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November 16, 2022

Nasdaq

What's the Deal with the U.S. Dollar?

Kevin Davitt

Head of Index Options
Content
Nasdaq

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What's the Deal with the U.S. Dollar?

Currency Impact & Offsets

Interactive Brokers Webinar

November 16, 2022

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Index

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For the sake of simplicity, the examples included do not take into consideration commissions and other transaction fees, tax considerations, or margin requirements, which are factors that may significantly affect the economic consequences of a given strategy. An investor should review transaction costs, margin requirements and tax considerations with a broker and tax advisor before entering into any options strategy.

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Any strategies discussed, including examples using actual securities and price data, are strictly for illustrative and education purposes and are not to be construed as an endorsement, recommendation or solicitation to buy or sell securities.

Nasdaq-100® Volatility Index

The Nasdaq-100® Volatility Index (Ticker Symbol: VOLQ) is calculated and administered by The Nasdaq Stock Market LLC. The Nasdaq-100 Volatility Index is a financial benchmark designed to measure changes in 30-day implied volatility of the Nasdaq-100 Index as further described in the methodology, rules and other information. VOLQ options, which are traded on Nasdaq Phlx LLC, are complicated financial products only suitable for sophisticated market participants. Market participants should put at risk only funds that they can afford to lose without affecting their lifestyles. Transacting in VOLQ options involves the risk of loss, which can be substantial and can exceed the amount of money deposited for a Nasdaq-100 Volatility Index position (except when buying options on VOLQ, in which case the potential loss is limited to the purchase price of the options).

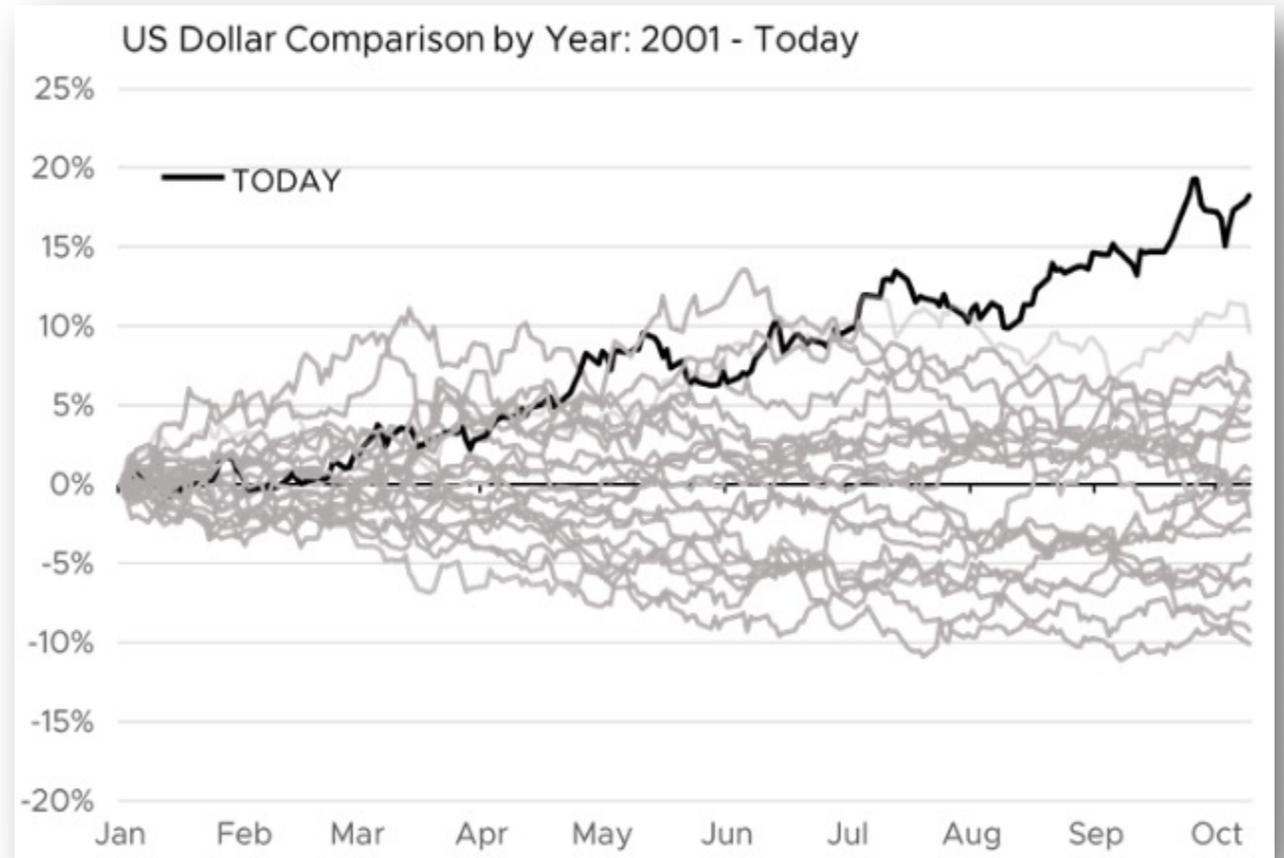
Before transacting in VOLQ options, market participants should fully inform themselves about the Nasdaq-100 Volatility Index and the characteristics and risks of VOLQ Options. Market participants also should make sure they understand the product specifications for VOLQ Options and the methodologies for calculating and settling the Nasdaq-100 Volatility Index.



What's the Deal with the Dollar

Annual USD Performance (2001 – 2022):

- Pros of Stronger Dollar
 - Reduces relative cost of imports.
 - Overseas travel for Americans relatively cheaper.
 - U.S. “exports” a degree of inflation.
- Cons of Stronger Dollar
 - Exports become relatively more expensive.
 - Overseas revenue discounted when repatriated (Earnings).
 - Significant pressure on EM economies.

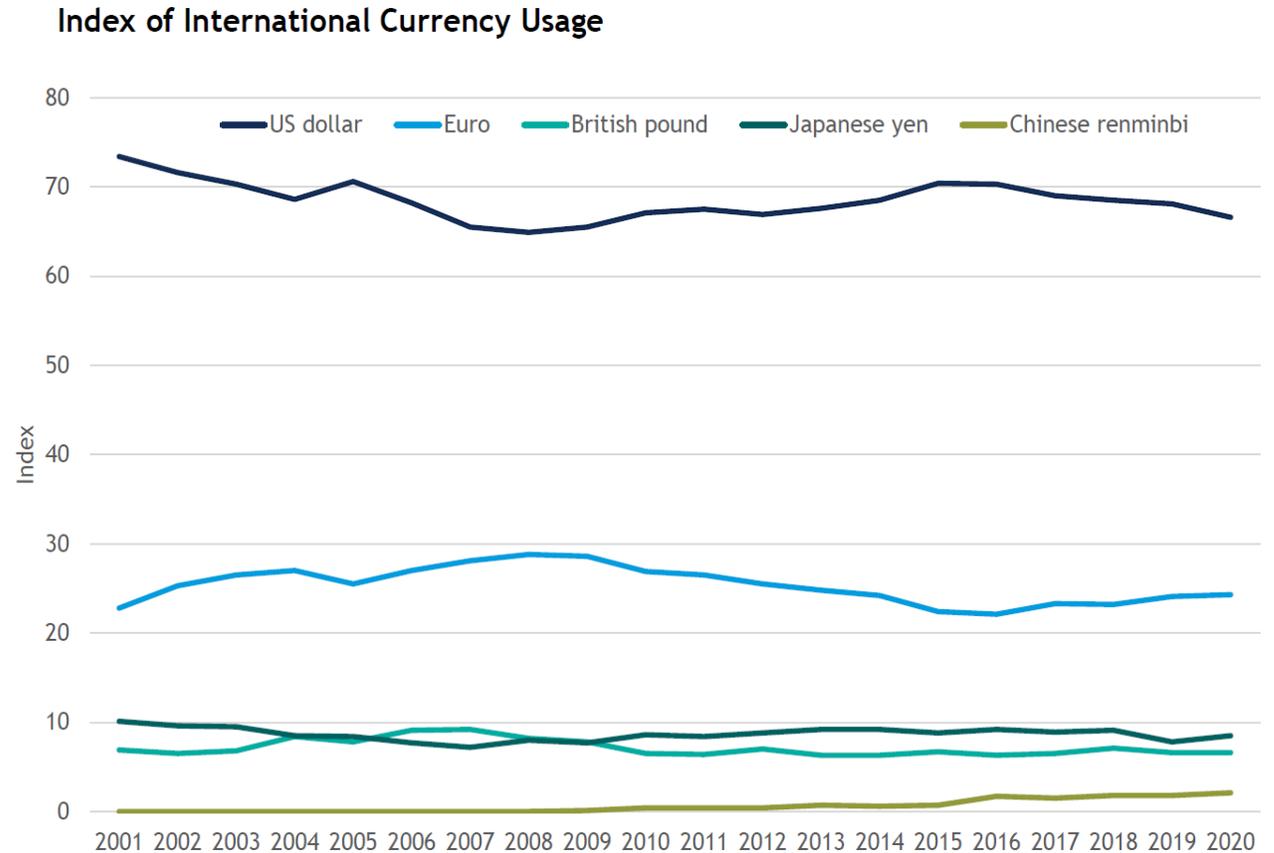


Source: Bloomberg; Cresset Capital



IRL – Risks of Stronger USD (Globally)

