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FX Options Weekly Report

Macro and Vol Commentary

New Zealand's response to COVID-19 has been world leading, this has given the currency strength but what do we expect to happen next.

Economic Data

- Business confidence in New Zealand remains negative at -14.5 for October, up from -28.5. Firms are still adjusting to the environment, and this involved adjusting to changing consumer preferences
- The Government Wage subsidy scheme has reached \$13bn and this has supported firms but this policy will start to reduce support for some firms in the coming months.
 - _ The Wage Subsidy supported 71% of businesses and 1.7m workers
 - _ This may prompt an increase in costs for firms which may lead to redundancies, or reducing hours. Recent data suggests the service sector is currently the worst affected
 - _ Investment plans will be subdued until certainty returns
 - _ Business activity has become positive once again at 3.6 for October, up from -5.4
- The manufacturing PMI is expansionary at 50.7 in August, down from July's figure at 59. New orders and production and production grew at a slower pace in August, finished stocks also fell to 50.
 - _ We saw lockdown restrictions increase in Auckland prompting downturn in economic activity and employment
 - _ The participation rate stands at 69.5%
- We expect unemployment levels to rise, labour earnings are starting to fall, and job security is rising. The RBNZ's scenario suggests we unemployment may peak in December at 8.1%
- There is spare capacity in the labour market, which is unsurprising but we expect job losses to increase. This will prompt a reduction in consumer spending as incomes have declined
- As the alert level moves back to level 1, card spending growth has started to trend lower as the alert level increase. Card Spending retail was up 1.2% m/m but declined -7.9% m/m, spending total m/m was 7%

- Inflation has been capped by reduced consumption due to the level of lockdown and also rising unemployment. Indeed, businesses are reducing their pricing intentions as well which will reduce inflationary pressure

Stimulus

- Government stimulus levels have been expansive and which will support GDP, but the handling of the virus has been the biggest boon for GDP
- However, exports remain weak due to lack of external demand
- We expect GDP to remain below pre-pandemic levels until the earliest Q3 2021, more likely 2022. GDP is expected to fall by 5.8% in 2020 according to the Reserve Bank of New Zealand
- The initial response from the Government recovery fund has reached \$50b, plus the \$12bn in March brings the total to \$62bn
- Monetary stimulus is expansive, and the interest rate is 0.25%, with the 3month repo rate at 0.35%
- The bond curve has narrowed with yields for the 10yr at 0.567%, 5yr at 0.0039%, and 2yr at 0.003%

The export market is expected to stay weak in the near term, and the trade balance fell to -353m in August from 282m in July. As the New Zealand looks to reduce the lockdown alerts from 3 towards 1 we expect economic data to improve once again. There will be more caution this time but the government have been quick learn from their mistakes and this could help prolong or prevent another level 3 alert. Tourism will remain non-existent in the near term but we expect the economy to start to recover, despite unemployment rising. The US dollar has weakened recently but global uncertainty pushed investors to the greenback. As we approach the US election uncertainty will prevail and if New Zealand is emerging with more positive data we expect to see USDNZD weaken.

