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FX Options Weekly Report

Macro and Vol Commentary

The Ruble has weakened this year as inflation has prompted the central bank to hike rates. Will this continue?

Economic Data

- Russia's manufacturing PMI stood at 49.8 in September. The reading remains contractionary and is the fourth month below 50.
 - _ The month-on-month rise in September reading resulted from the increase in output and consumer demand as new orders grew.
 - _ Backlogs are starting to decline, and input prices eased; however, output prices increased again but at a slow pace.
 - _ The sentiment is upbeat for the next 12 months as firms indicate consumer demand may improve, despite the inflationary and elevated employment environment.
- The unemployment rate stood at 4.4% as of August 2021, labour productivity and utilisation growth rate were at 3.14%. Real wages are growing, which should boost consumption, but the growth rate has slowed drastically.
 - _ Real wages stood at 2.2% y/y in July, down from 4.9% the month prior.
- CPI, where the battleground is, continues to climb. Month-on-month inflation reached 0.6% in September, with the year-on-year figure at 7.4%, and core inflation is higher at 7.6% y/y for the same period.
 - _ Indeed, the weekly CPI YTD stands at 5.48%.
 - _ The Ruble has appreciated this year, but still, inflation rises. Food prices are key to higher inflation in Russia, gaining 9.2% y/y in September.
 - _ Local prices for meat, dairy, selected fruit and vegetables but non-food CPI were higher prices on cars due to a production cut and construction materials.
- PPI is still high but has fallen marginally. PPI for August was 28.5% y/y and 1.5% y/y. The higher costs are freight, chips, agricultural products, labour, and construction materials.
 - _ We do not expect much change in PPI in the near term, with cargo shipments growth up 5.9% y/y, down from 9.1% the prior month.
 - _ Employment costs will remain high as reduced migrations create worker shortages.

- The government distributed RUB700bn in social support payments for school children, pensioners, and military personnel, representing around 40% of Russia's population.
 - — This would have improved consumer spending and inflationary pressure.
 - — The stabilisation of PPI is a positive for CPI; however, the external forces at play leave it vulnerable to higher CPI in the coming months.
- GDP was well supported by consumption. This is expected to remain the case for Q3 2021, which we hope to be at 4.4%, and 3.1% for Q4. This means that GDP could reach 4.2% for the full year.
 - — Consumption in Q2 2021 was 13.2% y/y, with an investment growth was 12.8% y/y.
- There is little growth in the construction sector or the industrial sector outside oil and gas. OPEC+ easing restriction and gas output will boost growth projections in the near term.
- Russia's trade balance remains in surplus, reaching \$16.4bn with exports at \$46.5bn. The YTD trade balance is at \$1,443.7bn, and we expect this to rise as Russia exports more gas to Europe in the coming months helping with the crisis.

Central Bank

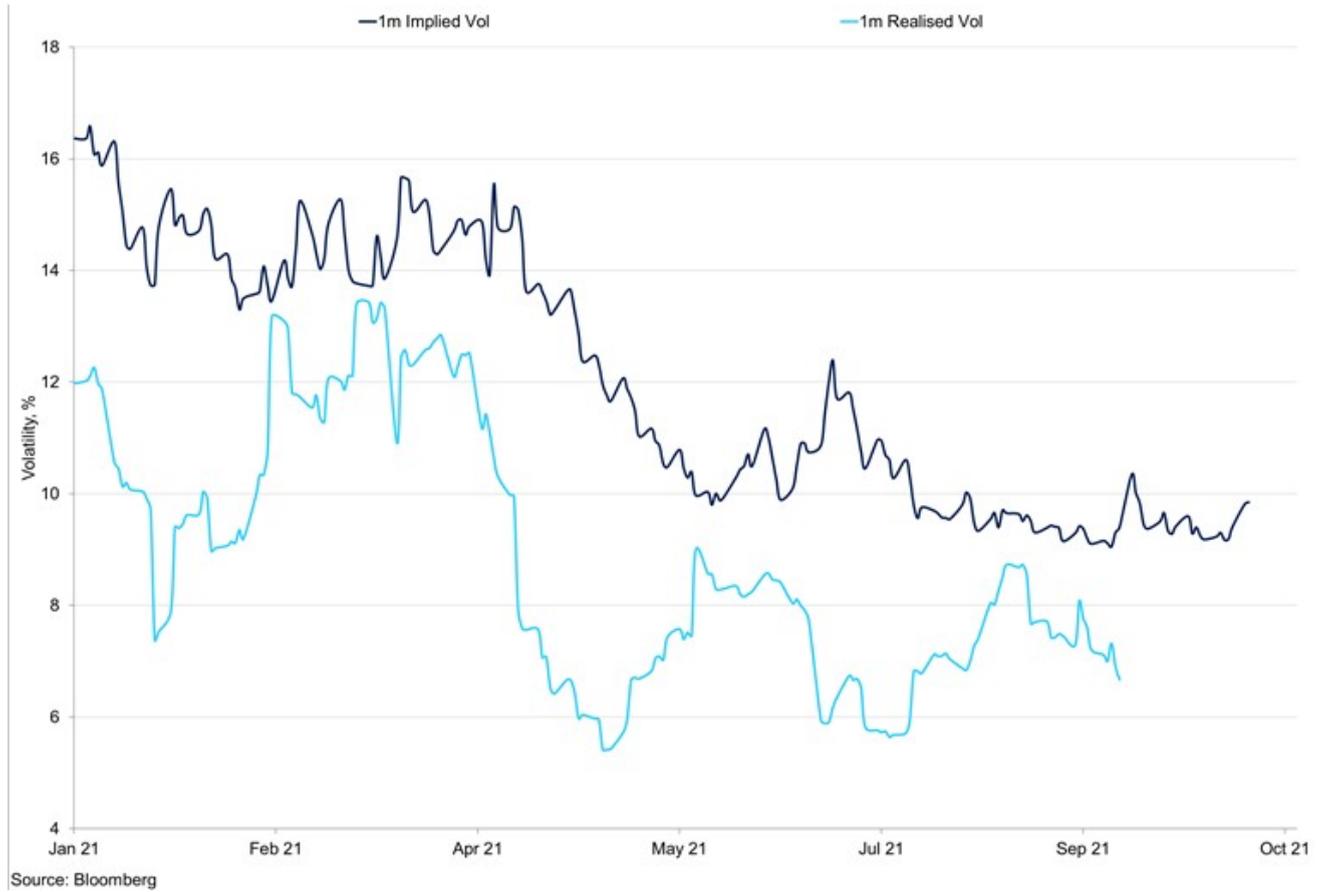
- The CB accepted 1.12t Rubles at 6.75% for 1day action. On the 7-day auction, the bank accepted 862.9bn Ruble deposits.
- The CB also bought 6.7bn Rubles of FX to settle on Oct 11th. The Finance Ministry indicated FX purchases would decline in October to RUB318bn.
- The bank's weekly reserves stand at \$614.12bn, excluding gold reserves are \$485.46bn.
- We expect the CBR to increase rates in the coming months, and we expect them to reach 7% by the end of 2022.
- Revenues from gas exports go into the sovereign fund, and this could mean higher fund availability in 2022.
- We could see local investments decline as the government increase the required threshold for liquid FX savings to 10% of GDP.