- Central Banks
 - Domestic mandates but globalization = interdependence.
 - 65 – 75% of Global Trade is USD denominated.
- Cons of Stronger Dollar
 - Exports become relatively more expensive (for foreign buyers).
 - Overseas revenue discounted when repatriated (Earnings).
 - Significant pressure on EM economies (Debt servicing costs).

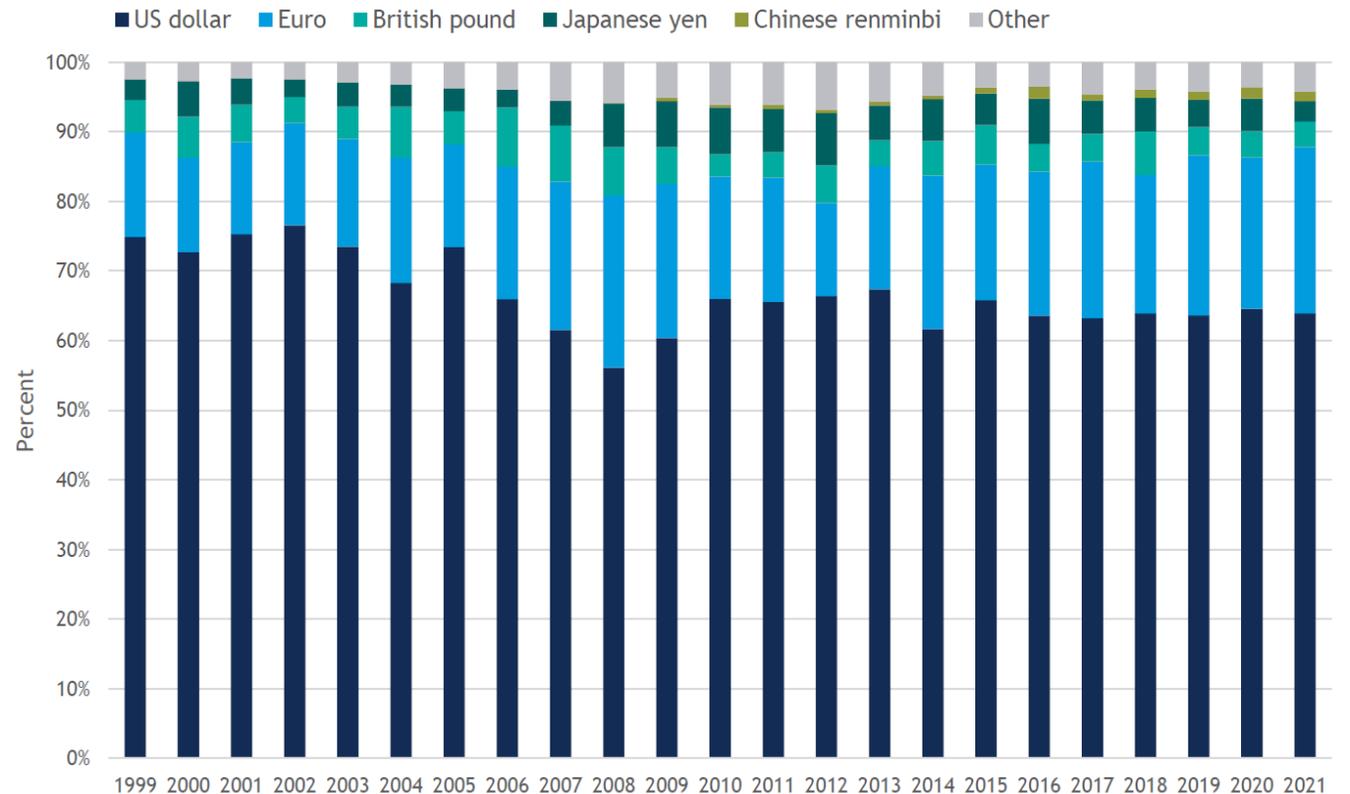


Source: Loomis Sayles Research

IRL – Risks of Stronger USD (Globally)

- Sovereign Debt Markets
 - According to International Capital Markets Association (ICMA):
Sovereign bonds total: ~\$89T (USD)
 - Corporate bonds total: ~\$41T (USD)
- Vast majority of Sovereign Debt is USD denominated.
 - Servicing interest and principal payments increasingly expensive in USD terms.
 - Rolling debt over becomes more difficult, particularly for EM economies.

Share of Foreign Currency Debt Issuance

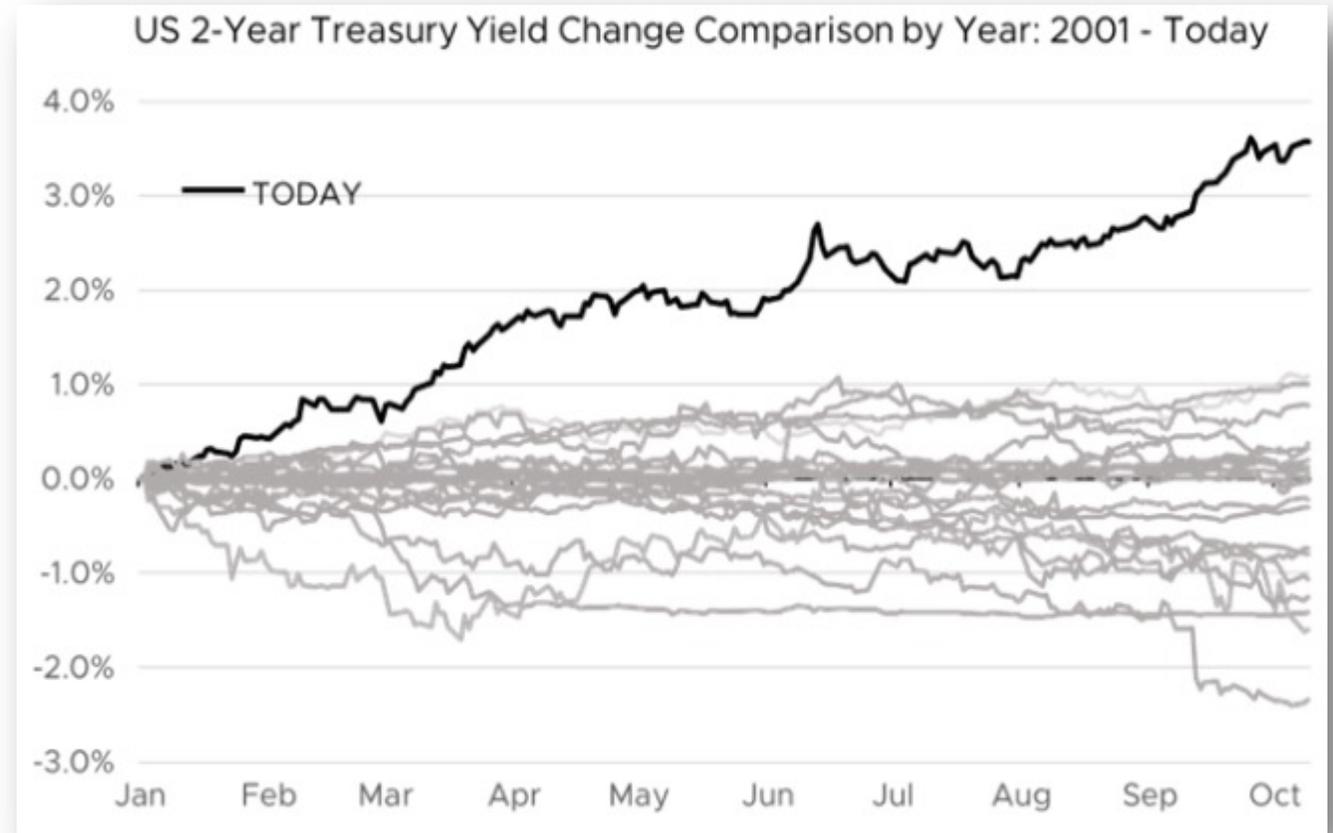


Source: Loomis Sayles Research



The Cost of Short-Term Borrowing:

