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# FX Options Weekly Report

## Macro and Vol Commentary

EURSEK has weakened in the last six weeks as the Swedish economy performs well and the ECB remains dovish. Will this continue?

### Swedish Data

- Household consumption in Sweden softened marginally to 4.4% Y/Y in September; this was down from a revised 4.8% Y/Y. Household consumption improved by 0.1% M/M, up from a revised -0.4% M/M on a month-on-month basis.
- Consumer confidence declined marginally in October to 103.1, down from 106.6 in September. The decline in confidence can be attributed to higher prices.
- Household lending has increased as well up 6.5%.
- Household debt is rising faster than income and GDP, making households sensitive to cyclical downswings.
- Retail sales are still expansionary at 4.8% Y/Y in September, but the month on month figure was weaker at -0.3% M/M.
- CPIF was above the 2% target in September at 2.8%, and this is attributed to the rise in energy prices, commodities, aided by the logistic problems and supply limitations.
- We expect inflation to remain above target in the near term as price pressure prevail.
- PPI is also high at 17.2% for September, up from 15.8% Y/Y.
- Unemployment has started to fall and stands at 8.2% in September, with the rate trend at 8.8%. Public employment service stands at 3.7%
- We expect the labour market to continue to improve, helping the economy grow in the longer run. There are still fewer employed than before the crisis in the most impacted industries.
- Wages for non-manual workers have increased in recent months, reaching 3.3% Y/Y in August.
- GDP stood at 3.3% Y/Y in September, the month on month figure was 1.6% in September. This was significantly higher than the previous week at -4%.
- We expect growth to start to normalise, but the risk is still evident.

- The manufacturing PMI is expansionary at 64.4 in October, and this is below the level of 68.8 in April. The raw materials and input costs reached record levels, and we expect these costs to remain high in the near term.
- Private-sector production is strong at 6% Y/Y, up from 4.1% in August. Industrial production value has also increased to 7% Y/Y, industrial orders have reached 0.9% Y/Y in September, but the month on month data shows weakness at -2%. This could be as a result of the inflated prices, but the level of decline is slowing.

Source: Bloomberg

## Riksbank

- Expansionary policy is synonymous with monetary policy is a prerequisite for inflation, but when you factor in the strong demand conditions and supply chain bottlenecks, we expect inflation to remain strong.
- However, Riksbank has indicated that they expect the repo rate to remain at 0% for the forecast period of 2024.
- The Riksbank will also continue to purchase securities in 2021, which will continue in 2022 at the same level.
- Asset purchases and monetary policy operations represent the majority of the bank's assets at 99.7bn SEK as of August 31st, FX reserves stand at 398.3bn SEK, and gold reserves are also high at 63.1bn SEK.
- This allows the bank to offer emergency liquidity and when lending money to the IMF.
- The liabilities have arisen when SEK bank deposits their liquid assets at Riksbank, which has risen significantly since 2015. The bank will repay the Swedish National Debt Office loans over the coming three years and obtain dollars and euros. Borrowing, FX reserves will decline, but monetary policy debt will increase.

Source: Riksbank

Inflation in both Europe and Sweden will rise and is currently overshooting both central bank targets; the market expects the ECB to increase rates next year; however, they are indicating that if QE is not stopped before rates rise, this will benefit high-income citizens. There are pressures within the bloc to normalise the record expansion as inflation continues to be a risk. The bloc imports the vast majority of its resources and are therefore vulnerable to higher product prices. Inflation is likely to hit the taper target for the ECB, and we expect central banks to focus on managing inflation as opposed to growth next year. Economic data in Swedish is strong. This has benefited the currency against the Euro. We hold a favourable view on the SEK basis the fundamentals; however, continue to watch inflation; as a result, we favour owning SEK at this time as we expect the Euro to be weak. We favour selling EURSEK above 10.