The higher rate environment keeps the Ruble supported, and the higher oil and gas revenues in the near term will support the economy's balance sheet and fundamentals. However, evidence suggests that these funds will not find their way back into the economy. Inflation remains a problem, and consumption has been strong, but this will weaken following the social support payments and declining real wage growth. The dollar is holding firm, and next year's growth in Russia will be slower, which could prompt the Ruble to weaken as the Fed look to tighten monetary policy. We expect further strength from the Ruble in the near term, bucking the EM trend, but the spot needs to break 71.55 to gather steam. We favour selling USDRUB rallies and owning Ruble at this time but would look to switch this position in 2022.

Volatility Commentary

Over the last year, we have seen USDRUB consistently realising lower than implied vols, with RUB recently benefiting from the recently elevated prices in energy/oil/NatGas. As mentioned above we favour owning RUB (i.e. USDRUB down positions). In the short term, we see the potential for the trend of volatility realising lower than implied to continue and, as above suggests, a trade below that will benefit from the USDRUB spot heading lower in the short term (especially if the energy crisis deepens and energy prices head higher).

USDRUB 1-month Realised and Implied Volatility



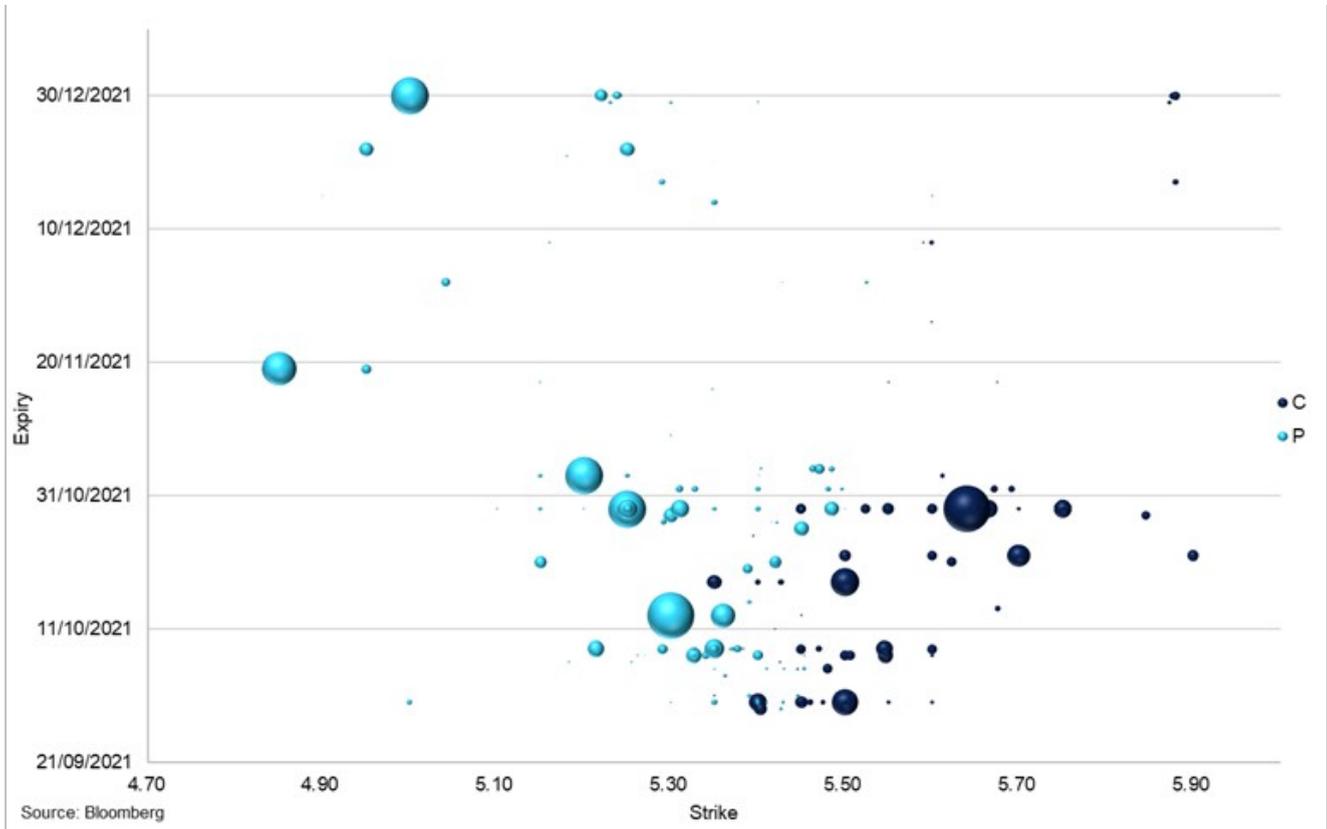
USDRUB Trade Idea

- Sell call with 10m USD Notional 72.0 strike and buy call with 5m USD Notional 73.0 strike for circa receive 100k USD
- Buy EKI put with 7.5m USD Notional with strike 70.5 and barrier 69.5 for circa 53k USD cost
- Total structure premium receive circa 47k USD