Volatility Commentary

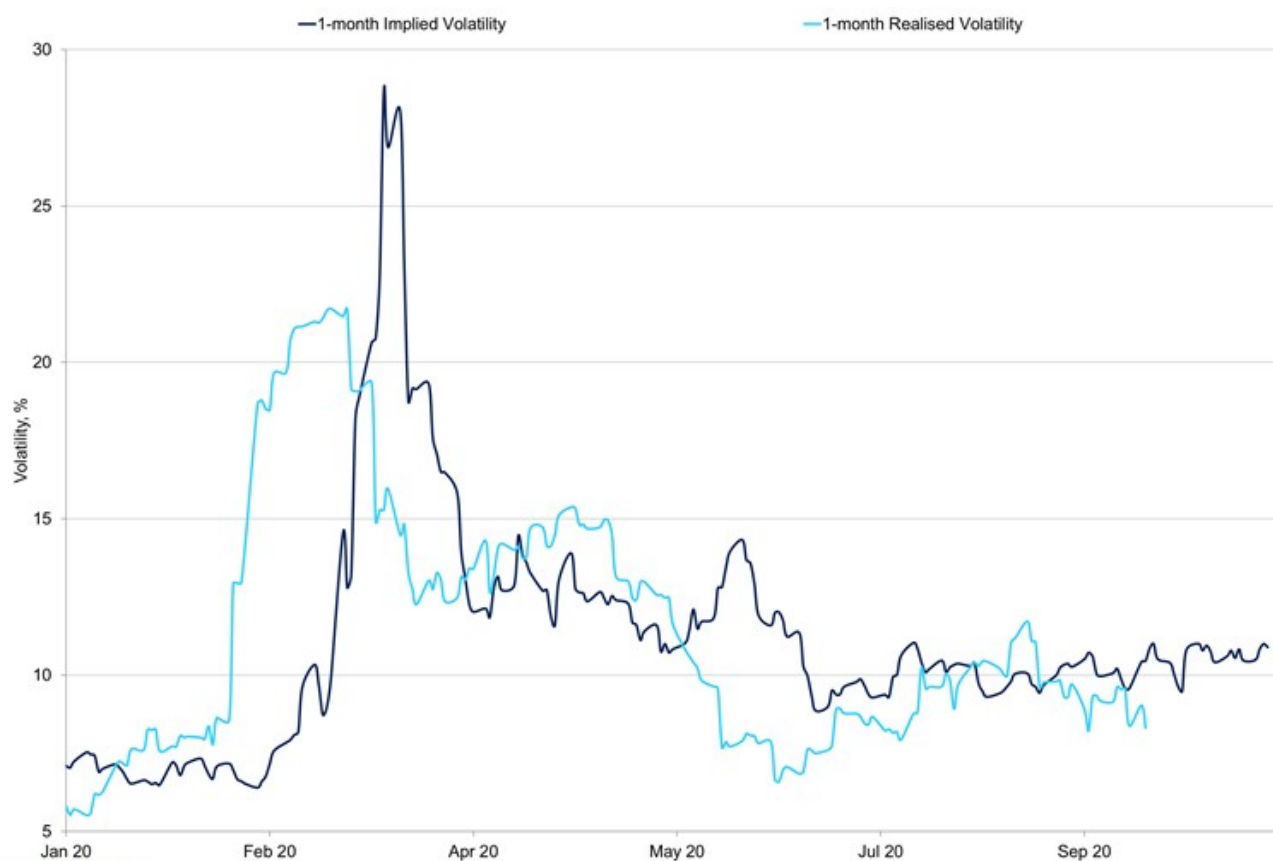
General comments

At the start of this month we saw most macro vols vs USD jump after US President Trump's Covid-19 diagnosis, though it appears that he is likely clear from it vols remain elevated with a volatile few weeks and month's ahead with the US election, especially with a result likely not being clear on the night due to a much higher amount of mail in voting and a potential drawn out Supreme Court case if/when President Trump challenges the result.

USDNZD Vol

Over the last few months USDNZD vols are still remained over the pre-Covid-19 levels, though vol has generally been realising lower than implied. Though the Covid-19 situation in New Zealand is largely under control, as mentioned above the New Zealand economy is facing challenges and as the global economy continues to struggle with Covid-19 (US cases remain high and much of the EU is facing a second lockdowns) we may see USD strengthening. With Global macro-economic uncertainty still being present, especially over US & EU winters, we favour long USDNZD spot and vol positions.