- The Cost of Money
 - For 10+ years the cost of borrowing remained relatively low.
 - The rate of change in 2022 has been exceptional.
- Economic Implications?
 - Spending tends to decline.
 - Pandemic savings = muted impact.
 - More expensive for corporates to borrow (or roll over debt).
 - Savers positively impacted by higher interest payments.



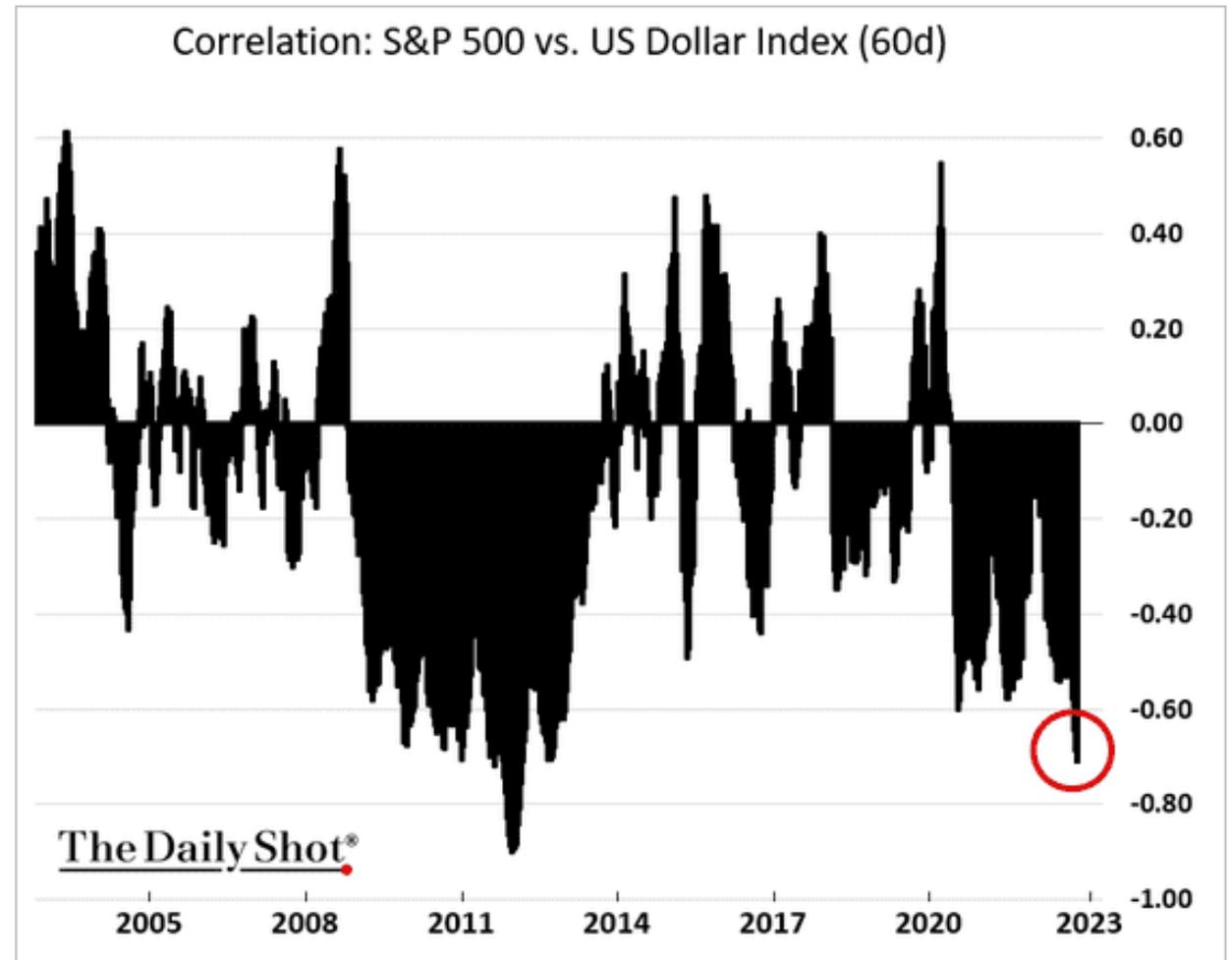
Source: Bloomberg; Cresset Capital



What's the Deal with the Dollar

Correlation: S&P500 & USD Index (60d)

- Periods of Positive & Negative Correlation
 - Strong inverse correlation between USD Index & U.S. equities for 2 years.
 - I.E. Equities tend to decline on USD strength and vice versa.
- In the Markets
 - A long USD position could be viewed as hedge against long equities.
 - Long exposure to Major International currencies could be viewed as alternative to long US equity exposure.

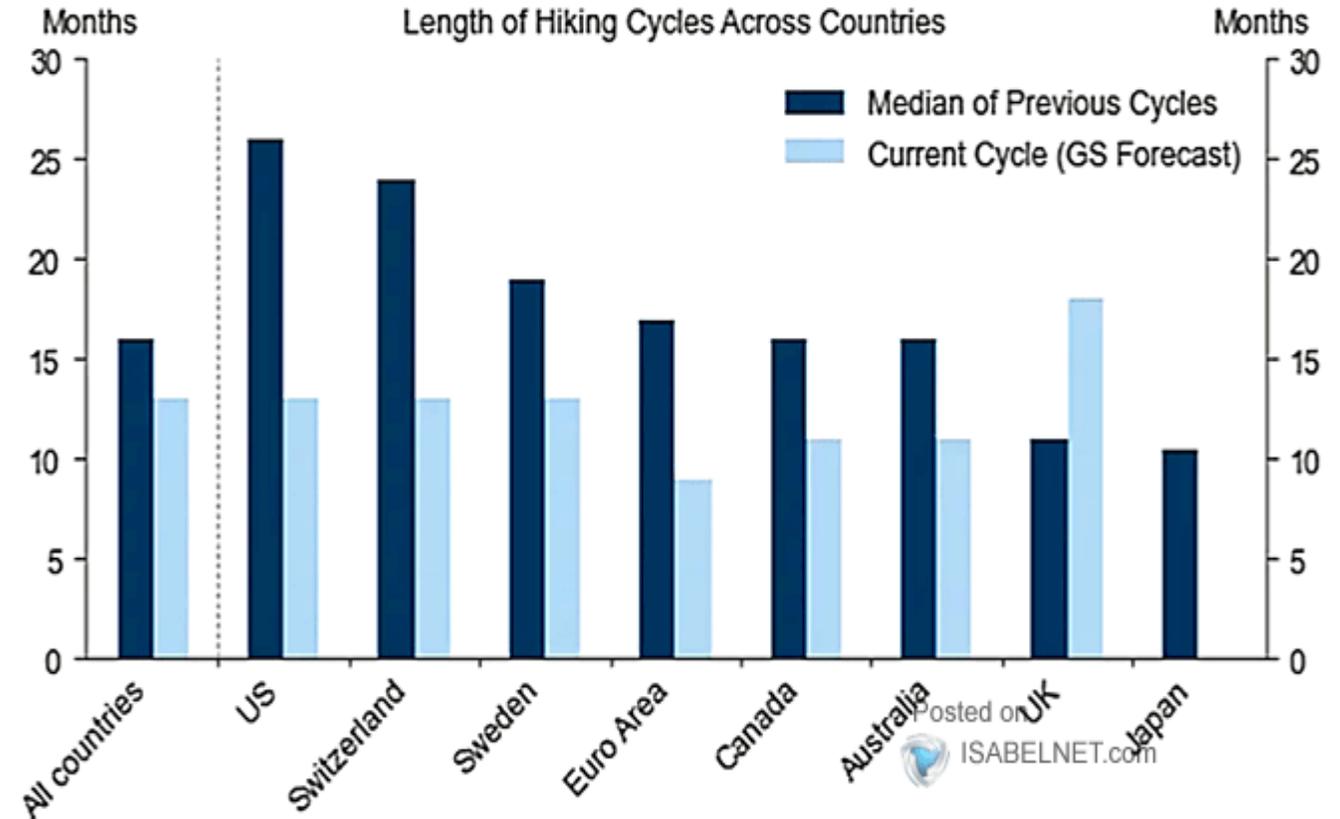


Source: Daily Shot



2-Year Average Hike Cycle in U.S.