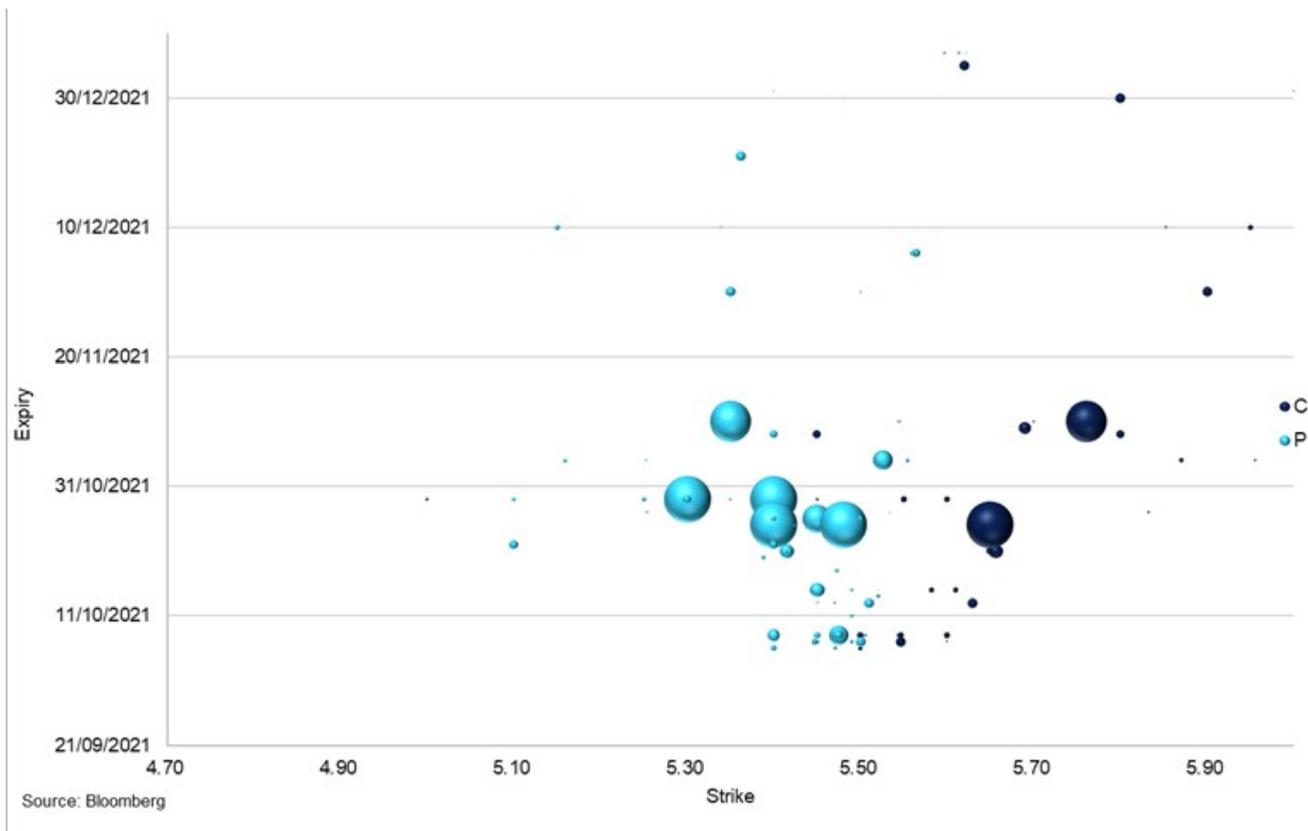
Positioning Charts

USDBRL NDO Positioning Data 28/09/2021 - 05/10/2021

The options market was quieter in the week to October 5th with the range marginally narrower at 5.30-5.70. There are more put options executed than calls and the notional values were also larger. We expect the trend to remain intact in the near term but the options market lacks conviction.