USDNZD 1-month Realised and Implied Volatility



Source: Bloomberg

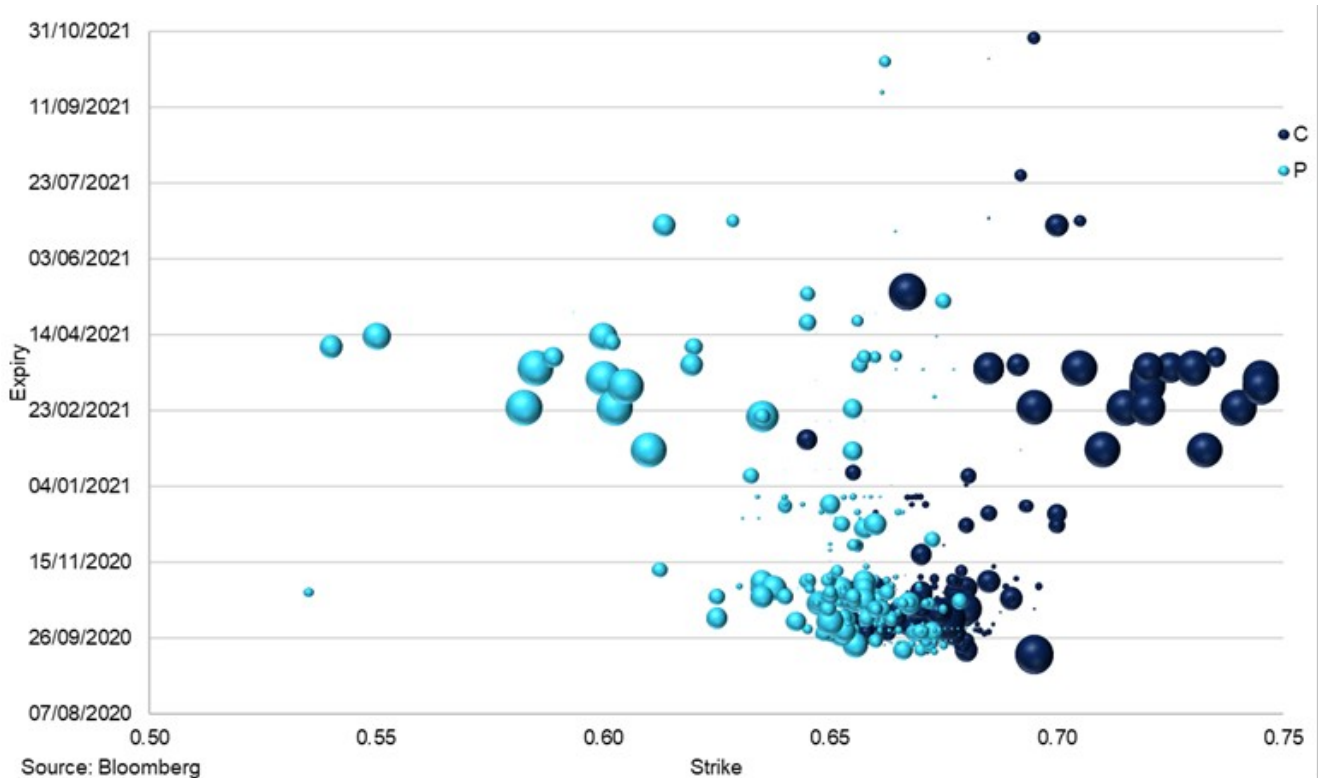
USDNZD Trade Idea

- Buy 3m USDNZD EKI Call spread with strikes 1.5300 & 1.5600
- Upfront premium circa 48k USD when priced in 10m USD notional a leg