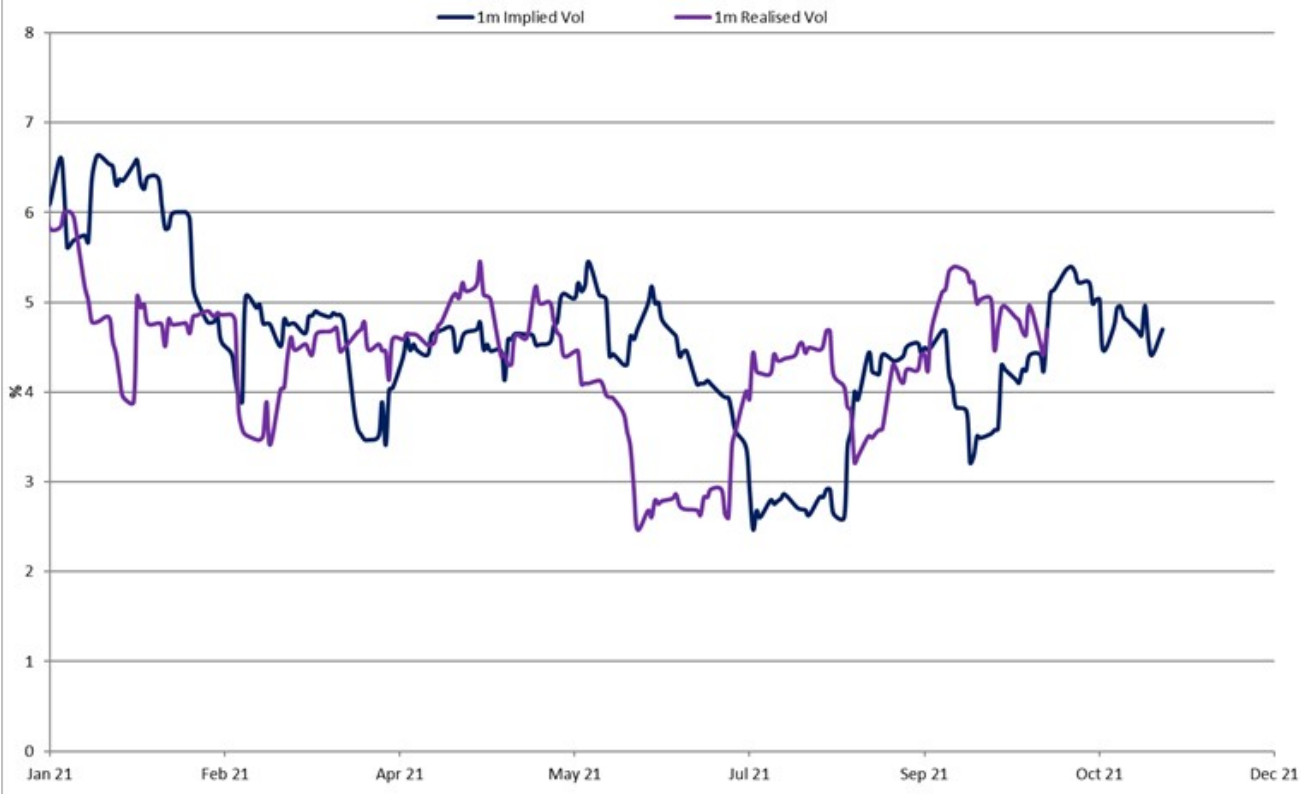
## Volatility Commentary

SEK has been strengthening significantly against EUR over the last two months, partially giving up some gains in the last two weeks due to inflation fears and prospects of a monetary policy mistake as both Central Banks appear to hold a dovish tone. That said, economic data remain more supportive on the SEK front, potentially offering scope for a rally against EUR in the near term. Additionally, 1-month volatility has been realising higher than implied over the last three months, suggesting the market is still seeing the potential for substantial movements over the next month. All in all, we favour selling EURSEK in order to gain from potential SEK strength in the near term.

## EURSEK Trade Idea (1-month expiry)

- Buy Window Knock-In EUR Put / SEK Call in 10mio EUR, strike 9.95, barrier 9.9, window barriers 16/11/2021 – 15/12/2021
- Sell EUR Call / SEK Put in 12.5mio EUR, strike 10
- Total structure premium receive circa 35K EUR

