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FRI 25 JUNE 2021

# FX Options Weekly Report

## Macro and Vol Commentary

The Fed's language regarding bond purchase tapering and interest rates has changed; what does this mean for USDZAR?

### Economic Data

- Manufacturing PMI was 57.8 in May, up from 56.2 the month prior. Employment contracted, but the other major components to the index were expansionary; new sales orders were firm, which helped offset the weaker export sales.
- The IMF revised their GDP forecast for 2021 to 6%, in line SARBs forecast of 6%, this will moderate in 2022 to 3.8%.
  - \_ Output will take longer to get back to pre-pandemic levels.
  - \_ For Q1 GDP at current prices, transport, storage, communications, construction, electricity, and water were all negative on a y/y basis. These sectors took a while to recover; the construction was the worst impacted at -12.3% y/y, with transport, storage and communication at -4.9% y/y.
  - \_ Mining and agriculture were positive and grew the most at 11.3% y/y and 10.2% y/y, respectively.
  - \_ Private consumption improved 1% y/y in Q1, but final consumption by households was -1.3% y/y in the same period. We expect household spending to improve for the remainder of the year in line with low-interest rates, looser lockdown restrictions and an improving labour market.
  - \_ Gross domestic investment needs to pick up for the economy to sustain the recovery; Q1 GDI was -8.2% y/y. Q2 data indicates this will improve but will remain subdued.
- From the trade side of things, exports of goods and services are down -3.7%y/y and imports down -2.8% y/y, in Q1. Global trade is starting to improve, and the demand for minerals is strong, boosting South Africa's trade.
  - \_ South Africa will benefit from the breakdown in the relationship between China and Australia; we could see more exports from South Africa to China of iron ore.
  - \_ Mining production in April was up 0.3% m/m; this is a down from 4.5% m/m, which was revised to 4.7% m/m.
  - \_ On year on year basis were up 116.5% y/y, up from 22.5% y/y the month prior.
  - \_ Platinum production was up 276.1% y/y, up from a revised 67.6% y/y.

- \_ Gold production has gained 177.9%y/y in April, up from 10.4% y/y the previous month.
- \_ This suggests that mining will improve in Q1, and we expect this area to grow Q/Q and Y/Y, boosting GDP for Q2.
- The current account was 5% of GDP in Q1, up 3.7%. The current account balance was \$267bn, up from \$198bn the previous quarter.
  - \_ The current account surplus is beneficial to the economy in the long run; this is reflected in the strong exports of materials. The improving mining industry will boost exports as global demand remains robust.
  - \_ Financing conditions are good and have improved, but the rand-denominated bonds have steep.
  - \_ High commodity export prices have led to a robust income, which has helped the rand appreciate in the near term.
- Inflation is rising with the May CPI figure at 5.2%, up from 4.4% the previous month on year on year basis.
  - \_ The CPI score stands at 3.1%y/y, and inflationary pressures have impacted the ZAR due to high commodity prices.
  - \_ PPI was high in April at 6.7% y/y, and we expect this to be higher in May at 7.2%
  - \_ Inflationary pressure is more prevalent and imported into South Africa; this will be compounded as the labour market improves and domestic demand takes off.
- The unemployment rate stands at 32.6% as of Q1, and this will decline in the coming months, but consumer confidence will be more substantial in Q2.
- Retail sales were negative in April at -0.8% m/m but up 95% y/y in May.

## Flows

- We have seen funds outflow from EM currencies in the last few weeks.
- In Asia, real money flows were greater than leveraged money, but in CEEMEA, the opposite happened with large outflows in leveraged.
- In the week of 22nd June, banks gained exposure to ZAR, as did real money, but corporates reduced their exposure to the currency.
- The week before, we saw leveraged money significantly increase their exposure to ZAR.