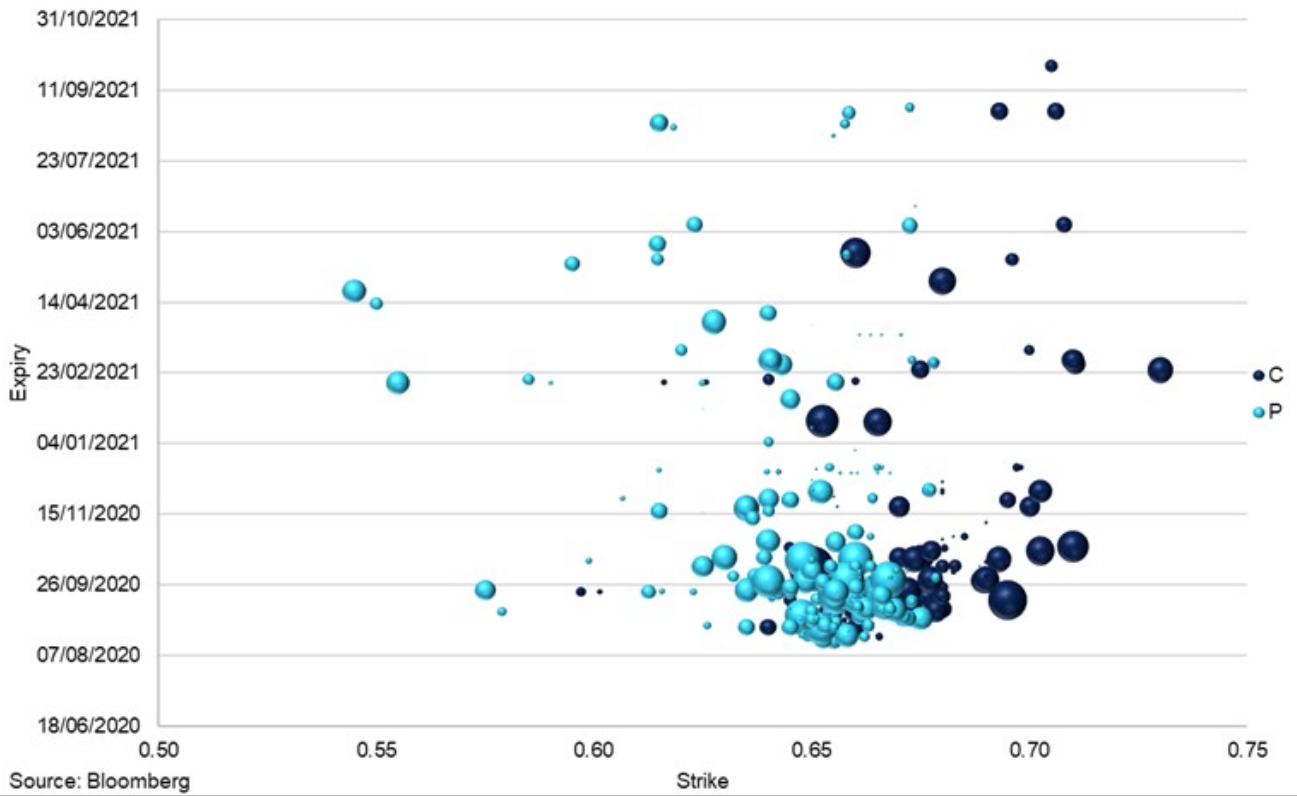
Positioning Charts

NZDUSD September 14th to October 14th

The difference between the two charts above shows a clear difference as NZD strengthens. Chart 1 has a narrower range for options with an expiry before November 2020 at 0.63-70. The notional value of these options are smaller, and there is a moderate bias in favour of NZDUSD suggesting we could see spot push higher. Expiries in Q1 2021 have a clear split, there is a cluster of put options around 0.60 but considerable upside coverage between 0.70 and 0.75. Both areas have larger notional values than the near dated options. In the near term NZDUSD could strengthen further but longer term outlook is not clear especially with the US election and COVID-19.