# EURSEK Realised vs Implied Volatility

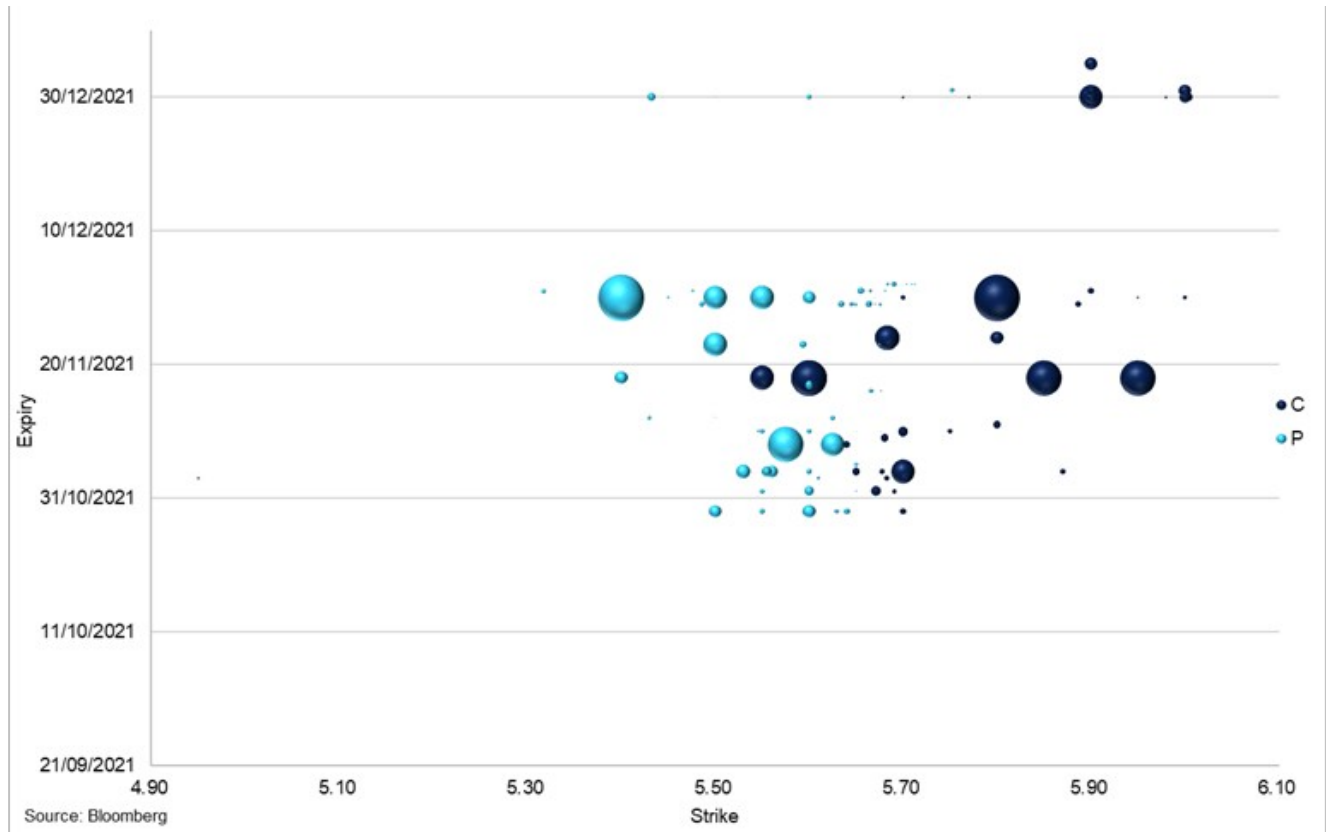


Source: Bloomberg

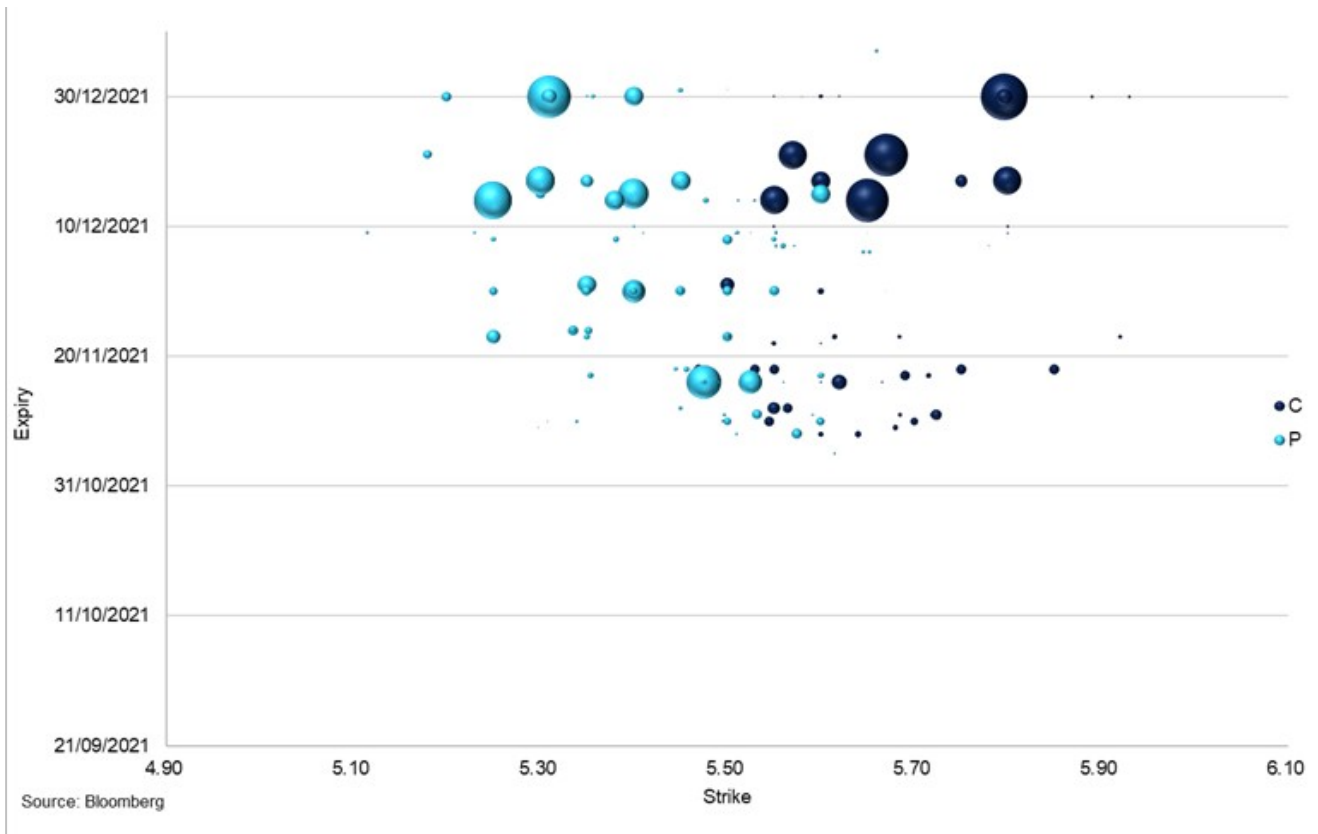
# Positioning Charts

## USDBRL NDO Positioning Data 28/10/2021 - 04/11/2021

Positioning data for USDBRL in the second chart shows more downside pressure, with expiries edging down to 5.20 from 5.35 in the week ending November 4th. The put positions got marginally stronger and expiries increased closer to the end of the year. There is a cluster of options due to expire in the coming days but exceeding that are the options that are due to expire in December. Last week's trading seems to be more sparse relative to the week prior, and a downward shift suggests a weakening appetite for higher prices in the medium term.