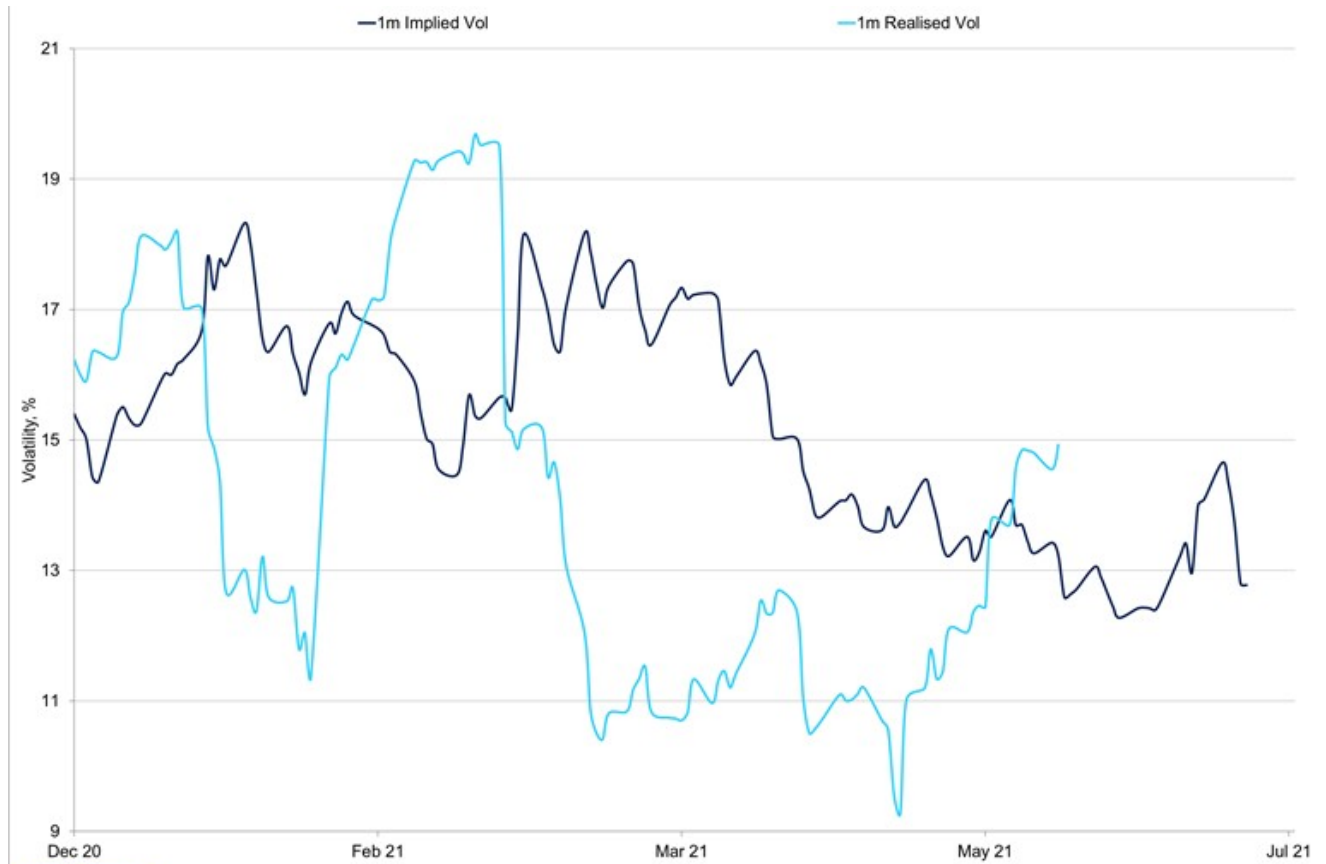
Monetary policy remains accommodative, and this will remain the case in the near term. However, importing inflation is a worry, and the ZAR's weakness has contributed to that in recent years. Emerging market currencies have hiked rates in recent months, and we expect South Africa to hike rates in the coming months. The change in language from the Fed and talk of inflation not being just transitional, bond-buying tapering, and hiking rates in 2 years could lead to EMs and South Africa hiking rates more aggressively. Commodity prices have declined in recent weeks following the change of language from the Fed and news from China that they will sell state reserves of some metals. This may cool inflationary pressure in the near term, but we expect the trend to remain intact. A stronger labour market will increase the demand-pull side of the equation. ZAR's yield curve is steep, and this will remain the case while ZAR is rising rates. However, we could see a funding squeeze when the Fed start to raise rates and countries dollar-denominated debt feel the effect of a stronger dollar and higher rates. With EM

debt levels significantly higher in the last 12-16 months than they were in 2018/19 when the Fed last raised rates, this could compound the issue, and we may see ZAR weaken at that time. In the short run, we are bullish on EM currencies and ZAR as they raise rates to fight inflation; however, as the Fed tapers, US rates will rise, impacting the back end of the curve.

# Volatility Commentary

Following the initial post Fed moves USDZAR spot has already started to revert as the market calms down after absorbing the slightly more hawkish than expected Fed outlook. The moves gave tick up in implied and realised vols breaking a trend of lower than implied vols realisation. With the potential for further SA economic recovery and potentially more aggressive rate hikes in EM economies such as SA, we support short term USDZAR spot down trades (especially taking advantage of the current/recent USDZAR spot spike). We're also favouring slight long vol/gamma positions in the short term to cover any further post-Fed short term volatility.