- Fed Funds Increasing for ~1 Year
 - Historically, the Federal Reserve has tightened rates over a 2Y time frame.
 - The magnitude of tightening during 2022 is historically unprecedented.
- When's the "Pivot"
 - According to current Fed Fund futures structure ~May 2023.
 - Long exposure to Major International currencies could be viewed as alternative to long US equity exposure.



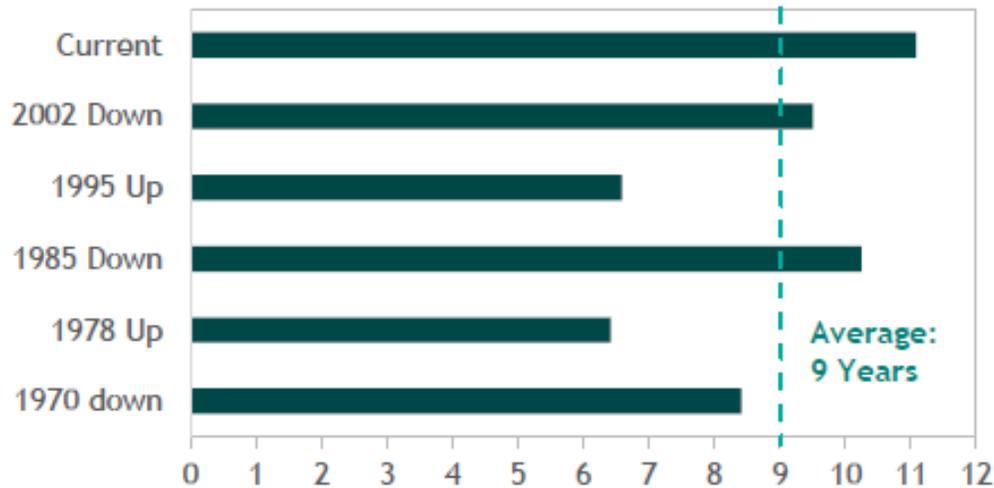
Source: Goldman Sachs

What's the Deal with the Dollar

Dollar Cycles: Historically Lengthy

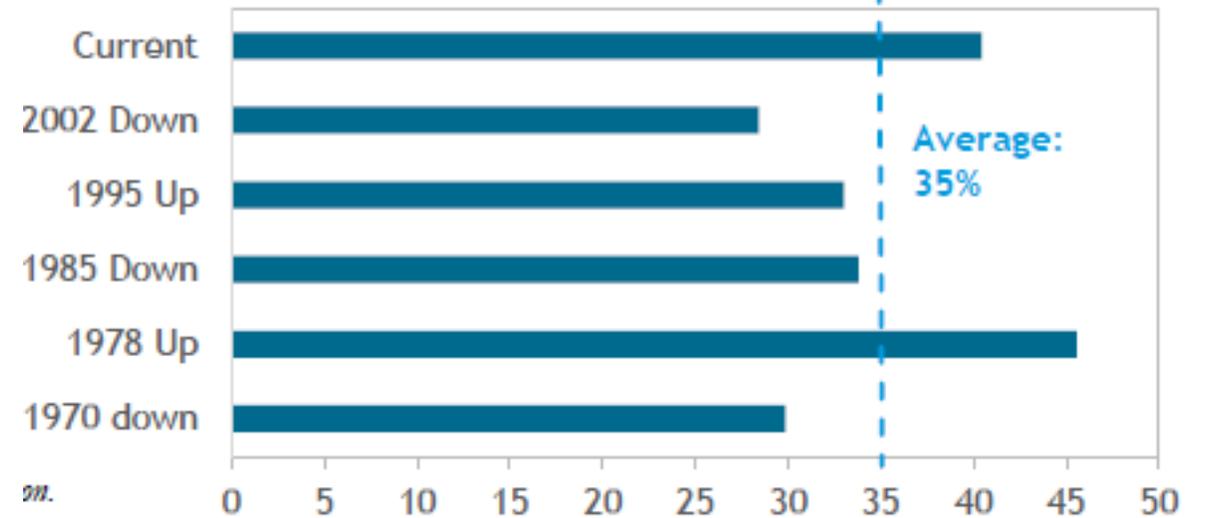
- Average USD Cycle = 9 Years
 - Current cycle 9.5 Years.
- Average USD Cycle Change = 35%
 - Over the past decade USD +43%

Duration of US Dollar Cycles (Years)



Source: Loomis Sayles Research

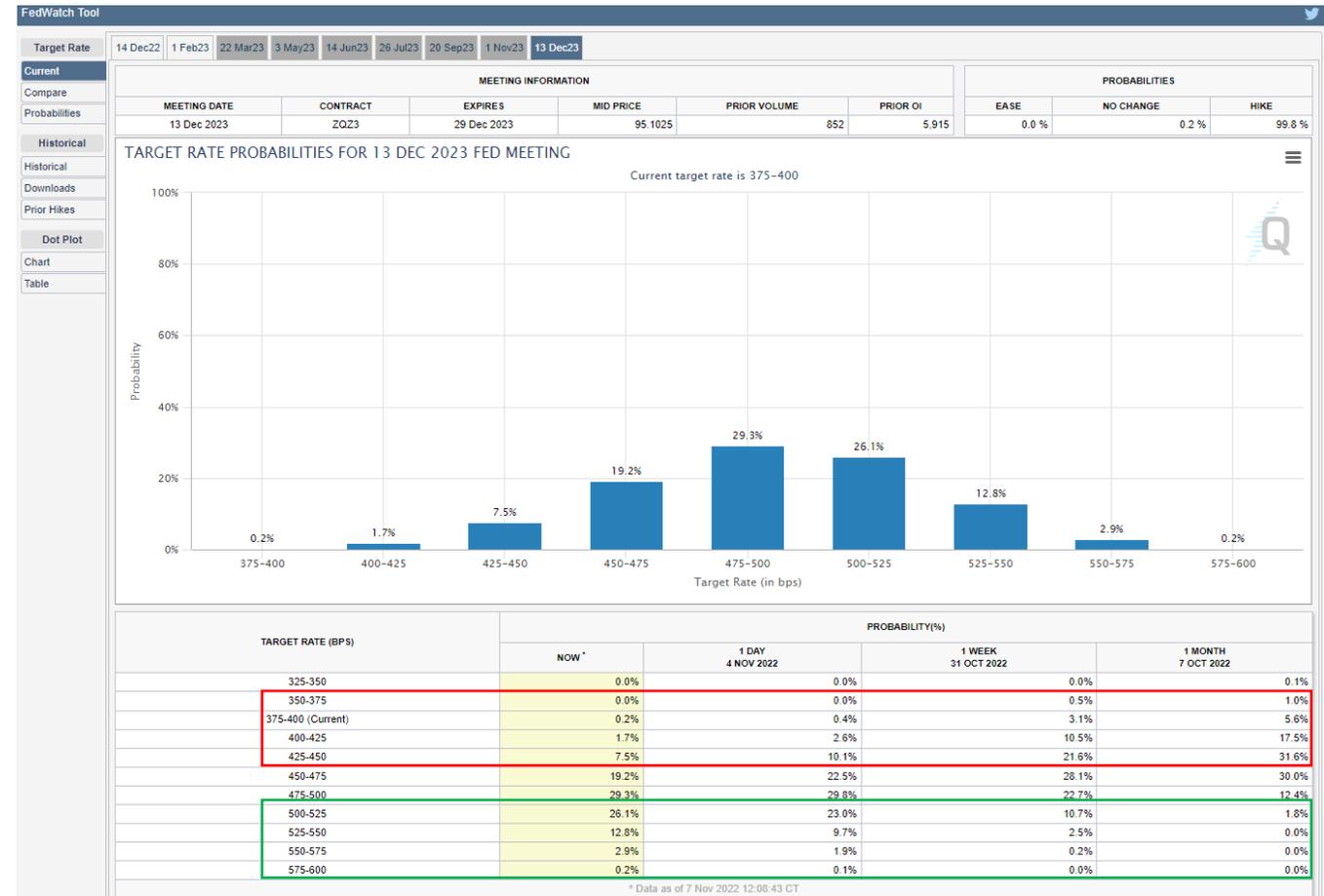
Magnitude of US Dollar Cycles
(Absolute % Change)



What's the Deal with the Dollar Higher for Longer?