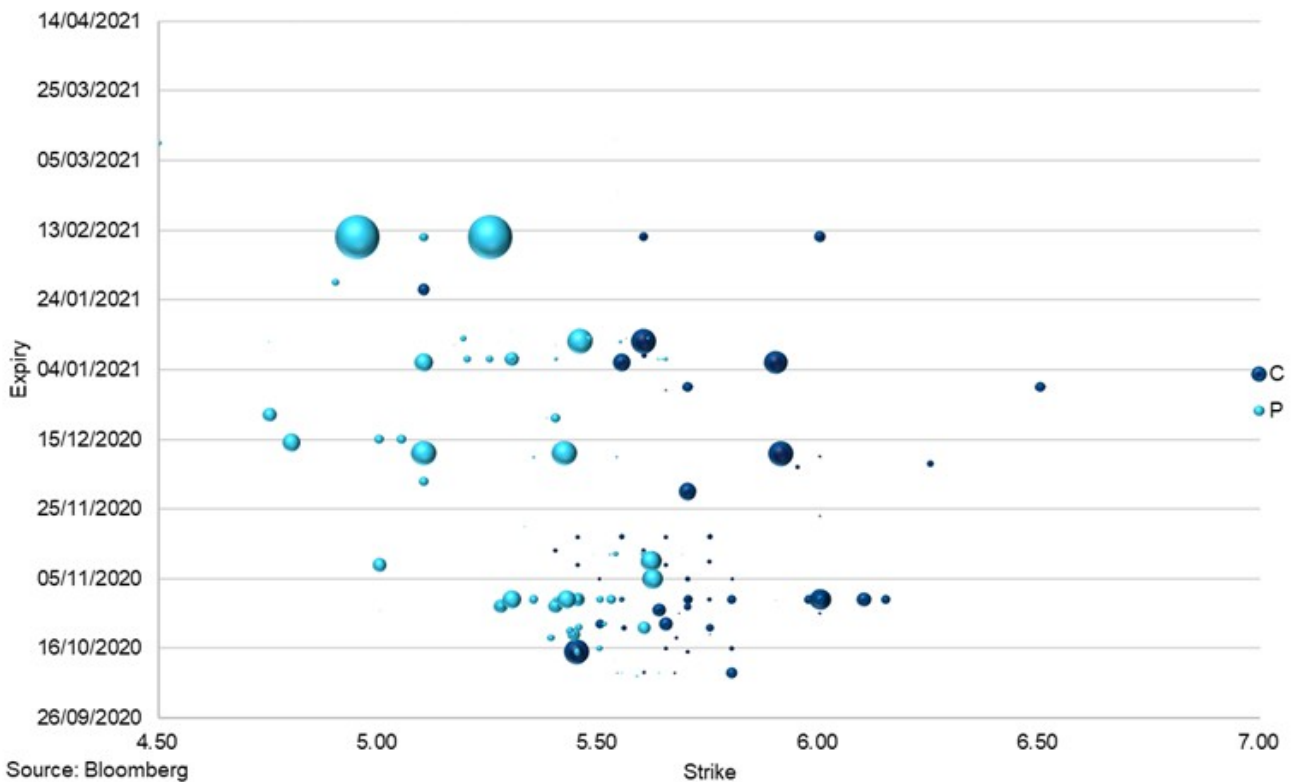


NZDUSD August 14th to September 14th



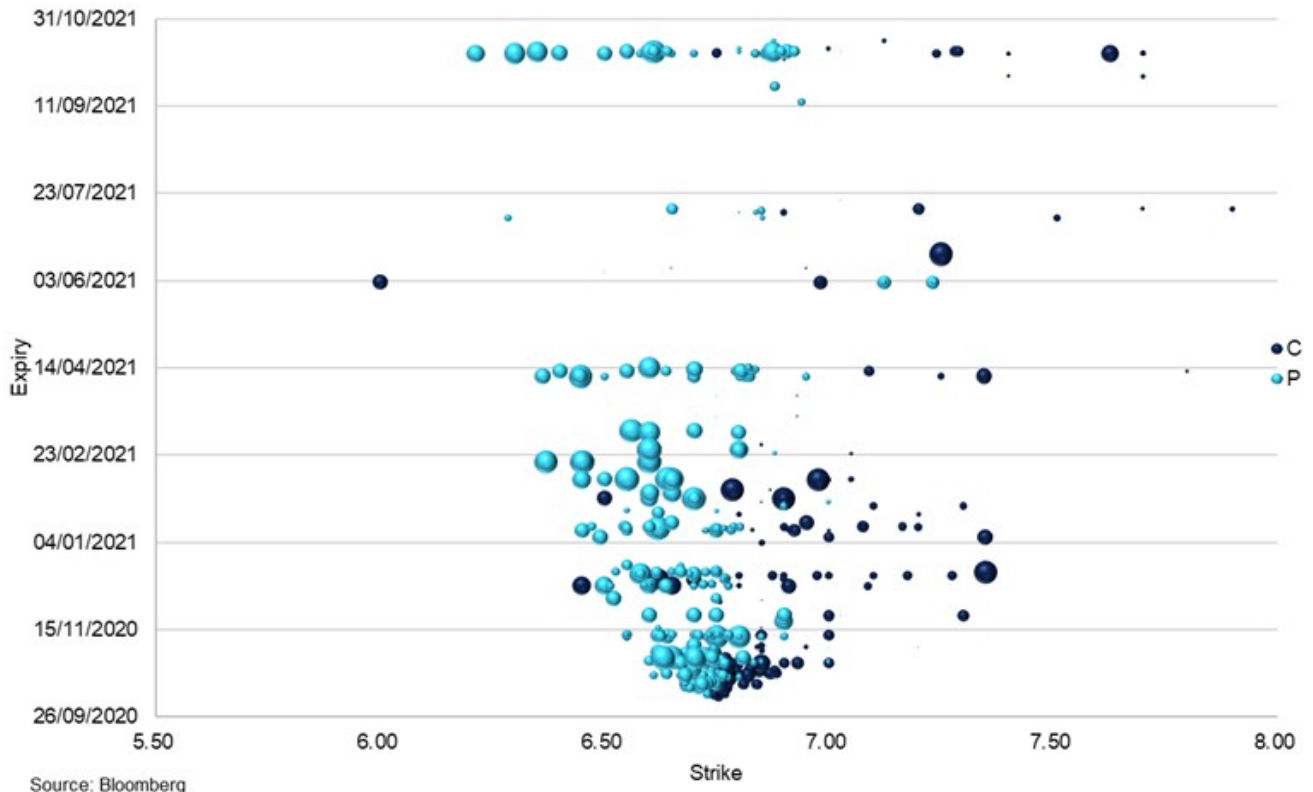
USDBRL Positioning Data 07/10/2020 - 14/10/2020

This week there was little conviction for USDBRL, volumes were low. Near term options are scattered around spot and gives no immediate directional indication. We have seen some moderate downside cover, but there are a couple of call options above 6. There are some larger options with expiries in February 2020 which are on the downside. We look for more conviction in the market this week.



USDCNY Positioning Data 07/10/2020 - 14/10/2020

The options market favours the downside in the near term, put options extend towards 6.50 with and expiries out to November 15th. There is little cover above 7 throughout the whole period this suggests that the options market favours the downside in the coming months, there is a cluster of put options with expiries out to February with higher notional values. Downside exposure is strong and we expect this to remain the case.