## USDZAR 1-month Implied and Realised Volatility



Source: Bloomberg

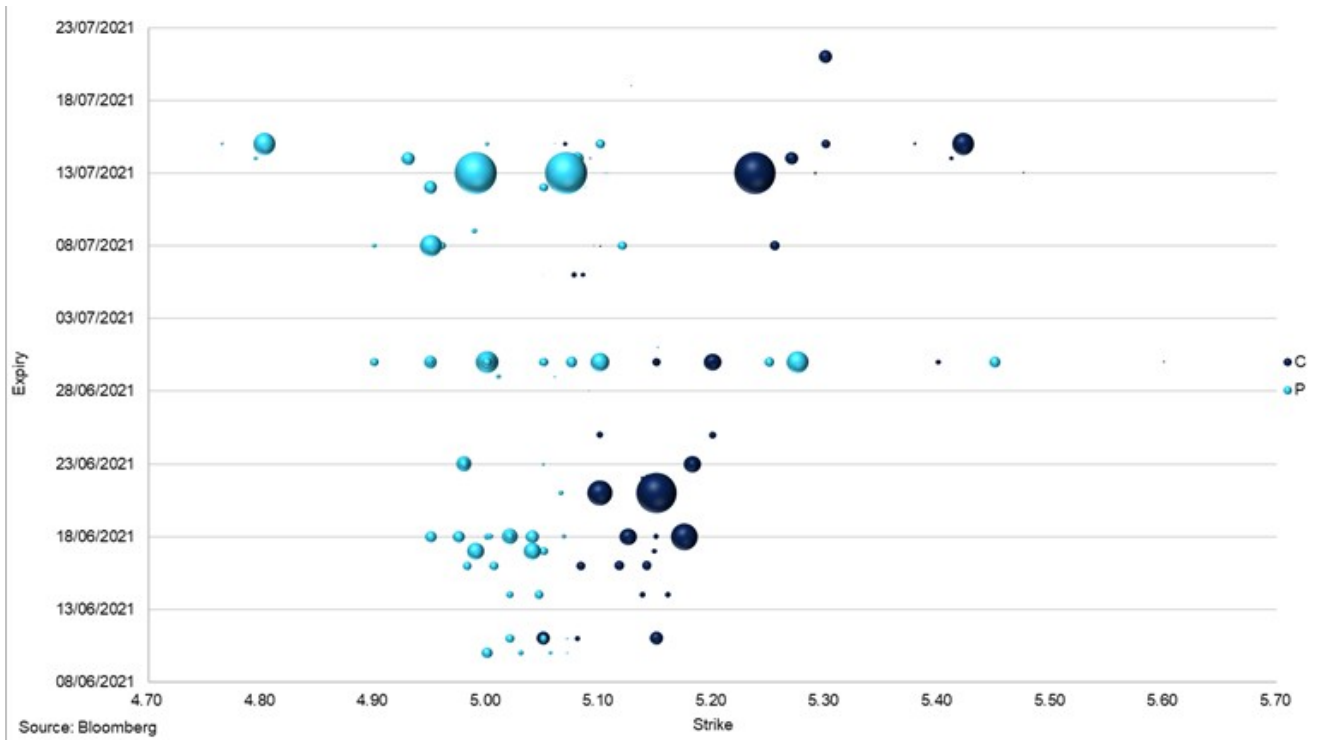
## USDZAR Trade Idea

- Buy 1m USDZAR EKI Put, strike 14.000 & 13.75 barrier in 10m USD notional for circa 86k USD premium (for reference vanilla equivalent circa is circa 103k USD premium)
- Sell 1m USDZAR Put, strike 13.600 for circa 23k USD
- Total upfront premium cost circa 63k USD