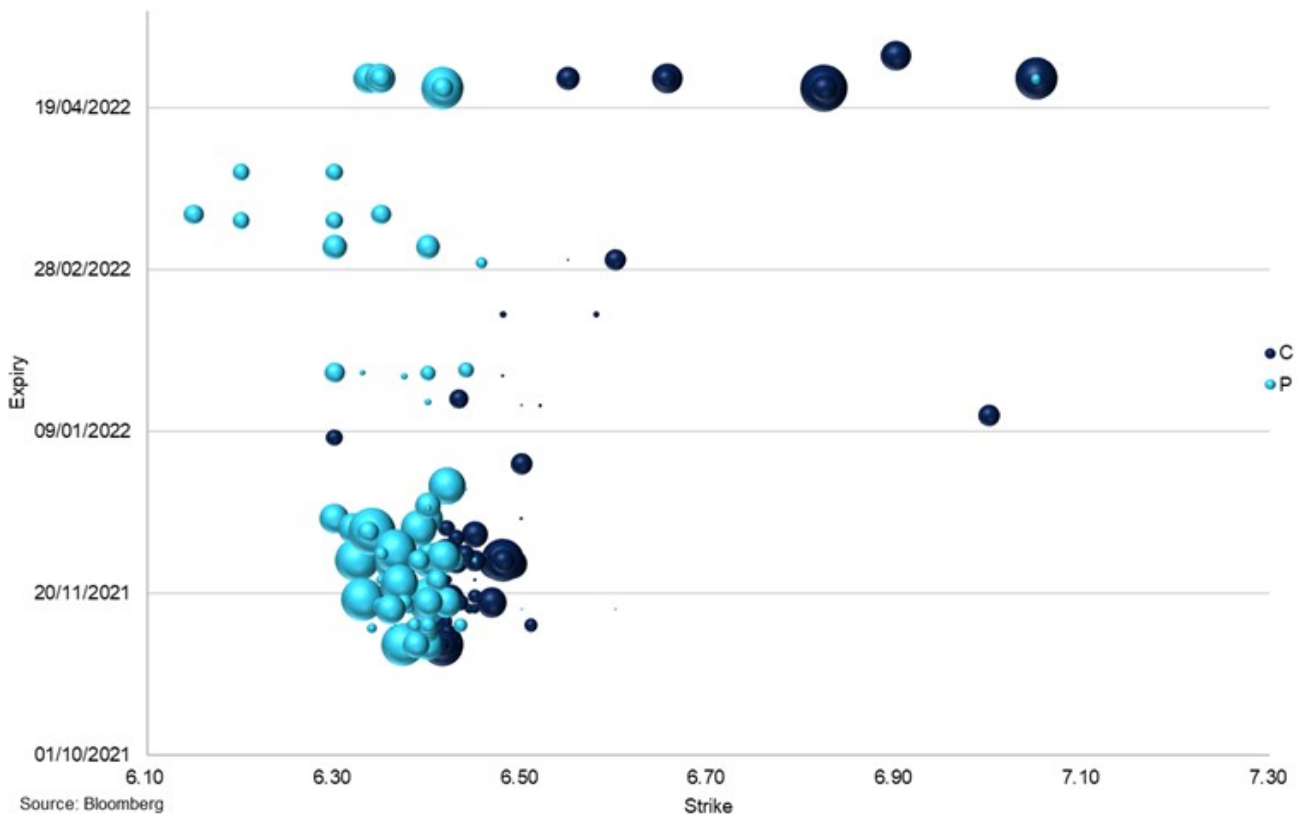


## USDBRL NDO Positioning Data 04/11/2021 - 11/11/2021

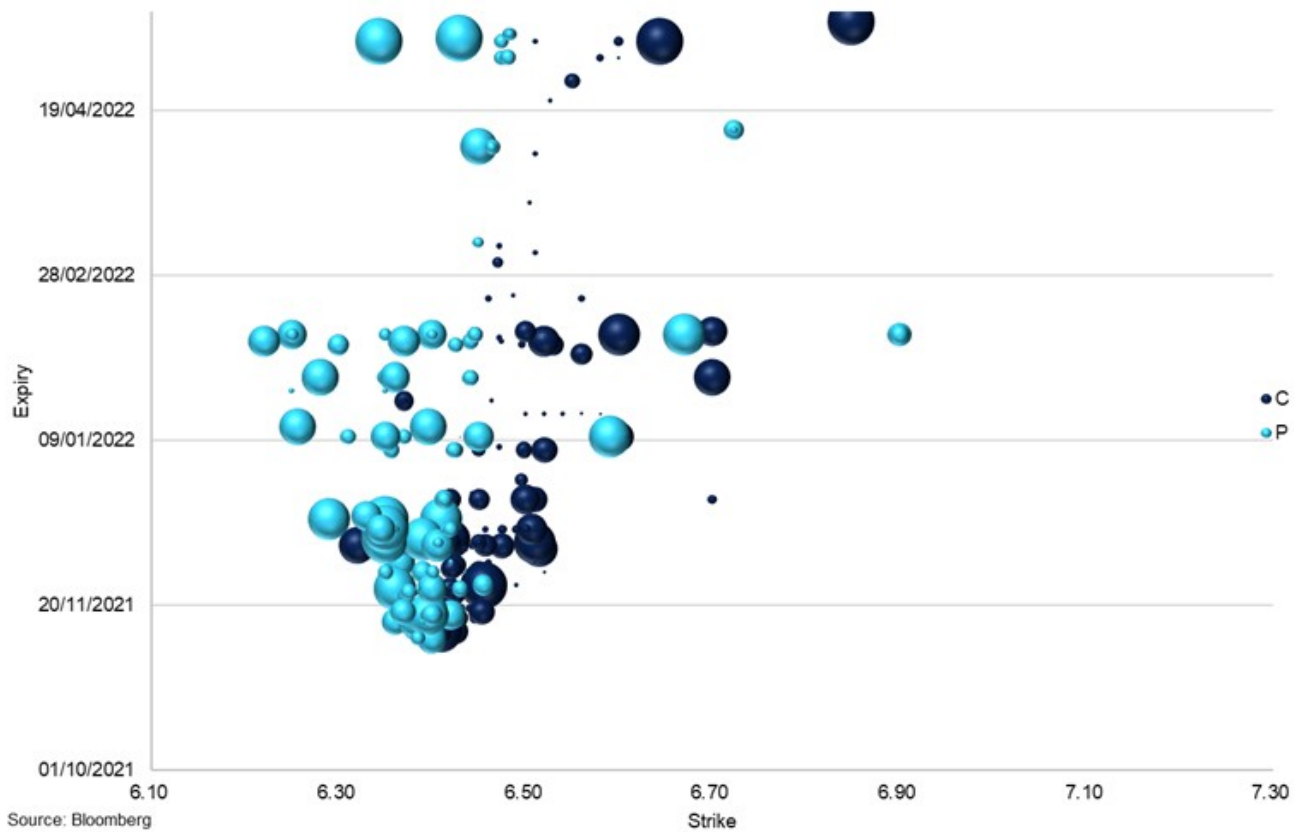


### USDCNY Vanilla Positioning Data 29/10/2021 - 04/11/2021

The options remained concentrated around the 6.30-6.40 range, but the volume of call options to expire in the next week increased. Regardless, there were more puts