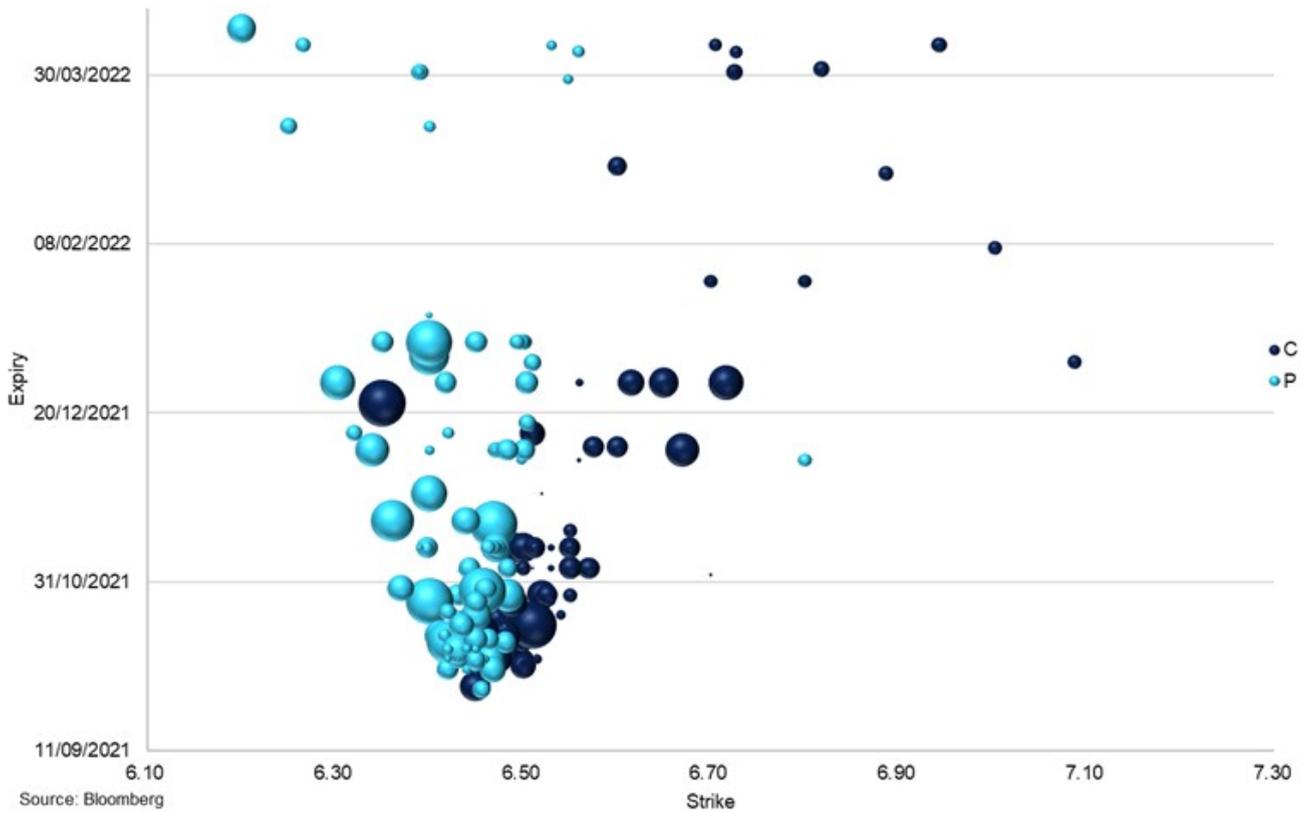


USDBRL NDO Positioning Data 05/10/2021 - 12/10/2021

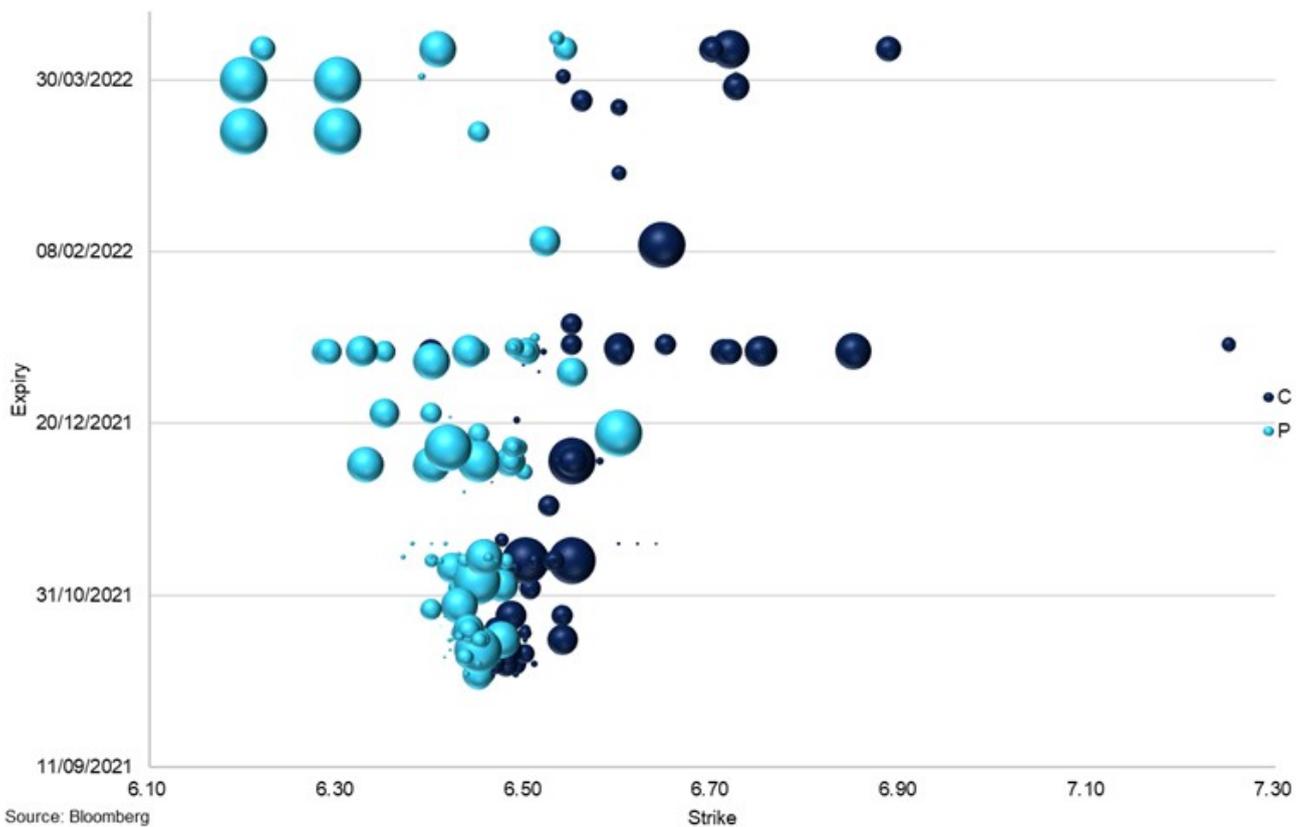


USDCNY Vanilla Positioning Data 28/09/2021 - 05/10/2021

The trading range for near dated options for USDCNY trade a narrower range than the previous week, however options due to expire after December 20th have a wide range. The majority of options executed are puts and there is a marginal increase in the downside range to 6.30 out to the end of December 2021. There are little options traded above 6.55 in the near term and this could mean the market covers quickly if the dollar rallies significantly.