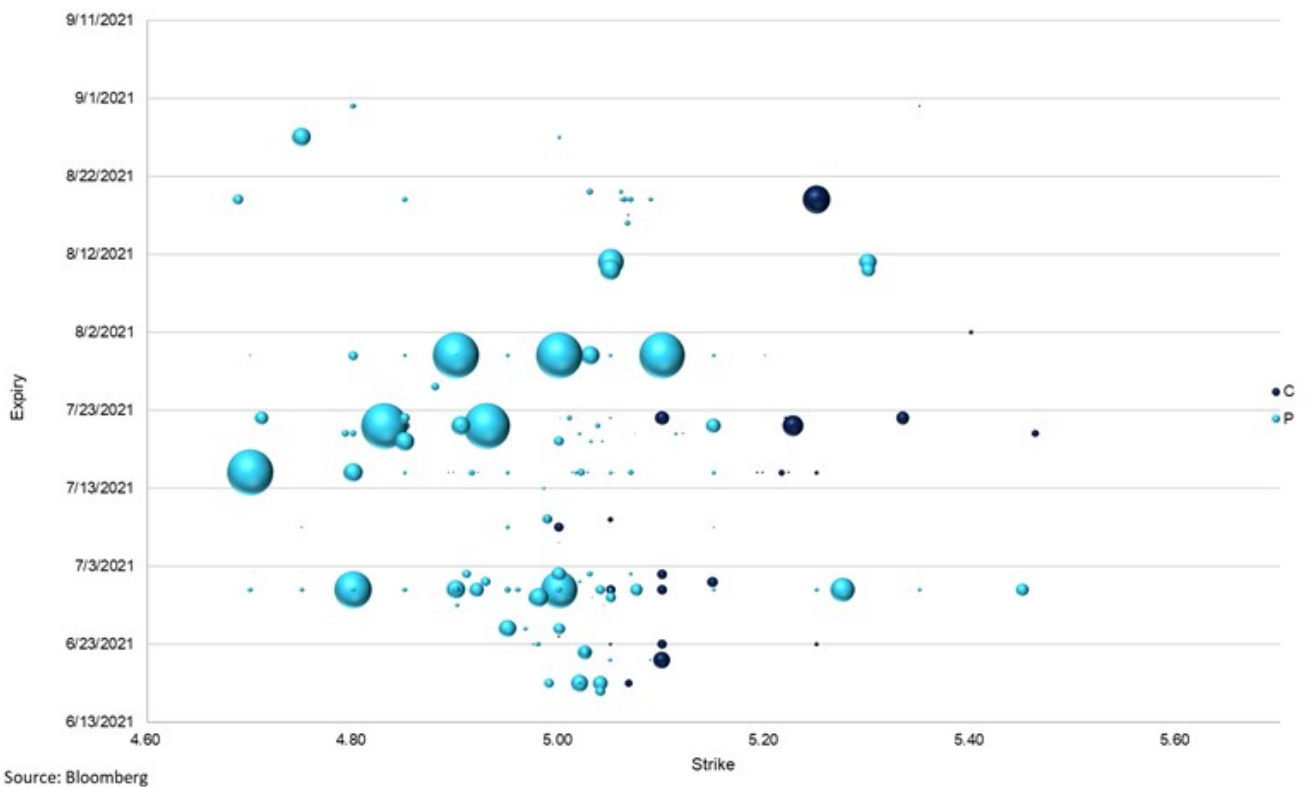
# Positioning Charts

## USDBRL NDO Positioning Data 09/06/2021 - 16/06/2021

In the week when the USDBRL spot broke below 5, unsurprisingly the options market looked to get more downside cover. We saw more options traded below 5, we have seen cover down to 4.65 with large nationals values. The majority of near dated options are around 5 but in July, many of the options are below 5 and have large nationals outlining the conviction in the market. The majority of options are puts, but we expect some cover to the upside to be added in the coming weeks but the trend is in favour of the downside.