- Terminal Rates
 - Historically, the Federal Reserve has tightened rates over a 2Y time frame.
 - The magnitude of tightening during 2022 is historically unprecedented.
- When's the "Pivot"
 - According to current Fed Fund futures structure ~May 2023.
 - Expectations for potential rate cuts have largely been priced out of the market for 2023.

PS: A year ago expectations were for Fed Funds @ ~0.75 – 1.00 basis points

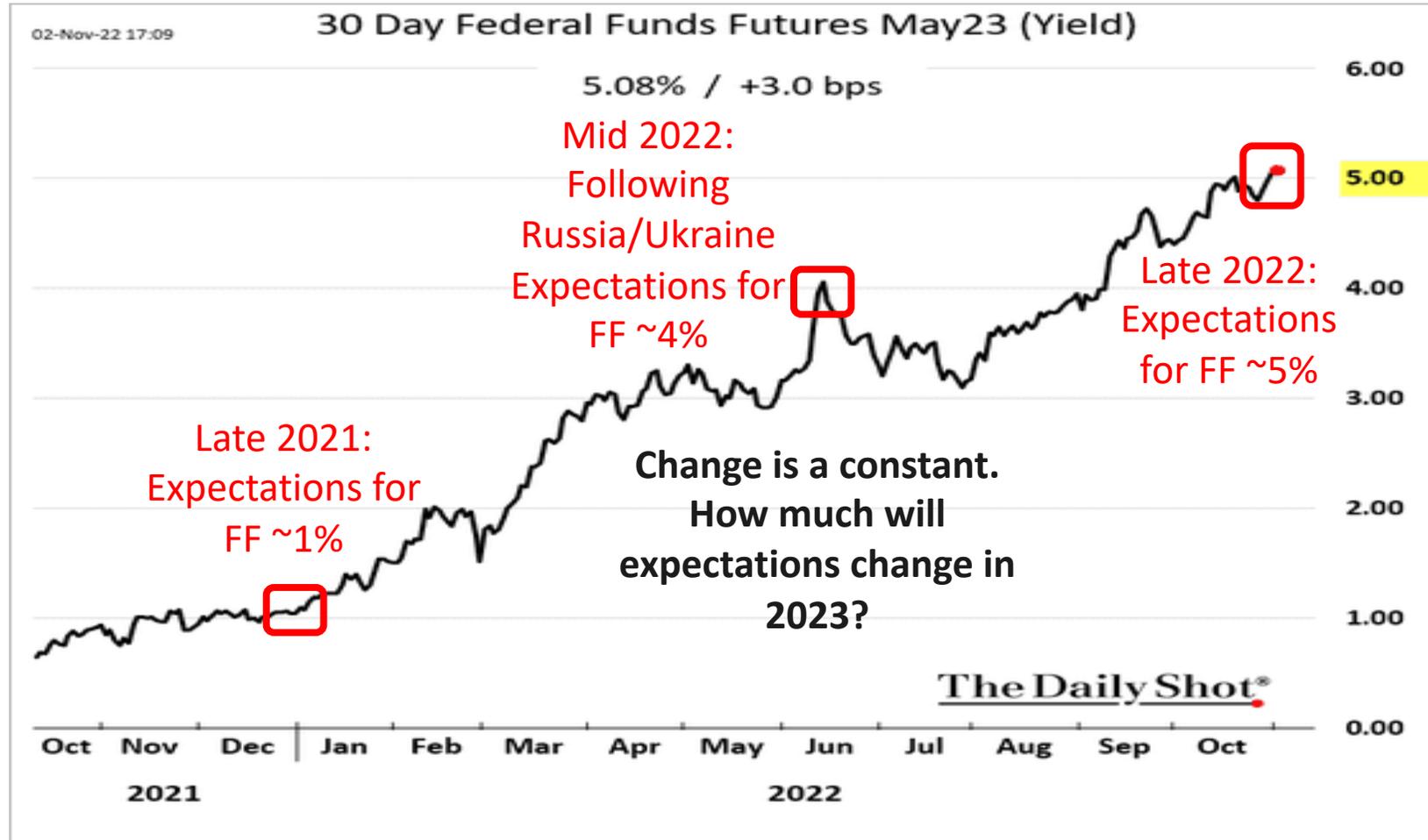


Source: CME



What's the Deal with the Dollar

Higher for Longer...Visually!