than calls. As options with expiry move further into the year-end, the range gets wider and we see some large call positions expiring in April 2022. In the near term, expect the spot market to weaken, with the downside support at around the 6.15-6.20 range.



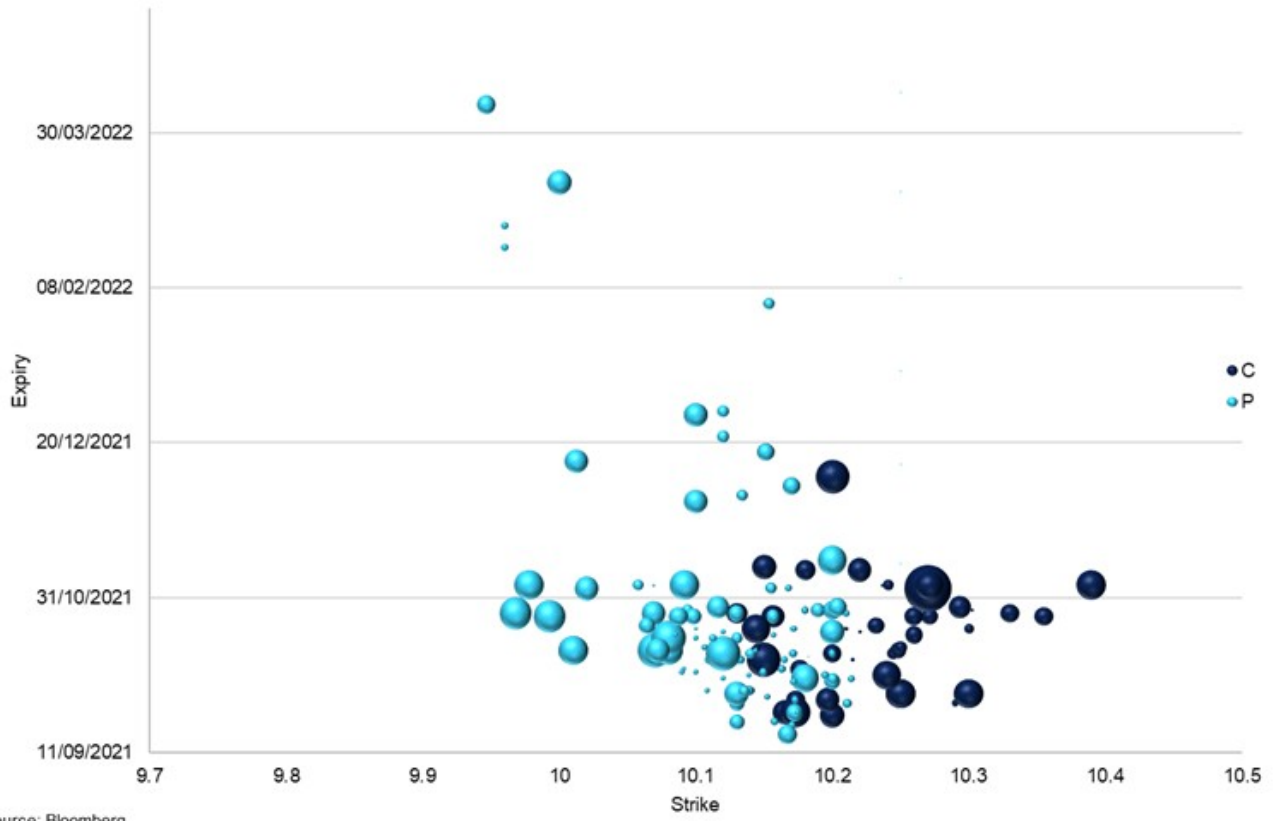
## USDCNY Vanilla Positioning Data 04/11/2021 - 11/11/2021