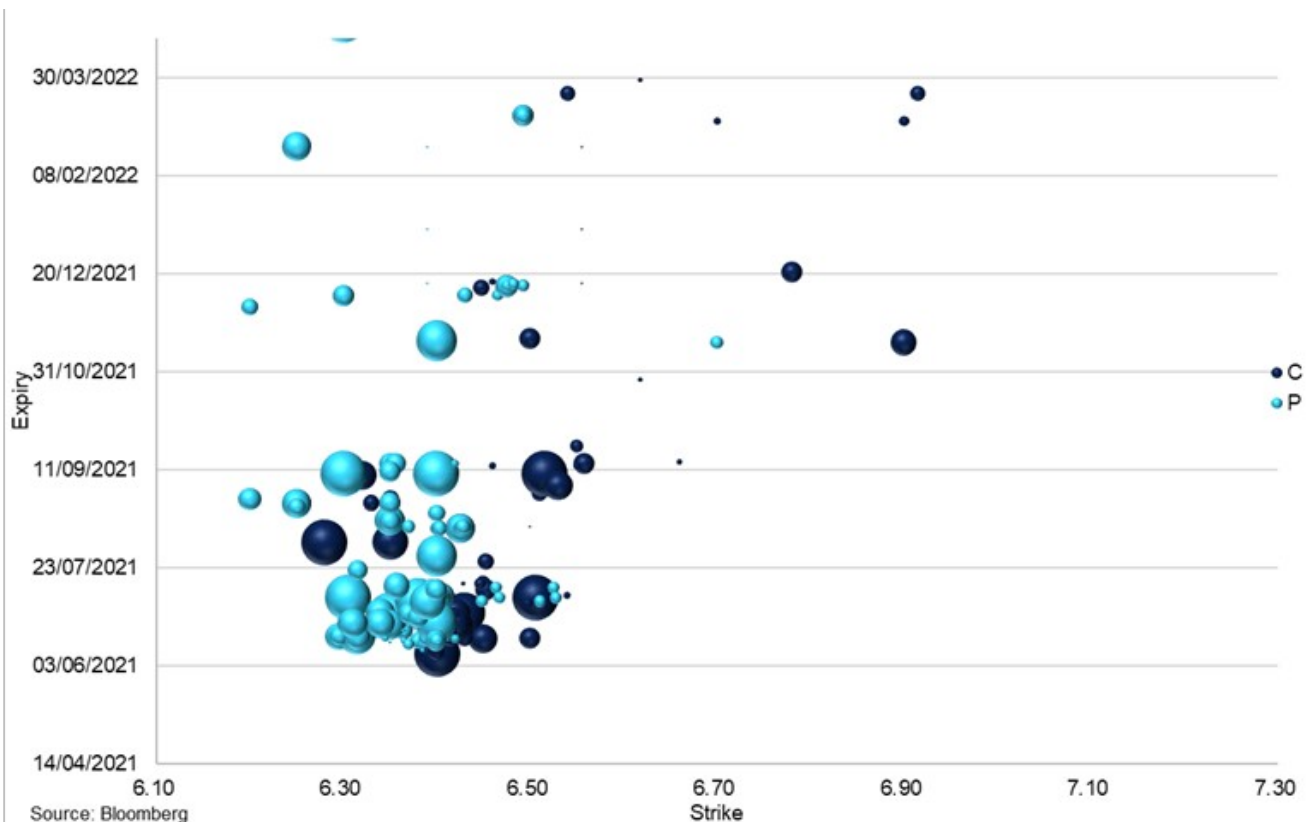


## USDBRL NDO Positioning Data 16/06/2021 - 23/06/2021

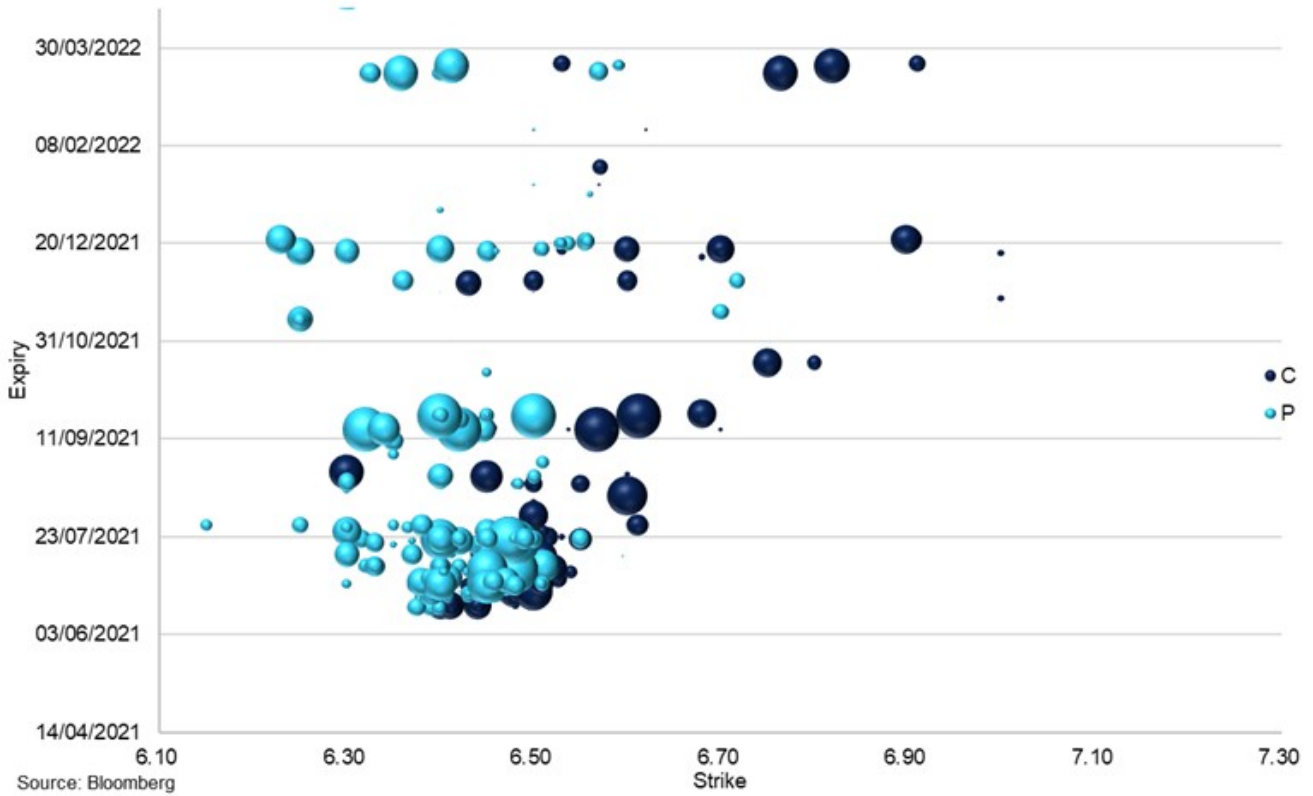


### USDCNY Vanilla Positioning Data 09/06/2021 - 16/06/2021

Options traded in the week to June 16th are thin but the range was higher this week as the USD strengthened. The majority of options executed were traded between 6.35-6.50. Calls had marginally higher notional values as the market covered on the upside after the Fed. Options for expiry in September show a downside bias and we expect the trend to remain intact in the longer run. There is little cover below 6.30 at all which indicates the market is unsure of a move through this level.