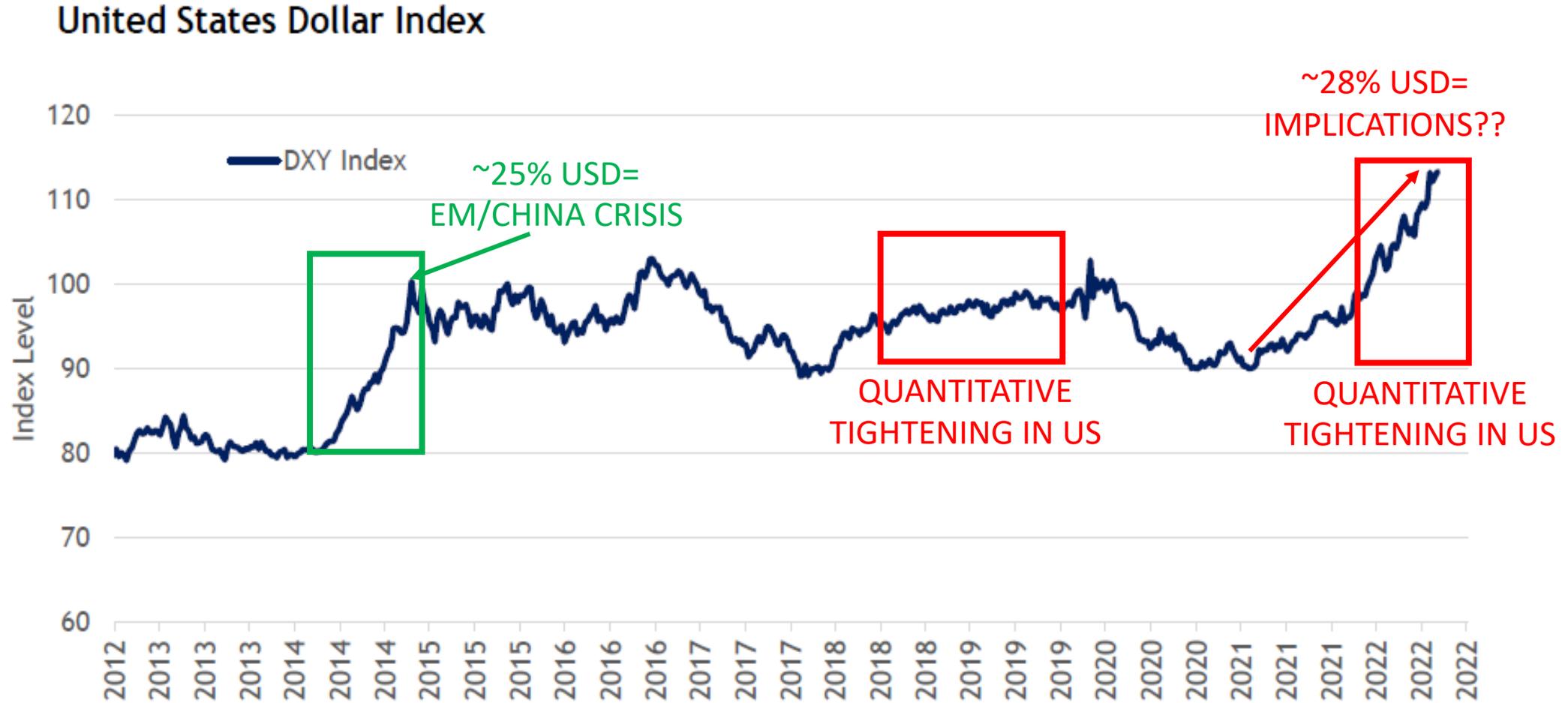


Source: The Daily Shot & Nasdaq



What's the Deal with the Dollar

USD Index: A Decade of Strength

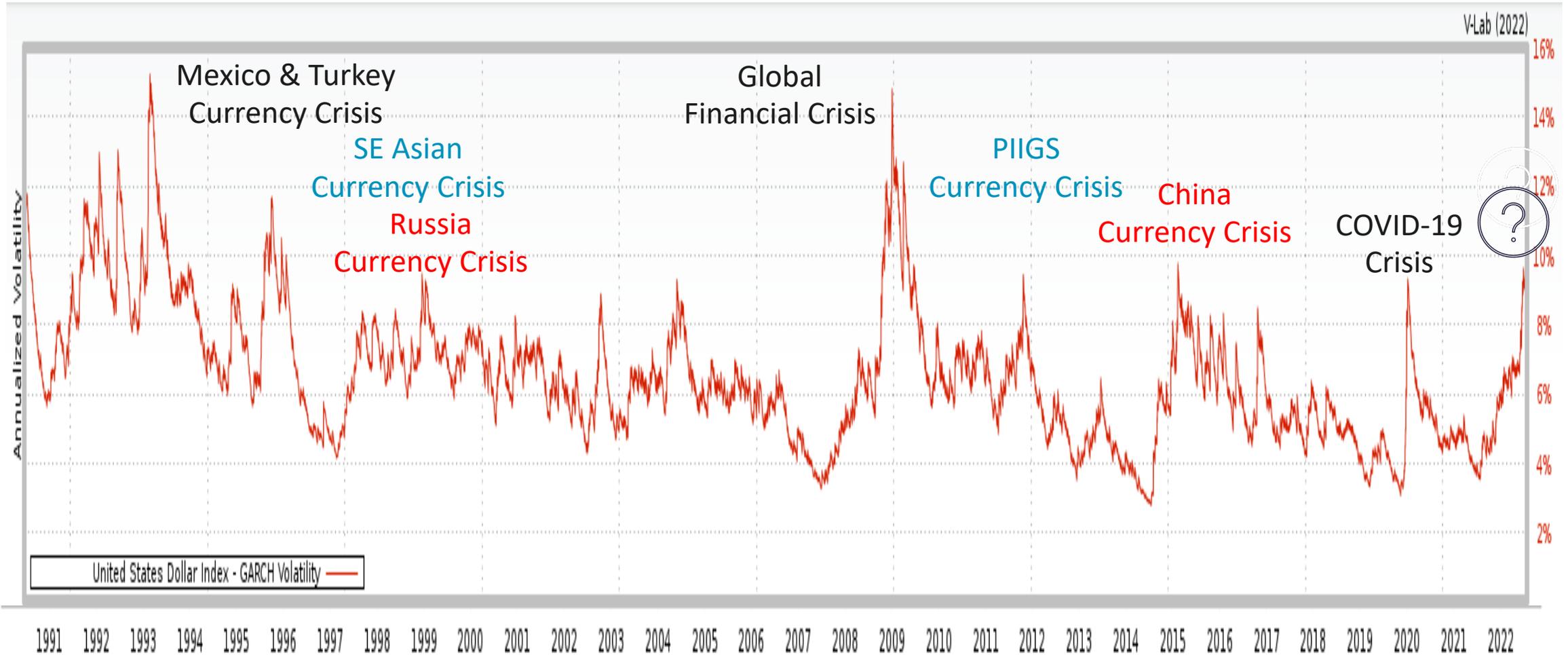


Source: Bloomberg & Nasdaq



What's the Deal with the Dollar

USD Index Annualized Volatility (1990 – Present)

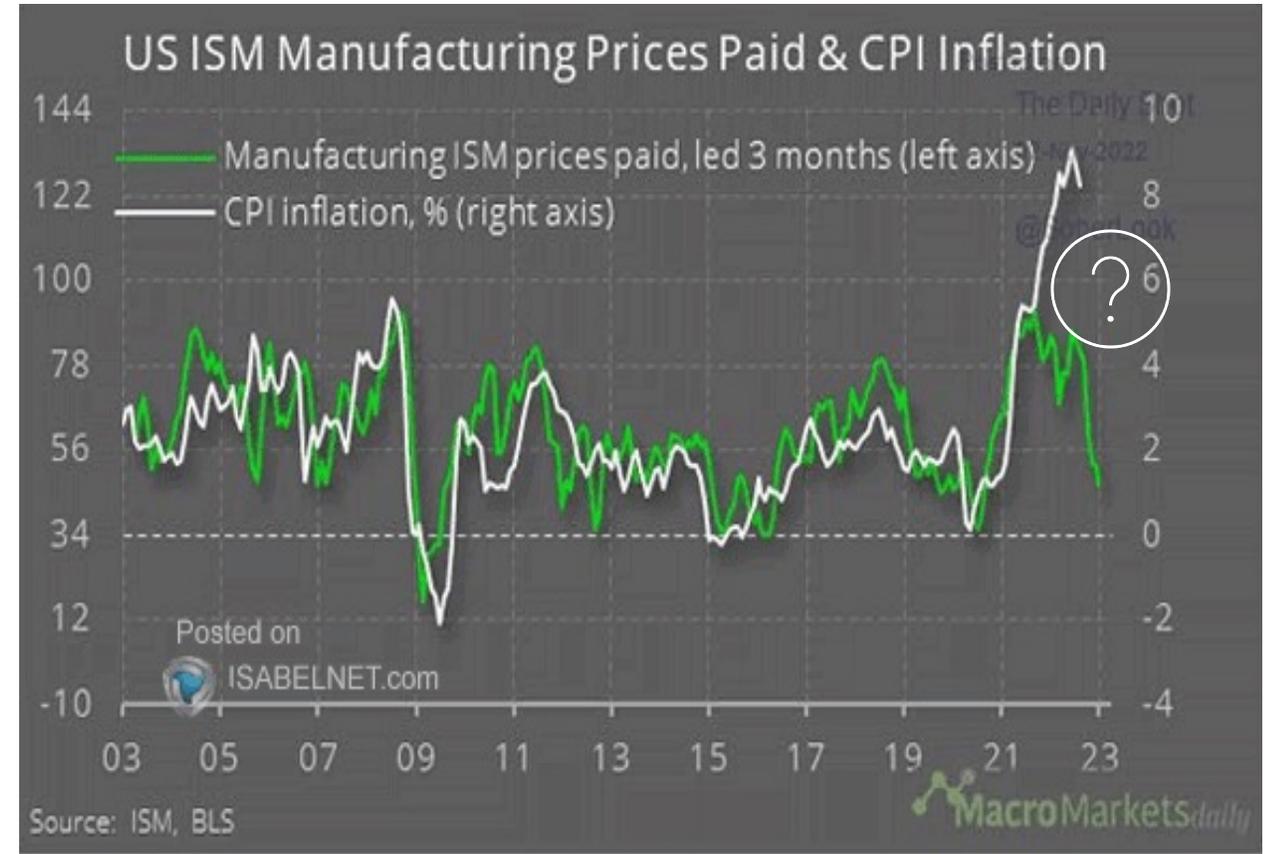


What's the Deal with the Dollar

Is CPI Giving the “Wrong Signal”?

- Transitory v. Entrenched?
 - Inflation is generally a product of monetary policy (which has changed).
 - There's a 12-18M lag between monetary shifts & economic ripples.
- The Idiosyncratic Element
 - Many of the supply chain issues that originally pushed inflation measures higher are resolving.
 - The economic impact of higher rates only beginning to filter through economies.