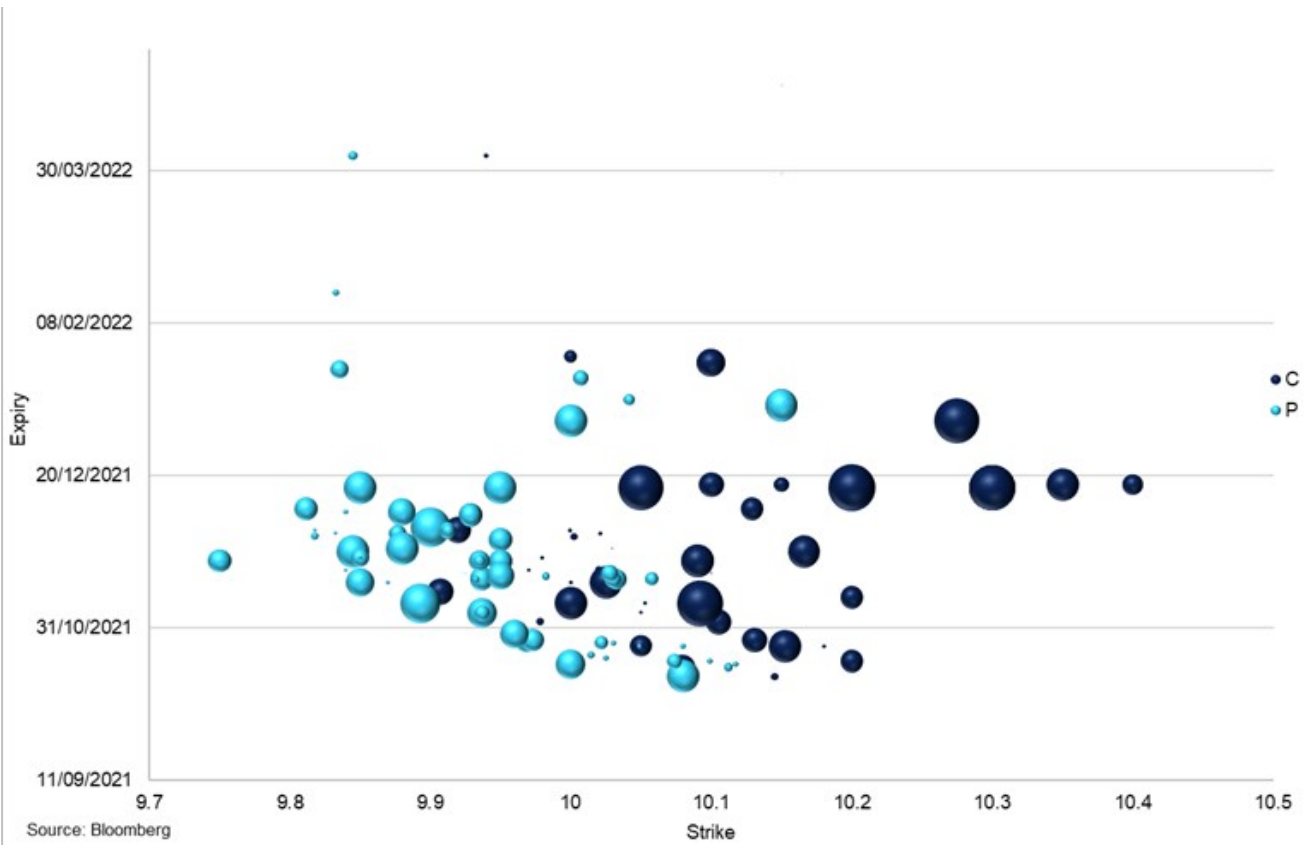
## EURSEK Vanilla Positioning Data 11/09/2021 - 11/10/2021

The options market gained more appetite in the week ending November 11, with the range expanding from 9.9-10.4 to 9.7-10.4. The number of calls to expire in December increased substantially with the biggest contract notional at around 10.5, 10.2 and 10.3 levels. There are little to no expires past February next year. Spot weakened yesterday which could explain the downward shift of option expiries.





EURSEK Vanilla Positioning Data 11/10/2021 - 11/11/2021



# Charts and Tables

## FX Expiries

Currency Pair	Friday 12 <sup>th</sup>	Monday 15 <sup>th</sup>	Tuesday 16 <sup>th</sup>	Wednesday 17 <sup>th</sup>	Thursday 18 <sup>th</sup>
GBP/USD					
USD/JPY	880mio @ 114		1bio @ 114.3		500mio @ 113.9
EUR/USD	649.39mio @ 1.146	552.52mio @ 1.1375 518.12mio @ 1.158		615.9mio @ 1.15 501.3mio @ 1.157	
EUR/GBP					800mio @ 0.84
USD/BRL			360mio @ 5.475 240mio @ 5.525		100mio @ 5.45 200mio @ 5.55 450mio @ 5.6
AUD/USD	121.95mio @ 0.7298 371.78mio @ 0.737 100.34mio @ 0.7375 357.48mio @ 0.7385 100.54mio @ 0.746	151.37mio @ 0.7267 136.19mio @ 0.7269 100.68mio @ 0.735	100.69mio @ 0.725 200mio @ 0.73	200mio @ 0.73	206.9mio @ 0.725 340mio @ 0.731 100.2mio @ 0.7385
USD/ZAR				120mio @ 15.3 120mio @ 15.65	250mio @ 15.38 100mio @ 15.6
USD/INR			250mio @ 73 100mio @ 75.2	150mio @ 73.25	