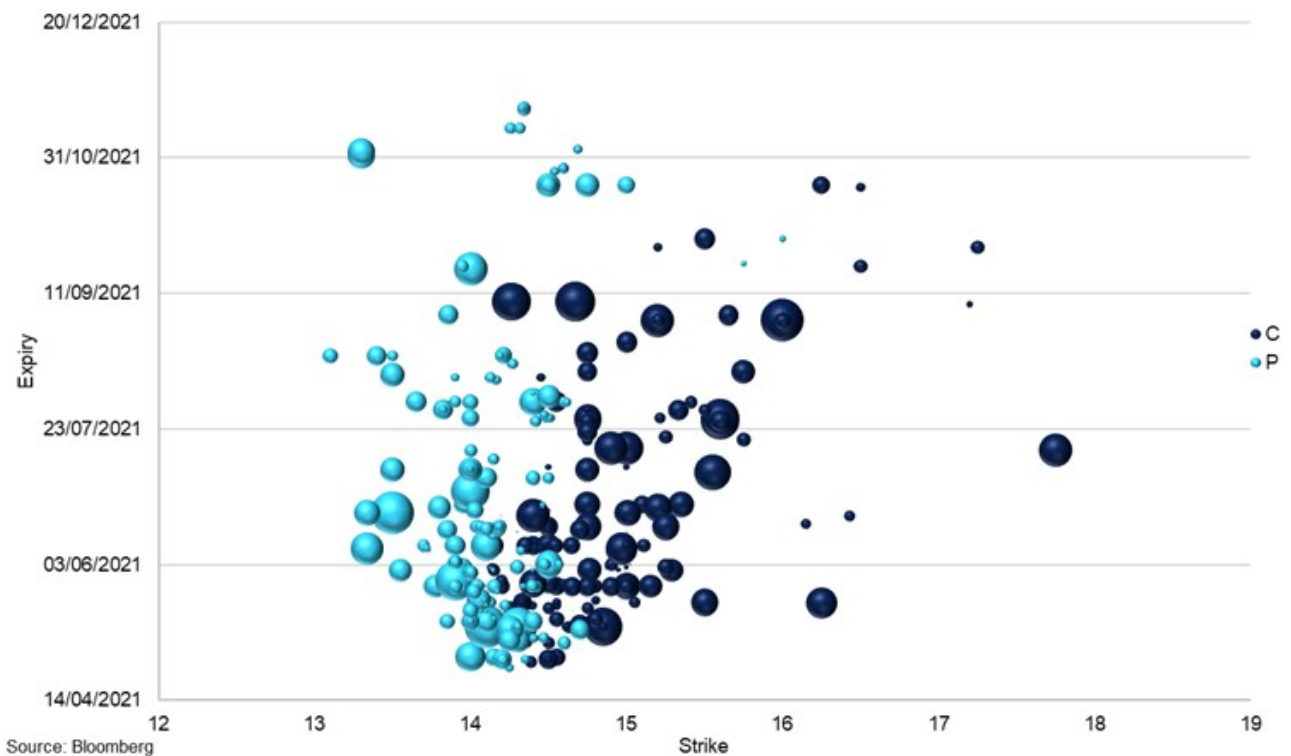


## USDCNY Vanilla Positioning Data 16/06/2021 - 23/06/2021



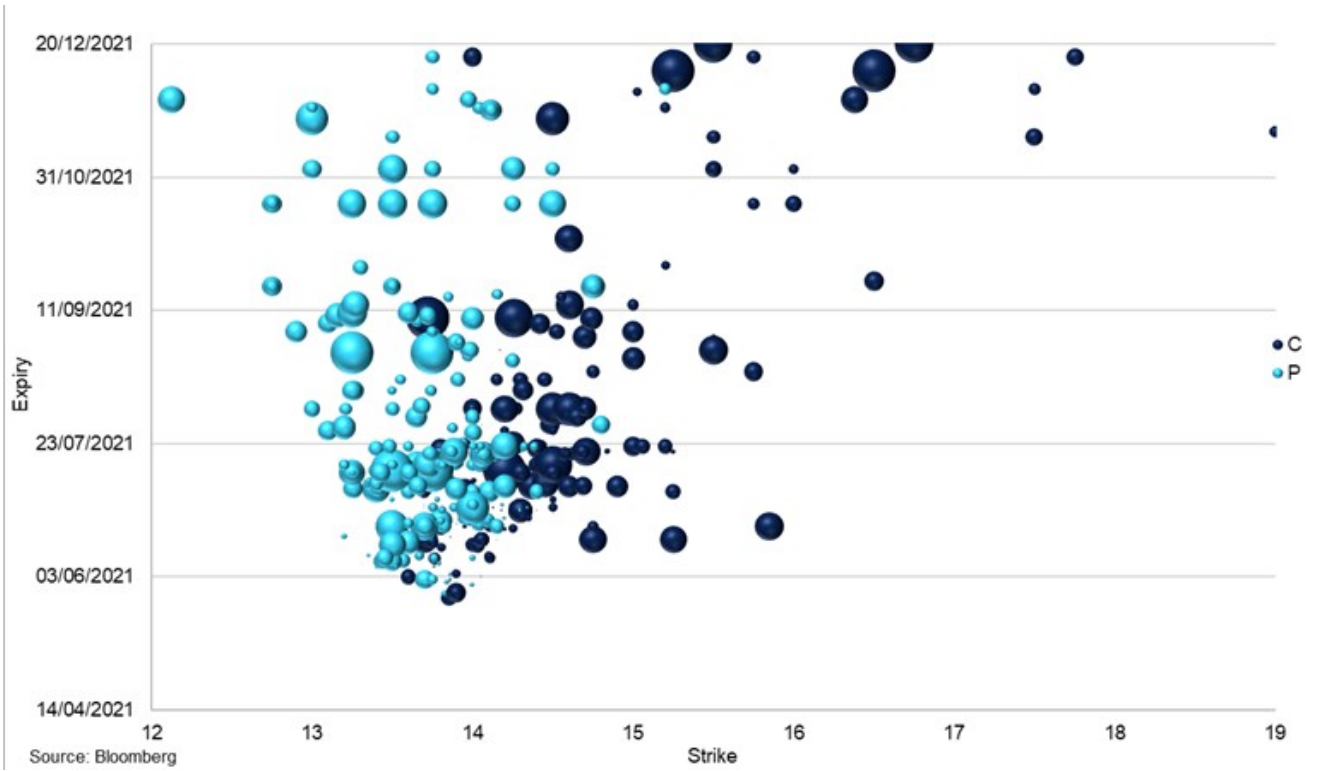
## USDZAR Vanilla Positioning Data 23/04/2021 - 23/05/2021

Chart 2 shows a different outlook to Chart 1, in that the range of options that expire soon have shifted lower. There were also fewer call options traded in the month to June 23rd. The market has drifted lower expecting ZAR strength, which we agree with as EMs have to raise rates quickly to reduce inflationary pressures. The longer-term outlook to October also favours the downside but there is little cover below 13 at this time, we expect more cover below 13 in the coming weeks.