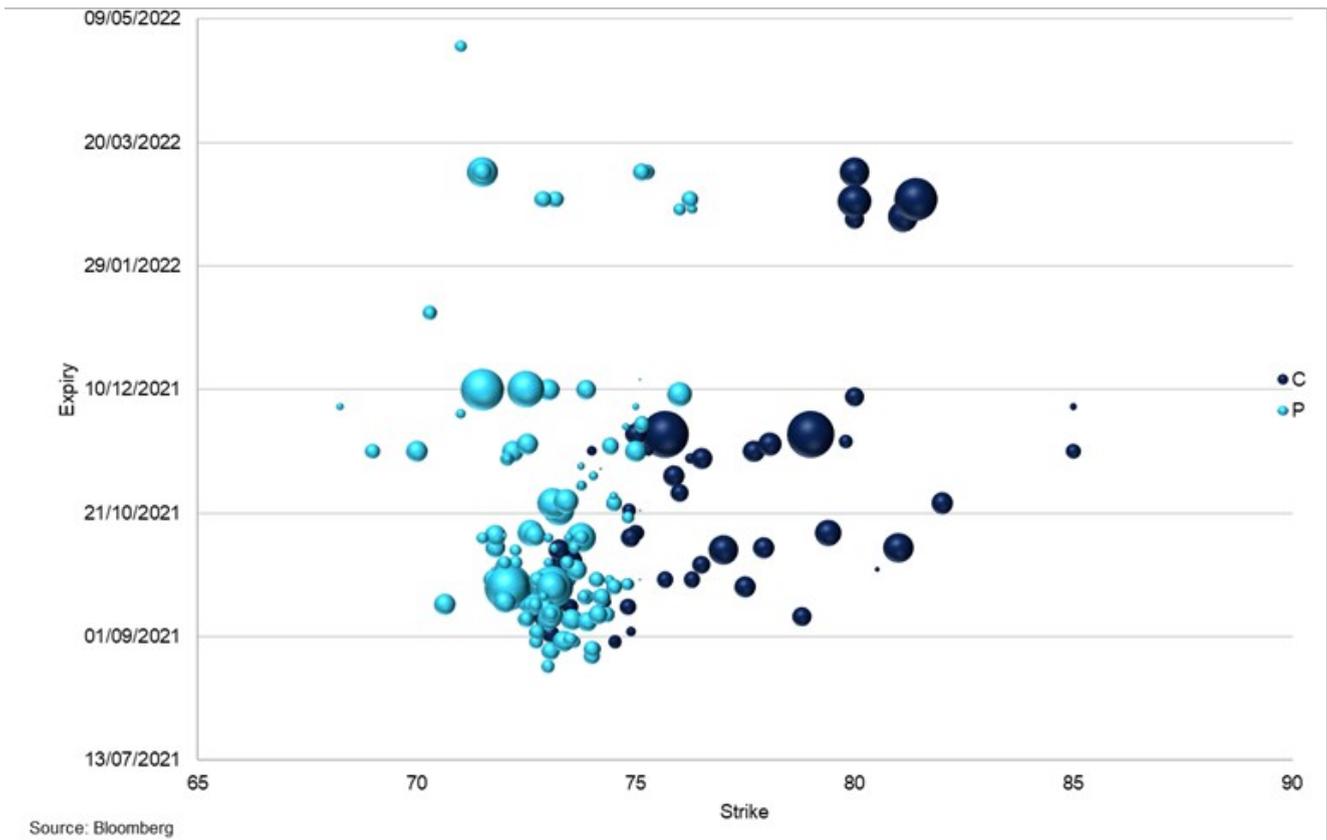
USDCNY Vanilla Positioning Data 05/10/2021 - 12/10/2021



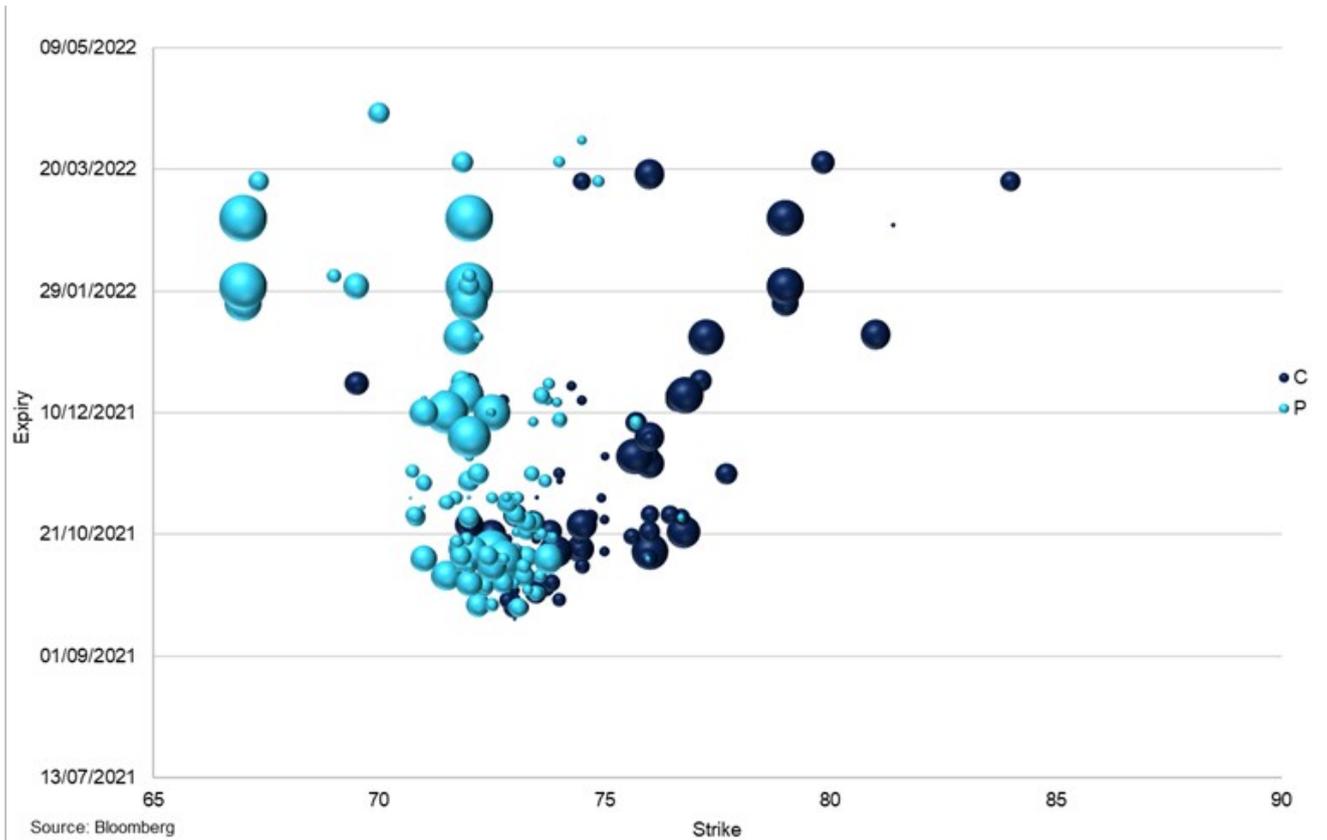
USDRUB Vanilla Positioning Data 12/08/2021 - 12/09/2021

Call options traded in the near term for USDRUB show a limited upside. The range is more clustered than the previous month. The range in the near term is very tight but there is The market is positioned for more downside

in USDRUB but there is no downside through 70 in the near term, we expect this level of support to be robust but the currency trend lower in the near term due to rate hikes and higher gas prices.