Charts and Tables

FX Expiries

Currency Pair	Thursday 22 nd	Friday 23 rd	Monday 26 th	Tuesday 27 th	Wednesday 28 th
GBP/USD		877.86mio @ 1.31			
USD/JPY	530mio @ 104 1.05bio @ 104.5 650mio @ 106	1.26bio @ 103	800mio @ 104 600mio @ 105.32 500mio @ 105.6	830mio @ 105 610mio @ 105.25	550mio @ 103 600mio @ 104.5 770mio @ 104.9 600mio @ 105
EUR/USD	540.76mio @ 1.165	629.8mio @ 1.175 677.95mio @ 1.18 814.67mio @ 1.2			533.88mio @ 1.18 594.15mio @ 1.195 2.16bio @ 1.2
EUR/GBP			880mio @ 0.89 1.38mio @ 0.9 100mio @ 5.5706 250mio @ 5.68		
USD/BRL	200mio @ 5.6				200mio @ 5.66
AUD/USD	200mio @ 0.7 312.06mio @ 0.705 100.69mio @ 0.725	100mio @ 0.7 300.84mio @ 0.718	100mio @ 0.71 194.31mio @ 0.7205 153.31mio @ 0.7175		157.14mio @ 0.7
USD/ZAR			100mio @ 16 360mio @ 16.3 100mio @ 74.26 130mio @ 74.65		
USD/INR	500mio @ 74.12	300mio @ 74		600mio @ 72.5 100mio @ 73.5 200mio @ 73.96	300mio @ 72.7 200mio @ 73.5 130mio @ 74.25