# USDZAR Vanilla Positioning Data 23/05/2021 - 23/06/2021



# Charts and Tables

## FX Expiries

Currency Pair	Friday 25 <sup>th</sup>	Monday 28 <sup>th</sup>	Tuesday 29 <sup>th</sup>	Wednesday 30 <sup>th</sup>	Thursday 1 <sup>st</sup>
GBP/USD					
USD/JPY		500mio @ 108.5 550mio @ 110.5 550mio @ 111.75	800mio @ 109.4 760mio @ 112	500mio @ 109.45 500mio @ 110.2	
EUR/USD	630mio @ 1.18	941.67mio @ 1.2		522.21mio @ 120.64	
EUR/GBP	970mio @ 0.85	710mio @ 0.85			
USD/BRL			300mio @ 4.98	100mio @ 4.9 100mio @ 4.95 1.6bio @ 5 500mio @ 5.05	
AUD/USD	201.34mio @ 0.745 406.66mio @ 0.75 143.6mio @ 0.766 100mio @ 0.77	146.08mio @ 0.753		650mio @ 0.7505	306.67mio @ 0.75 144.66mio @ 0.7604 328.08mio @ 0.762
USD/ZAR			150mio @ 14	550mio @ 14	
USD/INR				400mio @ 73	

Source: Bloomberg DTCC Data 2% from spot levels as of 24/06/2021

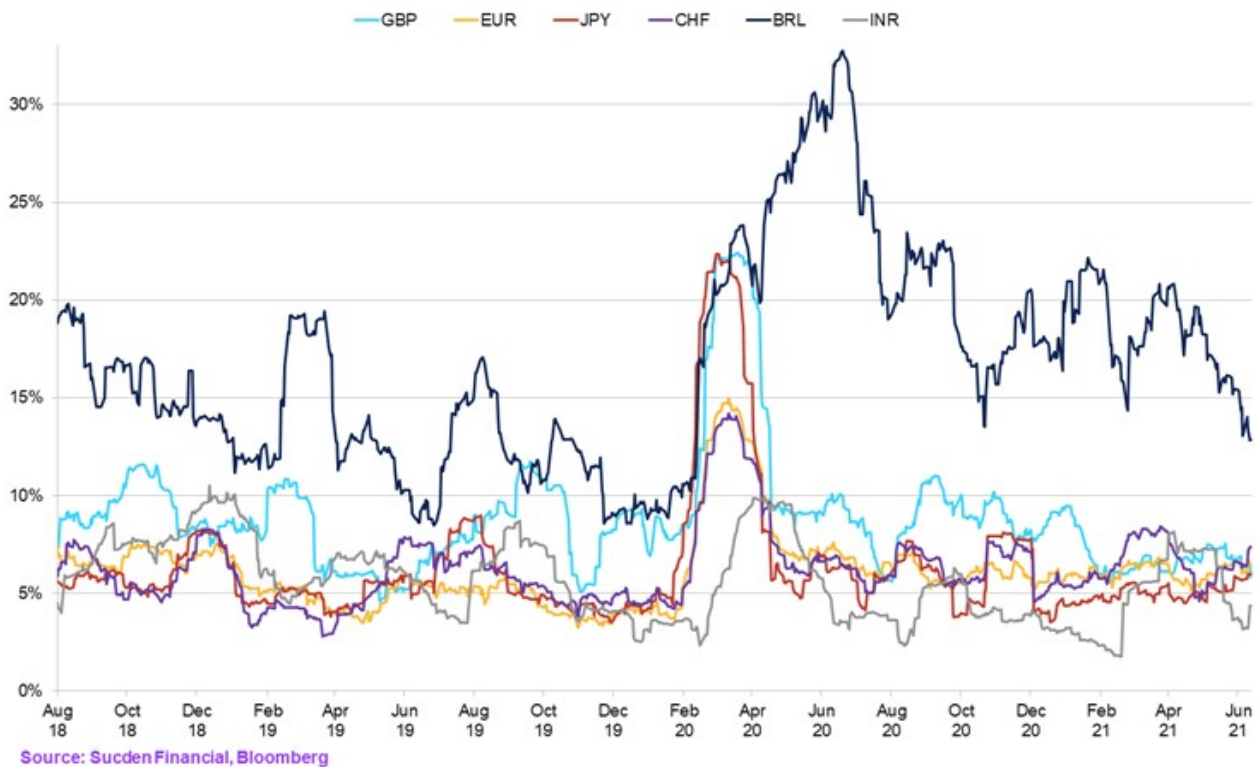
## Volatility Grid

Time	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	-0.03	0.10	5.39	-0.21	0.09	6.20	0.04	0.13	5.36	0.13	0.07	4.79
1M	-0.10	0.09	5.02	-0.37	0.10	5.80	-0.10	0.14	4.98	0.27	0.10	4.64
2M	-0.10	0.12	5.20	-0.52	0.15	6.10	-0.22	0.18	5.31	0.33	0.12	4.86
3M	-0.11	0.15	5.35	-0.60	0.17	6.26	-0.30	0.20	5.48	0.38	0.14	5.00
6M	-0.10	0.20	5.53	-0.71	0.24	6.64	-0.50	0.24	5.82	0.49	0.18	5.35
1Y	-0.39	0.28	6.01	-0.86	0.31	7.01	-0.73	0.29	6.24	0.44	0.26	5.95