USDRUB Vanilla Positioning Data 12/09/2021 - 12/10/2021



Charts and Tables

FX Expiries

Currency Pair	Wednesday 20 th	Thursay 21 st	Friday 22 nd	Monday 25 th	Tuesday 26 th
GBP/USD					
USD/JPY					620mio @ 114.5
EUR/USD	929.55mio @ 1.1775				
EUR/GBP		608.2mio @ 0.855			
USD/BRL	100mio @ 5.5	100mio @ 5.45 250mio @ 5.55	160mio @ 5.425 100mio @ 5.475	350mio @ 5.48	150mio @ 5.45 300mio @ 5.48
AUD/USD	302.82mio @ 0.7265 405.48mio @ 0.73 100.68mio @ 0.735	249.14mio @ 0.7305 113.79mio @ 0.747 100.33mio @ 0.7475		100mio @ 0.74	114.82mio @ 0.749
USD/ZAR	200mio @ 14.95	100mio @ 14.5		200mio @ 14.6	
USD/INR	100mio @ 74.53 100mio @ 75.59	440mio @ 73.93 270mio @ 75.44	100mio @ 75	200mio @ 76.25	

Source: Bloomberg DTCC Data 2% from spot levels as of 18/10/2021

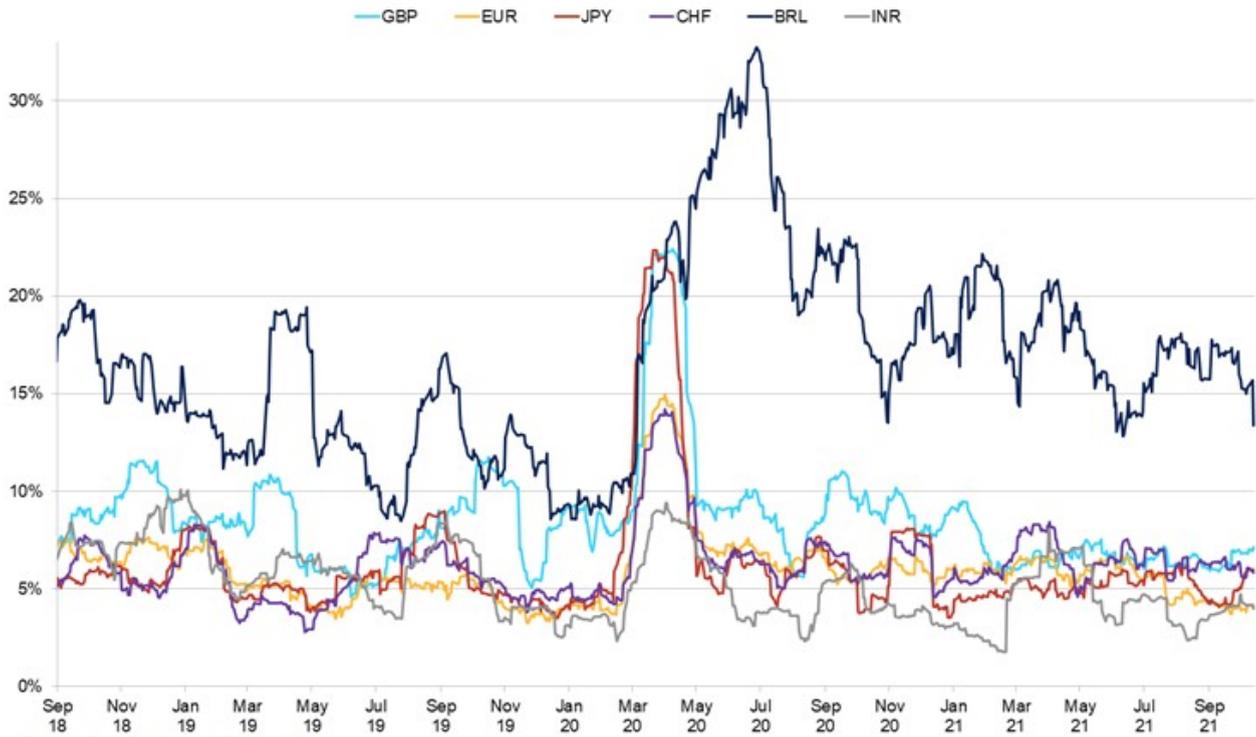
Volatility Grid

Time	EURUSD			GBPUSD			USDJPY			EURGBP		
	25d RR	25d BF	ATM									
1W	0.03	0.08	4.69	-0.32	0.11	6.61	0.10	0.13	6.13	0.39	0.07	5.05
1M	-0.14	0.10	5.18	-0.62	0.14	7.22	0.09	0.17	6.55	0.48	0.08	5.38
2M	-0.20	0.12	5.40	-0.77	0.16	7.43	0.02	0.20	6.65	0.54	0.10	5.51
3M	-0.23	0.14	5.26	-0.85	0.19	7.34	-0.04	0.22	6.48	0.54	0.13	5.43
6M	-0.44	0.20	5.55	-1.02	0.26	7.64	-0.19	0.27	6.60	0.46	0.17	5.81
1Y	-0.48	0.25	5.72	-1.23	0.33	8.03	-0.37	0.32	6.75	0.53	0.23	6.08

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	0.36	0.15	4.72	2.90	0.81	17.41	1.02	0.23	15.82	-0.46	0.12	7.96
1M	0.55	0.20	5.03	4.82	1.01	17.82	1.45	0.29	15.78	-0.70	0.17	8.62
2M	0.67	0.23	5.28	5.78	1.18	18.38	1.75	0.33	16.32	-0.89	0.21	8.81
3M	0.75	0.24	5.32	6.30	1.31	18.36	1.97	0.36	16.42	-0.99	0.23	8.63
6M	0.94	0.29	5.76	7.56	1.62	19.64	2.41	0.44	16.90	-1.31	0.30	8.93
1Y	1.09	0.35	6.21	8.70	2.01	21.31	2.95	0.57	18.20	-1.61	0.37	9.30

Source: Sucden Financial

Historical Spot FX Volatility (30D Rolling)



Source: Sucden Financial, Bloomberg

FX Matrix (today)

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	1.3763	1.1630	0.0087	1.0832	0.8096	0.7488	0.7167