Source: Bloomberg DTCC Data 2% from spot levels as of 21/10/2020

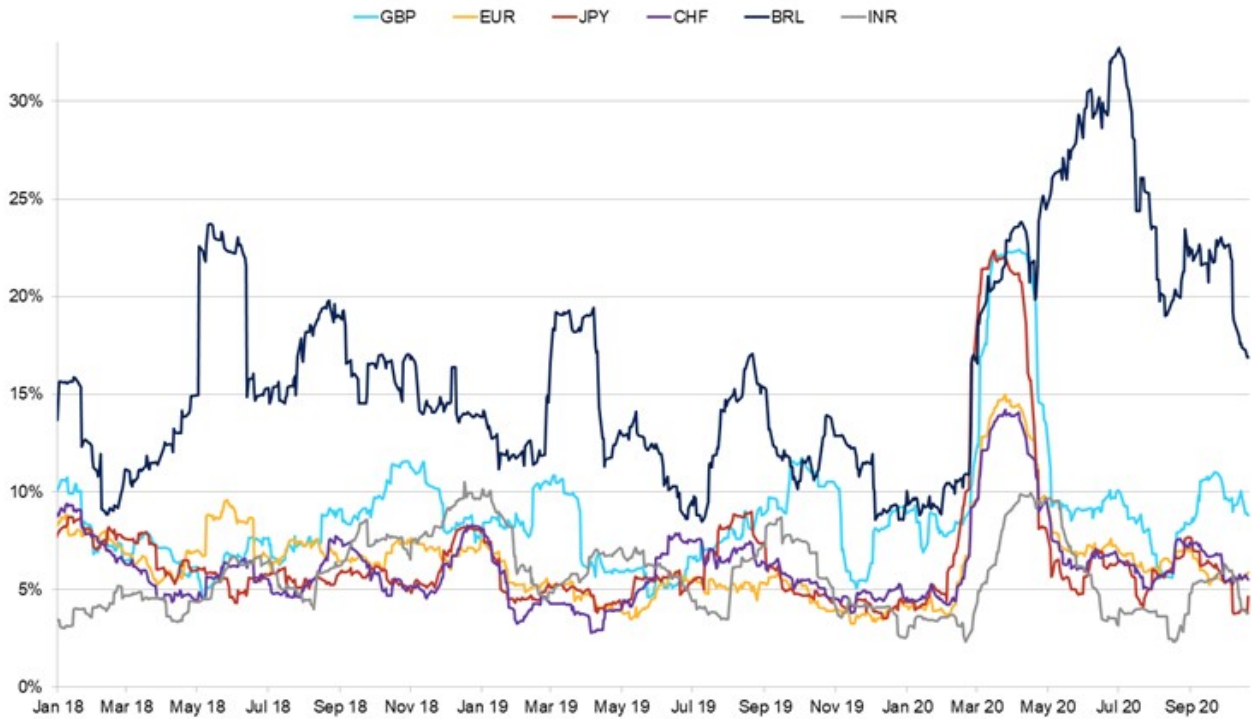
Volatility Grid

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		0.42	0.15	6.99	-0.16	0.20	11.22	-0.93	0.21	5.88	0.28	0.19	9.96
1M		0.45	0.16	7.73	-1.15	0.24	11.60	-1.22	0.23	7.75	1.19	0.21	9.77
2M		0.46	0.20	7.33	-1.55	0.30	11.15	-1.51	0.28	7.46	1.43	0.23	9.49
3M		0.45	0.24	6.98	-1.67	0.33	10.60	-1.69	0.33	7.30	1.51	0.23	9.03
6M		0.49	0.35	6.82	-1.84	0.41	9.96	-1.98	0.38	7.33	1.64	0.30	8.47
1Y		0.54	0.44	6.85	-1.99	0.47	9.60	-2.19	0.41	7.41	1.85	0.41	8.17