Time	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	0.55	0.13	4.38	4.16	0.74	14.91	2.39	0.28	15.74	-0.56	0.14	8.28
1M	0.74	0.18	4.99	5.55	0.98	16.22	2.59	0.33	14.68	-0.72	0.17	8.05
2M	0.88	0.21	5.45	6.23	1.17	17.30	2.77	0.37	15.05	-0.89	0.22	8.36
3M	0.99	0.24	5.66	6.82	1.32	17.92	2.79	0.40	15.04	-0.98	0.25	8.46
6M	1.19	0.29	6.06	7.82	1.65	19.29	2.81	0.45	15.27	-1.18	0.30	8.71
1Y	1.38	0.36	6.42	8.80	2.02	20.77	2.88	0.56	15.62	-1.38	0.35	8.91

Source: Sucden Financial

## Historical Spot FX Volatility (30D Rolling)



## FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3902	1.1945	0.0090	1.0906	0.8126	0.7594	0.7072
GBP	0.7193	-	0.8593	0.6496	0.7845	0.5845	0.5463	0.5087
EUR	0.8372	1.1638	-	0.7562	0.9130	0.6803	0.6357	0.5921
JPY	110.7300	153.9340	132.2700	-	120.7590	89.9730	84.0870	78.3080
CHF	0.9169	1.2747	1.0953	0.8279	-	0.7451	0.6963	0.6485
CAD	1.2307	1.7109	1.4701	0.0111	1.3422	-	0.9346	0.8704
AUD	1.3168	1.8306	1.5730	1.1892	1.4360	1.0700	-	0.9312
NZD	1.4139	1.9657	1.6891	0.0128	1.5420	1.1490	1.0738	-

Source: Bloomberg

## Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.66	0.68	-0.44	0.66	1.28	1.54	1.96
GBP	-0.69	-	0.02	-1.16	-0.06	0.59	0.85	1.35
EUR	-0.68	0.05	-	-1.13	-0.03	0.62	0.84	1.35
JPY	0.47	1.16	1.16	-	1.08	1.76	2.00	2.46
CHF	-0.51	0.09	0.06	-0.99	-	0.84	1.03	1.34
CAD	-1.26	-0.58	-0.59	-1.73	-0.67	-	0.26	0.73
AUD	-1.52	-0.84	-0.85	-1.96	-0.86	-0.24	-	0.45
NZD	-2.00	-1.27	-1.30	-2.44	-1.30	-0.69	-0.44	-

Source: Bloomberg

## Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
JPY	24/6	23:30	Tokyo CPI YoY	Jun	-0.6%	-0.4%
US	25/6	12:30	Personal Income MoM	May	-2.5%	-13.1%
US	25/6	12:30	Personal Spending	May	0.3%	0.5%
US	25/6	12:30	Core PCE – Price Index YoY	May	3.4%	3.1%
US	25/6	14:00	Michigan Consumer Sentiment Index	Jun	86.5	86.4
US	28/6	14:30	Dallas Fed Mfg Business Index	Jun		34.9
JPY	28/6	23:30	Unemployment Rate	May	2.7%	2.8%
JPY	28/6	23:50	Retail Trade YoY	Apr	15.3%	11.9%
EU	29/6	09:00	Consumer Confidence	Jun	-5.1	-3.3
US	29/6	14:00	Consumer Confidence	Jun		
JPY	29/6	23:50	Industrial Production YoY	May		15.8%
CNY	30/6	01:00	NBS Mfg PMI	Jun		51.0
JPY	30/6	05:00	Consumer Confidence Index	Jun		34.1
UK	30/6	06:00	GDP YoY	Q1		-6.1%
ZAR	30/6	12:00	Trade Balance	May	31bn	51.25bn

Source: FXStreet

# Technical Charts

## JP Morgan Global FX Volatility Index



The index has been falling in the recent sessions, prompting a breach of support at 50 and 100 MA. The market has been supported below the 100 DMA and struggled above this level. The stochastics are oversold and MACD diff is negative and diverging suggests that we could see the index break back through the 6.60, with a downside target of 6.40 in the near term. On the upside, if resistance around the moving averages does not hold firm, this could trigger gains back through trend resistance and target 6.80. The most recent weakness and indicators suggest we could see the index decline in the near term.

## Dollar Index



The index has been range-bound in recent sessions, trading in the 91.5-92.0 range. Indeed, the market has struggled to break above the 91.90 and so candle bodies shortened, pointing to a lack of appetite out of the current resistance/support. The stochastics converged on the downside, and the MACD is negative, suggesting that we could see the index break back below the 50 moving average at 91.59, with a downside target of 91.50 in the near term. On the upside, if support around 91.7 holds firm, this could trigger gains back through the resistance of 92.00 and target 92.13. The indicators suggest we could see the pair edge lower in the near term.

# USDZAR



The pair has weakened after rejecting 14.40, with selling pressure prompting a test of support at 50 MA at 14.13. The stochastics send a sell signal, with %K/%D diverging on the downside in the oversold and MACD diff is negative and diverging, suggesting a deteriorating outlook. A breakthrough 50 MA to 14.00 would confirm further bearish momentum. On the upside, a break back above 14.20 could confirm the change of trend. Indicators point to a continuation in negative momentum, and rejection of prices above 14.20 would point to further weakness in the pair in the near term.

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