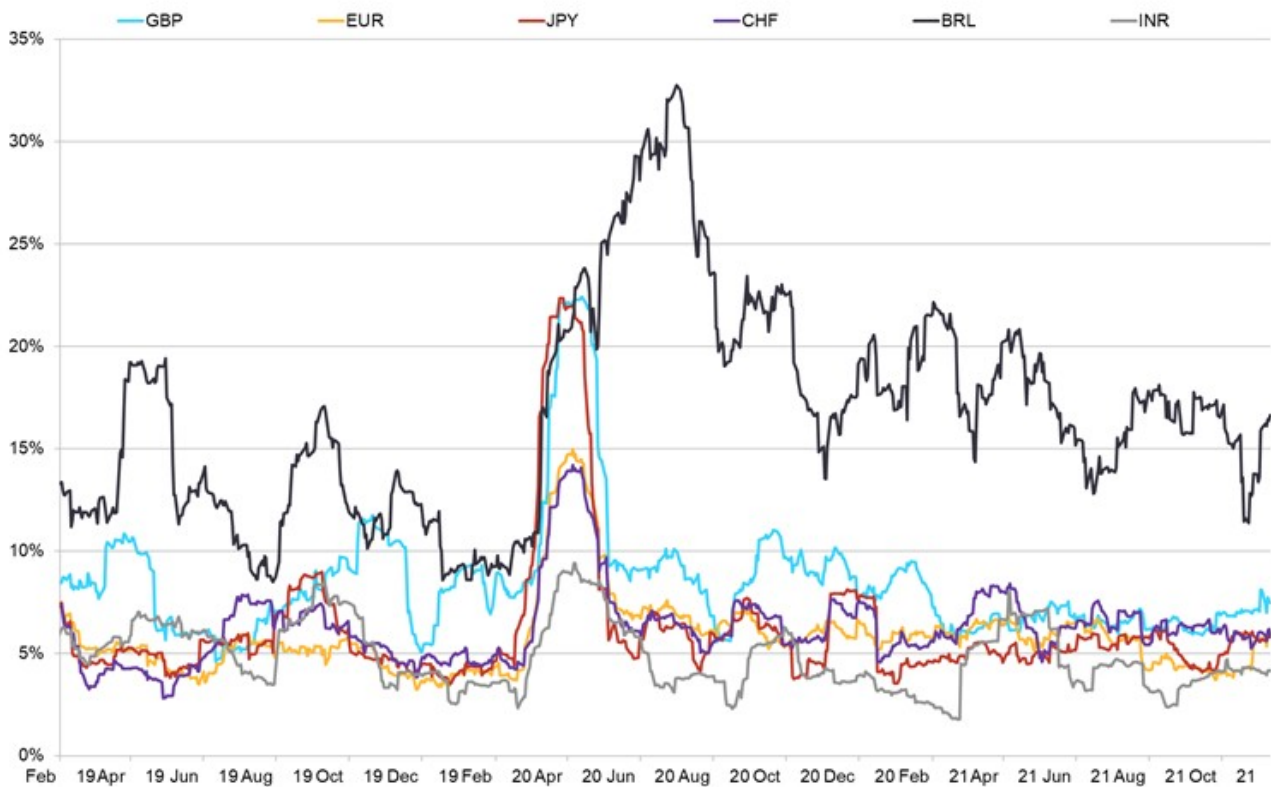
Source: Bloomberg DTCC Data 2% from spot levels as of 10/11/2021

## 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	-0.27	0.10	4.97	-0.86	0.13	7.05	-0.01	0.10	5.72	0.62	0.07	5.47
1M	-0.39	0.11	5.32	-1.01	0.16	7.58	-0.03	0.15	6.06	0.75	0.08	5.85
2M	-0.41	0.13	5.52	-1.16	0.20	7.95	-0.12	0.18	6.26	0.79	0.10	6.13
3M	-0.42	0.15	5.54	-1.25	0.23	8.06	-0.20	0.21	6.36	0.83	0.13	6.20
6M	-0.69	0.21	5.87	-1.43	0.30	8.34	-0.34	0.26	6.58	0.79	0.18	6.53
1Y	-0.61	0.25	5.87	-1.58	0.38	8.63	-0.48	0.32	6.80	0.86	0.26	6.62
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	0.23	0.13	4.50	3.39	0.94	19.24	1.19	0.25	16.57	-0.44	0.12	8.26
1M	0.44	0.19	4.69	5.37	1.15	18.19	1.96	0.32	17.51	-0.71	0.17	8.65
2M	0.55	0.20	4.86	6.18	1.26	18.55	2.18	0.36	17.31	-0.87	0.22	8.89
3M	0.64	0.22	5.04	6.74	1.42	19.12	2.31	0.40	17.23	-1.02	0.25	8.80
6M	0.84	0.27	5.53	7.92	1.73	20.57	2.53	0.47	17.25	-1.26	0.32	9.10
1Y	0.99	0.34	6.02	9.03	2.07	22.11	2.97	0.57	18.30	-1.50	0.38	9.37