Do you believe we'll experience persistent inflationary pressure?

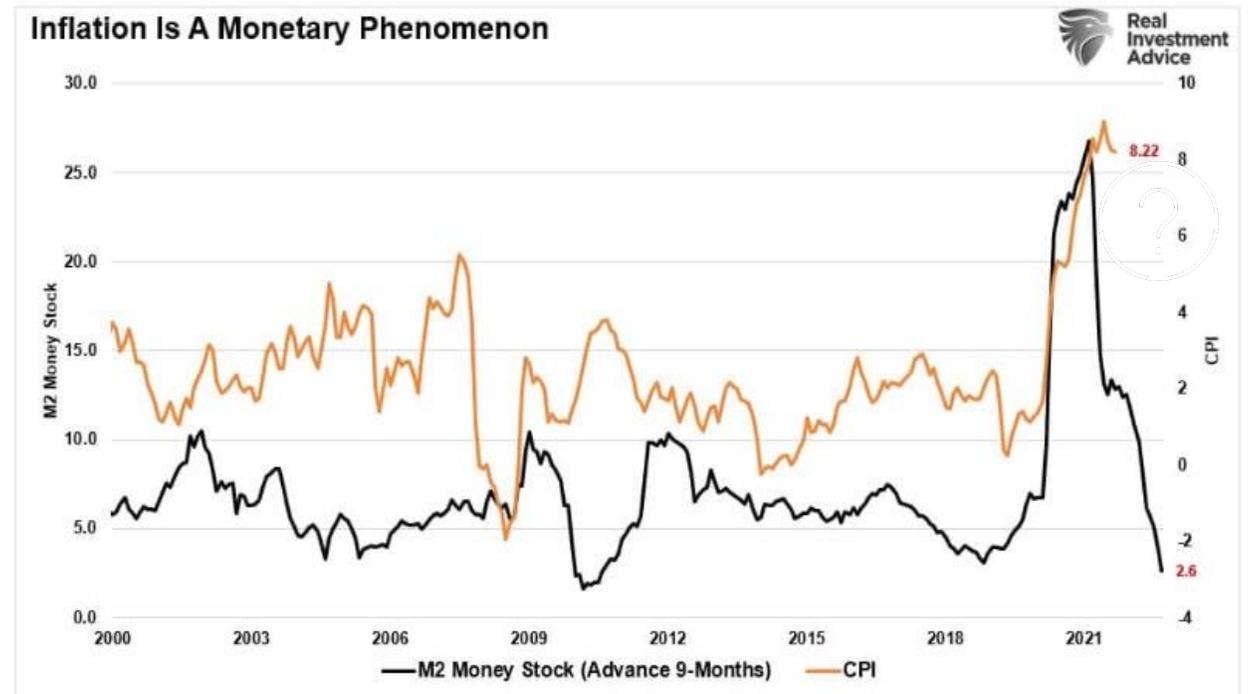


Source: Isabelnet.com



Quantitative Tightening (QT) is Happening!

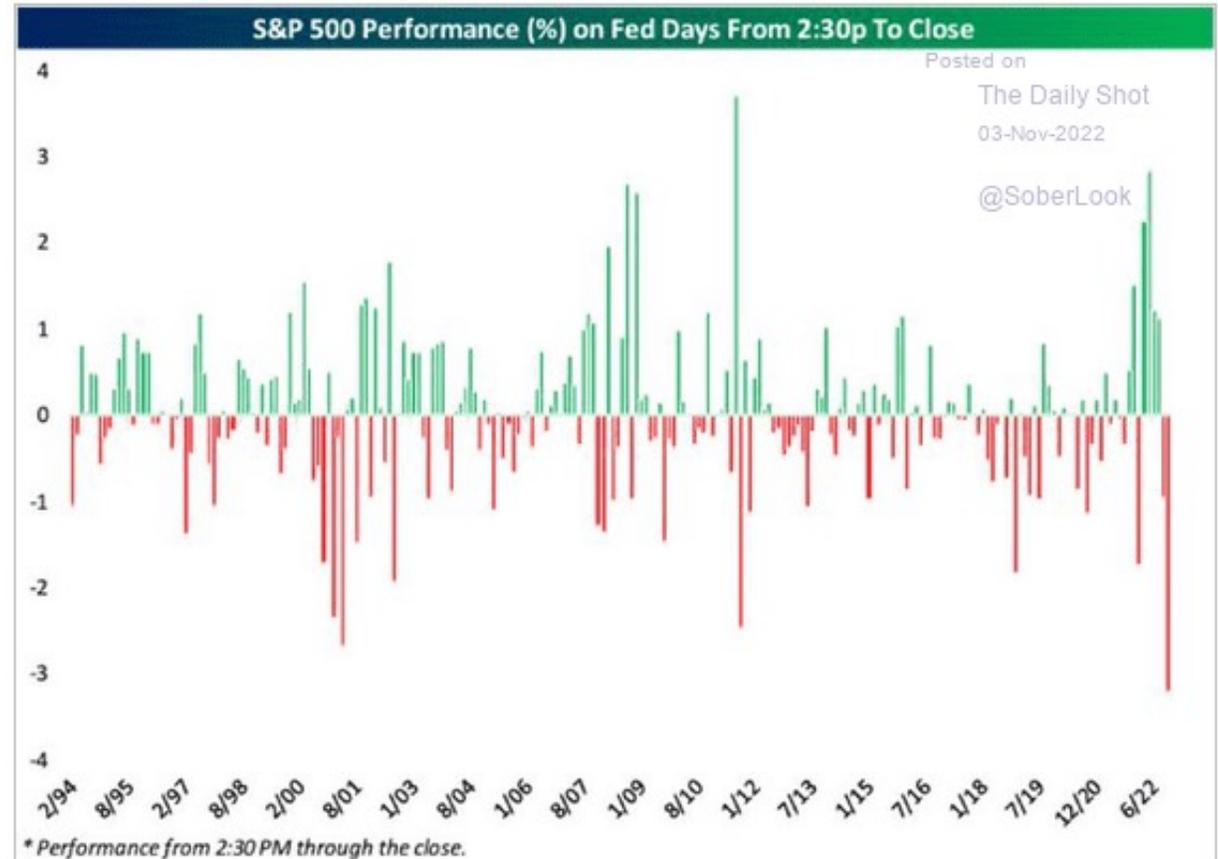
- Increase in money stock ended up on Fed's Balance Sheet
 - Fed's Balance sheet grew to ~\$9T following COVID asset purchases.
 - The M2 data is advance 9 months (lag in policy implementation).
- QT Schedule
 - June 2022: -\$30B in UST & -\$17.5B in MBS/month.
 - Sept 2022: -\$60B in UST & -\$35B in MBS/month.



Source: Isabelnet.com

NEWS FLASH: FOMC Days Increasingly Volatile

- Significant Late Day Moves on FOMC Dates in 2022.
 - Indicative of how impactful rates are across the U.S. economy.
 - The November FOMC selloff was the worst in 2+ decades.
- Significant Growth in Trading Options w/0 Days Until Expiration.
 - Short dated options have meaningful gamma exposure.
 - Potential utility of daily expiries in Index products (like NDX).



Source: Bespoke Invest & The Daily Shot



What's the Deal with the Dollar Euro (XDE)

CALLS			STRIKE	PUTS		
Bid	Ask	Last		Bid	Ask	Last
2.61 1,402	2.95 1,402	C3.57	95	0.09 10	0.27 10	C0.12
1.80 1,710	2.12 1,710	C2.68	96	0.27 10	0.45 10	C0.23
1.44 1,912	1.74 1,912	C2.24	96.5	0.41 10	0.59 10	C0.28
1.14 2,157	1.39 2,127	C1.79	97	0.58 10	0.77 10	C0.33
0.89 19	1.09 2,403	C1.51	97.5	0.78 10	0.99 10	C0.55
0.64 10	0.83 10	C1.22	98	1.03 2,249	1.25 2,249	C0.76
0.45 10	0.62 10	C0.93	98.5	1.30 2,035	1.51 16	C0.97
0.29 10	0.47 10	C0.70	99	1.63 1,794	1.95 1,766	C1.24
0.17 10	0.35 10	C0.51	99.5	2.00 1,598	2.32 1,598	C1.55
0.09 10	0.27 10	C0.37	100	2.40 1,430	2.75 1,430	C1.90
0.03 10	0.21 10	C0.25	100.5	2.83 1,342	3.20 1,342	C2.29
	0.17 10	C0.17	101	1.00 10	6.00 10	C2.71

Source: IBKR

Euro currency options are quoted in terms of U.S. dollars per unit of the underlying currency and premium is paid and received in U.S. dollars.