Time	USDINR			USDTRY			USDJPY			AUDUSD			
	Period	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM	25d RR	25d BF	ATM
1W		0.62	0.17	5.36	4.28	1.16	16.23	1.03	0.28	18.09	-0.74	0.24	9.99
1M		0.79	0.22	7.16	5.98	1.47	18.13	2.07	0.41	20.02	-1.08	0.28	10.94
2M		0.88	0.29	7.00	6.43	1.55	18.14	2.51	0.46	19.27	-1.20	0.34	10.59
3M		0.96	0.32	6.88	6.70	1.57	18.23	2.72	0.52	18.56	-1.27	0.37	10.24
6M		1.19	0.37	7.00	7.44	1.67	19.03	3.21	0.66	17.89	-1.44	0.44	10.13
1Y		1.44	0.46	7.15	8.39	1.99	19.84	3.77	0.79	17.47	-1.60	0.49	10.12

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	-	1.3094	1.182	0.009553	1.1022	0.7596	0.7099	0.6662
GBP	0.7637	-	0.90268	0.7296	0.8418	0.5801	0.54215	0.5088
EUR	0.846	1.1077	-	0.80819	0.9325	0.6426	0.6006	0.5636
JPY	104.68	137.072	123.73	-	115.383	79.521	74.314	69.739
CHF	0.9072	1.188	1.07239	0.8667	-	0.6892	0.6441	0.6044
CAD	1.3164	1.7238	1.55605	0.0125766	1.451	-	0.9345	0.877
AUD	1.4088	1.8445	1.66504	1.3458	1.5526	1.0701	-	0.9384
NZD	1.5011	1.9655	1.7743	0.01434	1.6545	1.1402	1.0656	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.43	0.96	0.73	0.79	0.46	0.07	0.97
GBP	-1.43	-	-0.48	-0.68	-0.66	-0.99	-1.34	-0.47
EUR	-0.96	0.50	-	-0.24	-0.16	-0.51	-0.89	0.02
JPY	-0.73	0.70	0.23	-	0.09	-0.30	-0.65	0.25
CHF	-0.81	0.67	0.16	-0.08	-	-0.38	-0.74	0.15
CAD	-0.43	0.98	0.54	0.28	0.37	-	-0.35	0.53
AUD	-0.06	1.35	0.89	0.67	0.73	0.40	-	0.90
NZD	-0.96	0.44	-0.02	-0.21	-0.21	-0.51	-0.89	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
EU	22/10	15:00	Consumer Confidence	Oct	-15.0	-13.9
NZD	22/10	22:45	Consumer Price Index YoY	Q3	1.7%	1.5%
UK	23/10	00:01	GfK Consumer Confidence	Oct	-28	-25
JPY	23/10	00:30	Consumer Price Index YoY	Sep		0.2%
US	23/10	02:00	Presidential Debate			
UK	23/10	07:00	Retail Sales YoY	Sep	3.7%	2.8%
UK	23/10	09:00	Markit Services PMI	Oct	56.0	56.1
EU	23/10	09:00	Markit Mfg PMI	Oct	53.1	53.7
US	23/10	14:45	Markit Mfg PMI	Oct	53.4	53.2
US	23/10	14:45	Markit Services PMI	Oct	54.6	54.6
JPY	26/10	06:00	Leading Economic Index	Aug	88.8	88.8
US	26/10	13:30	Fed National Activity Index	Sep	0.39	0.79
US	26/10	15:00	New Home Sales MoM	Sep	1.000m	1.011m
NZD	26/10	22:45	Trade Balance			
US	27/10	13:30	Durable Goods Orders	Sep	-0.1%	0.5%
US	27/10	15:00	Consumer Confidence	Oct		

Source: FX Street

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