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	-	1.3426	1.1433	0.0088	1.0859	0.7985	0.7355	0.7058
GBP	0.7449	-	0.8515	0.6531	0.8088	0.5949	0.5478	0.5257
EUR	0.8746	1.1744	-	0.7672	0.9499	0.6984	0.6433	0.6173
JPY	114.0200	153.0840	130.3500	-	123.8140	91.0510	83.8610	80.4710
CHF	0.9209	1.2364	1.0528	0.8077	-	0.7354	0.6773	0.6500
CAD	1.2522	1.6813	1.4317	0.0110	1.3599	-	0.9210	0.8838
AUD	1.3596	1.8254	1.5544	1.1922	1.4765	1.0857	-	0.9595
NZD	1.4169	1.9023	1.6199	0.0124	1.5387	1.1315	1.0421	-

Source: Bloomberg

### Weekly Change

	USD	GBP	EUR	JPY	CHF	CAD	AUD	NZD
USD	-	-0.96	-1.26	-0.67	-0.76	-0.62	-0.85	-1.48
GBP	1.00	-	-0.30	0.32	0.25	0.35	0.12	-0.49
EUR	1.29	0.31	-	0.61	0.52	0.66	0.44	-0.18
JPY	0.67	-0.30	-0.60	-	-0.09	0.05	-0.19	-0.81
CHF	0.78	-0.24	-0.53	0.15	-	0.18	-0.09	-0.73
CAD	0.62	-0.36	-0.66	-0.05	-0.12	-	-0.24	-0.87
AUD	0.87	-0.11	-0.41	0.21	0.12	0.25	-	-0.62
NZD	1.52	0.51	0.21	0.89	0.75	0.87	0.64	-

Source: Bloomberg

### Key Events & Releases

Region	Date	Time	Indicator	Period	Survey	Prior
US	12/11	15:00	Michigan Consumer Sentiment	Nov	72.5	71.7
EUR	14/11	10:00	GDP YoY	Q3		3.7%
JPY	14/11	23:50	GDP Annualised	Q3	-0.7%	-1.1%
CNY	15/11	02:00	Fixed Asset Investment YoY	Oct	6.2%	7.3%
CNY	15/11	02:00	Industrial Production YoY	Oct	3.0%	3.1%
CNY	15/11	02:00	Retail Sales YoY	Oct	3.8%	4.4%
JPY	15/11	04:30	Industrial Production MoM	Sep		-5.4%
SEK	15/11	08:30	CPI YoY	Oct		2.5%
US	15/11	13:30	NY Empire State Mfg	Nov	20.1	19.8
GBP	16/11	07:00	ILO Unemployment Rate	Sep		4.5%
US	16/11	13:15	Industrial Production MoM	Oct	0.8%	-1.3%
US	16/11	14:15	Capacity Utilisation	Oct	75.8%	75.2%
JPY	16/11	23:50	Machinery Orders YoY	Sep		17.0%
GBP	17/11	07:00	CPI YoY	Oct	3.9%	2.9%
GBP	17/11	07:00	Retail Price Index MoM	Oct		0.4%
EU	17/11	10:00	Construction Output YoY	Sep		-1.6%
US	17/11	13:30	Retail Sales ex Autos	Oct		0.8%
SEK	18/11	08:30	Unemployment Rate	Oct		8.2%
EU	18/11	10:00	CPI YoY	Oct		4.1%
US	18/11	13:30	Initial Jobless Claims	Nov 12	260k	267k
SEK	19/11	08:30	Capacity Utilisation	Q3		1.6%

Source: Bloomberg

# Technical Analysis

## JP Morgan Global FX Volatility



The index rallied in the last week with the indicators pushing higher. The stochastics are overbought and have been trending higher, the break above the 23.6% fib level at 7.21 could trigger gains towards 7.40. The RSI is rising but the MACD diff is positive but fails to diverge further suggesting waning appetite. On the downside, lack of appetite for prices above 7.23 could trigger losses back towards 7 and the moving averaged around 6.90 and 7.

## Dollar Index



The index has rallied strongly in the last week with protracted buying pressure prompting a break of resistance at 95 before testing the 138.2% fib level at 95.2675. The indicators have edged lower and the MACD diff is negative however the stochastics are rising once again with a buy signal on the horizon. The reaffirmation of support at 95 could set the scene for a break of resistance at 95.26. A break of this level would confirm the trend on the upside. On the downside, if resistance at 95.26 holds firm and support at 95 breaks this would set the scene for lower prices to 94.69 and 94.56.

# EURSEK



The pair has been supported in recent weeks after prices found support at 9.86. The pair has tested the 200 DMA at 10.02 but the upside tails suggest rejection of higher prices and a lack of appetite for higher prices as well. The stochastics are falling out of the overbought territory, the MACD diff is positive and converging suggesting waning upside pressure. We expect prices to fall soften in the near term and the rejection of the 200 DMA could trigger losses back to 9.95. However, support at 10 has held firm and this could set the scene for higher prices in the term. The 50 DMA has crossed above the 100 DMA which can be bullish.

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