GBP	0.7267	-	0.8451	0.6349	0.7870	0.5883	0.5441	0.5207
EUR	0.8599	1.1833	-	0.7513	0.9315	0.6962	0.6438	0.6162
JPY	114.4400	157.5030	133.1000	-	123.9700	92.6560	85.6910	82.0180
CHF	0.9232	1.2705	1.0736	0.8062	-	0.7474	0.6912	0.6616
CAD	1.2351	1.6999	1.4365	0.0108	1.3380	-	0.9248	0.8852
AUD	1.3356	1.8381	1.5532	1.1670	1.4468	1.0813	-	0.9571
NZD	1.3954	1.9204	1.6228	0.0122	1.5115	1.1298	1.0448	-

Source: Bloomberg

Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	0.76	0.32	-1.04	0.07	0.73	1.48	2.91
GBP	-0.72	-	-0.43	-1.78	-0.66	0.00	0.74	2.14
EUR	-0.28	0.44	-	-1.33	-0.20	0.45	1.15	2.60
JPY	1.05	1.81	1.37	-	1.17	1.80	2.54	3.99
CHF	-0.12	0.66	0.21	-1.10	-	0.58	1.33	2.80
CAD	-0.74	0.03	-0.42	-1.76	-0.65	-	0.74	2.13
AUD	-1.45	-0.72	-1.15	-2.49	-1.37	-0.74	-	1.39
NZD	-2.77	-2.11	-2.52	-3.86	-2.72	-2.09	-1.39	-

Source: Bloomberg

Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
EU	20/10	10:00	CPI YoY	Sep	3.4%	3.4%
US	20/10	12:00	MBA Mortgage Applications	Oct 15		0.2%
RUB	20/10	17:00	PPI YoY	Sep		28.6%
US	20/10	19:00	Fed's Beige Book			
US	21/10	13:30	Continuing Jobless Claims	Oct 8	2.55m	2.593m
US	21/10	13:30	Phil Fed Mfg Survey	Oct	25.0	30.7
RUB	21/10	14:00	Central Bank Reserves \$			\$615.4bio
US	21/10	15:00	Existing Home Sales MoM	Sep	60.9m	5.88m
EU	21/10	15:00	Consumer Confidence	Oct	-5.0	-4.0
UK	22/10	00:01	GfK Consumer Confidence	Oct	-16	-13
JPY	22/10	00:30	National CPI YoY	Sep	-0.8%	-0.4%
JPY	22/10	01:30	Jibun Bank Mfg PMI	Oct	51.4	51.5
UK	22/10	07:00	Retail Sales YoY	Sep	-0.4%	0.0%
EU	22/10	09:00	Markit Mfg PMI	Oct	57.0	58.6
UK	22/10	09:30	Markit Mfg PMI	Oct	55.8	57.1
RUB	22/10	11:30	Interest Rate Decision		7.25%	6.75%
US	22/10	14:45	Markit Mfg PMI	Oct	60.3	60.7
US	25/10	15:30	Dallas Fed Mfg Business Index	Oct		4.6
US	26/10	15:00	Consumer Confidence	Oct		
US	27/10	13:30	GDP Annualised	Q3		6.7%
RUB	27/10	14:00	Industrial Output	Sep	4.6%	4.7%

Source: FXStreet

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