retail Sales MoM	Jul	8.0%	13.1%
JP	31/8	00:50	Industrial Production YoY	Jul	-15.7%	-18.2%
CN	01/9	02:45	Caixin Mfg PMI	Aug	51.3	52.8
AUD	01/9	05:30	RBA Interest Rate Decision		0.25%	0.25%
UK	01/9	09:30	Markit Mfg PMi	Aug	55.3	55.3
EU	01/9	10:00	CPI YoY	Aug	0.2%	0.4%
US	01/9	14:45	ISM Mfg PMI	Aug		53.6

Source: FX Street

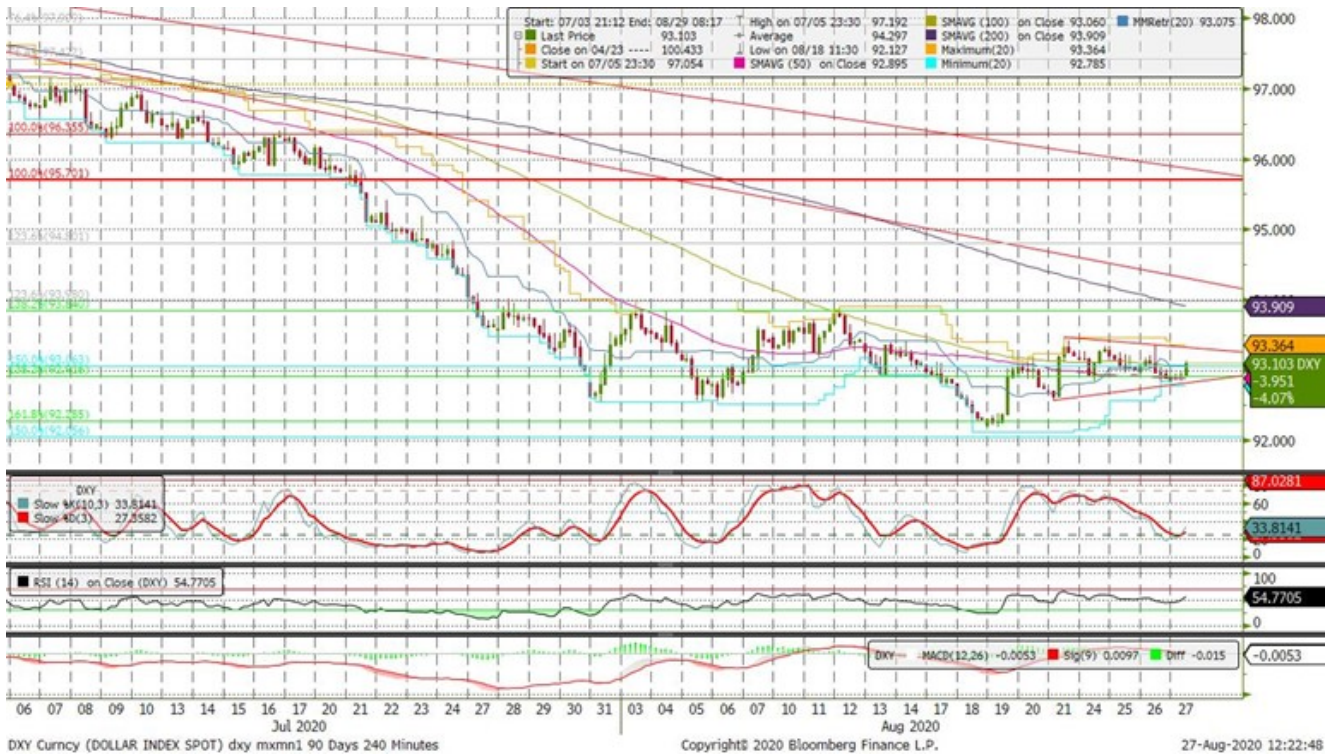
Technical Analysis

JP Morgan Global FX Volatility Index



The index has consolidated in recent weeks but despite the weaker indicators, the index has held above key support at 8.90. The stochastics are falling further into oversold territory, the MACD diff is negative but is converging suggesting an improvement in sentiment. The index needs to recover back above 9 and then target the recent higher at 9.47 in order to suggest a breakout of the recent consolidation period. On the downside, a breach of support at 8.90 would suggest a confirmation of the rejection of the descending triangle and may trigger losses back towards 8.44.

Dollar Index



The index has continued to consolidate in recent weeks, but the indicators have weakened considerably as the stochastics emerge from oversold and the MACD diff is negative and starting to converge. The stochastics have given a buy signal and this could suggest a move to the upside in the near term. The signal has yet to be confirmed but a break above 93.64 could prompt a test of robust resistance at 93.905, where the market has failed repeatedly in recent weeks. On the downside, a pennant has been formed and repeated failure of the upper bound of this pattern could suggest a breakout towards 92. This has provided robust support on the downside in recent weeks, a subsequent breach of this level may prompt a test decline towards 91.324 in the longer run.

AUDJPY Currency



AUD has recovered strongly in recent months after the sell-off in Q1. However, in recent months rally has stalled

and failed to break through 77. The stochastics are in overbought territory and the MACD diff is positive but has started to converge suggesting we could see a correction to the downside in the near term. The pair broke above the 100% fib retracement level but has rejected 77 and if prices retreat back to the converged 50 & 100 moving averages at 76.225 and break below this level we may see a break of the recent upward trend. On the upside, to confirm the ascending triangle prices need to break 77 and then target the 123.6% fib level at 80.474 in the long term.

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