PRODUCT SPECIFICATIONS: EURO (XDE)

Symbol	XDE
Contract Size:	10,000 Euros
Trading Symbol:	XDE
Settlement Value Symbol:	EPW
CUSIP® Number:	69336Y
Exercise Style:	European
Expiration Date:	The third Friday of the expiration month.
Expiration Cycle:	Quarterly on the March cycle plus two additional near-term months (six months at all times).
Settlement:	U.S. dollars
Settlement Value for Expiring Contracts:	The spot price at 12:00:00 Eastern Time (noon) on the expiration date. The settlement value is disseminated under the symbol EPW. Consult PHLX Rule 1057 for further information.
Last Trading Day for Expiring Contracts:	The third Friday of the expiration month.
Contract Point Value:	\$100 (i.e., .01 x 10,000)
Exercise (Strike) Price Intervals:	The Exchange shall determine fixed-point intervals of exercise prices. Generally, the exercise (strike) price interval shall be set at half-cent intervals. Consult PHLX Rule 1012 for further information.
Premium Quotation:	One point = \$100. Thus a premium quote of 2.13 is \$213. The minimum change in a premium is .01= \$1.00.
Position Limits:	1,200,000 contracts on the same side of the market. Hedge exemptions are available. For more information consult PHLX Rules 1001 and 1002 .
Trading Hours:	9:30 a.m. to 4:00 p.m. (Eastern Time)
Issuer and Guarantor:	The Options Clearing Corporation (OCC)

Source: Nasdaq



What's the Deal with the Dollar

BRITISH POUND (XDB)

CALLS		STRIKE	PUTS	
Bid	Ask		Bid	Ask
2.61 1,402	2.95 1,402	C3.57	95	0.09 10
1.80 1,710	2.12 1,710	C2.68	96	0.27 10
1.44 1,912	1.74 1,912	C2.24	96.5	0.41 10
1.14 2,157	1.39 2,127	C1.79	97	0.58 10
0.89 19	1.09 2,403	C1.51	97.5	0.77 10
0.64 10	0.83 10	C1.22	98	0.99 10
0.45 10	0.62 10	C0.93	98.5	1.03 2,249
0.29 10	0.47 10	C0.70	99	1.25 2,249
0.17 10	0.35 10	C0.51	99.5	1.30 2,035
0.09 10	0.27 10	C0.37	100	1.51 16
0.03 10	0.21 10	C0.25	100.5	1.63 1,794
	0.17 10	C0.17	101	1.95 1,766

Source: IBKR

British pound currency options are quoted in terms of U.S. dollars per unit of the underlying currency and premium is paid and received in U.S. dollars.

PRODUCT SPECIFICATIONS: BRITISH POUND (XDB)

Symbol	XDB
Contract Size:	10,000 British pounds
Trading Symbol:	XDB
Settlement Value Symbol:	BFW
CUSIP® Number:	69336X
Exercise Style:	European
Expiration Date:	The third Friday of the expiration month.
Expiration Cycle:	Quarterly on the March cycle plus two additional near-term months (six months at all times).
Settlement:	U.S. dollars
Settlement Value for Expiring Contracts:	The spot price at 12:00:00 Eastern Time (noon) on the expiration date. The settlement value is disseminated under the symbol BFW Consult PHLX Rule 1057 for further information.
Last Trading Day for Expiring Contracts:	The third Friday of the expiration month.
Last Trading Day for Expiring Contracts:	The third Friday of the expiration month.
Contract Point Value:	\$100 (i.e., .01 x 10,000)
Exercise (Strike) Price Intervals:	The Exchange shall determine fixed-point intervals of exercise prices. Generally, the exercise (strike) price interval shall be set at half-cent intervals. Consult PHLX Rule 1012 for further information.
Premium Quotation:	One point = \$100. Thus a premium quote of 2.13 is \$213. The minimum change in a premium is .01= \$1.00.
Position Limits:	600,000 contracts on the same side of the market. Hedge exemptions are available. For more information consult PHLX Rules 1001 and 1002 .
Trading Hours:	9:30 a.m. to 4:00 p.m. (Eastern Time)
Issuer and Guarantor:	The Options Clearing Corporation (OCC)

Source: Nasdaq



What's the Deal with the Dollar

JAPANESE YEN (XDN)

68.71 +0.52 0.76%

VWAP — Opt VIm — IV Last 11.5% IV / Hist Vol 90.9% 52W IV Rank 8 52W IV I 63%

Calls and Puts SMART

Nov18'22 10 Days Dec16'22 38 Days Jan20'23 73 Days Mar17'23 129 Days

CALLS			STRIKE	PUTS		
Bid	Ask	Last		Bid	Ask	Last
3.50 10	8.50 10	C5.55	63	0.11 849	C0.03	
2.50 10	7.50 10	C4.59	64	0.13 874	C0.07	
1.50 10	6.50 10	C3.66	65	0.17 912	C0.13	
2.99 505	3.36 505	C2.78	66	0.07 975	0.25 975	C0.25
2.17 15	2.49 577	C1.99	67	0.24 10	0.40 974	C0.46
1.46 687	1.75 687	C1.35	68	0.52 10	0.65 10	C0.81
0.93 814	1.10 30	C0.87	69	0.90 830	1.12 10	C1.33
0.55 927	0.73 927	C0.55	70	1.48 712	1.76 704	C2.00
0.31 10	0.48 973	C0.32	71	2.26 16	2.46 16	C2.77
0.14 975	0.31 975	C0.20	72	3.01 535	3.36 535	C3.64
0.05 950	0.22 950	C0.12	73	1.50 10	6.50 10	C4.56
	0.17 900	C0.09	74	2.50 10	7.50 10	C5.52

Source: IBKR

Japanese yen currency options are quoted in terms of U.S. dollars per unit of the underlying currency and premium is paid and received in U.S. dollars.

PRODUCT SPECIFICATIONS: JAPANESE YEN (XDN)

Symbol	XDN
Contract Size:	1,000,000 Japanese yen
Trading Symbol:	XDN
Settlement Value Symbol:	JYW
CUSIP® Number:	69337W 11 6
Exercise Style:	European
Expiration Date:	The third Friday of the expiration month.
Expiration Cycle:	Quarterly on the March cycle plus two additional near-term months (six months at all times).
Settlement:	U.S. dollars
Settlement Value for Expiring Contracts:	The spot price at 12:00:00 Eastern Time (noon) on the expiration date. The settlement value is disseminated under the symbol JYW. Consult PHLX Options 4C, Section 6 for further information
Last Trading Day for Expiring Contracts:	The third Friday of the expiration month.
Contract Point Value:	\$100 (i.e., (.00)01 x 1,000,000)
Exercise (Strike) Price Intervals:	The Exchange shall determine fixed-point intervals of exercise prices. Generally, the exercise (strike) price interval shall be set at fifty-cent intervals. Consult PHLX Options 4C, Section 5 for further information.
Premium Quotation:	One point = \$100. Thus a premium quote of 2.13 is \$213. The minimum change in a premium is .01= \$1.00.
Position Limits:	600,000 contracts on the same side of the market. Hedge exemptions are available. For more information consult PHLX Options 9, Section 13(j) and Section 15 .
Trading Hours:	9:30 a.m. to 4:00 p.m. Eastern Time
Issuer and Guarantor:	The Options Clearing Corporation (OCC)

Source: Nasdaq



U.S. Dollar-Settled Foreign Currency Options (FCO)

- What are Foreign Currency Options (FCO)
 - Dollar denominated, cash settled, European styled options on 7 major foreign currencies.
 - Powerful tools for potential diversification/exposure/hedging in currency markets.
- Settlement values use SPOT MARKET value at 12:00pm EST on the Friday of expiration (Thursday if holiday).
- Available for options approved accounts

Product	Symbol	Settlement Values
Australian Dollar	XDA	AJW
British Pound	XDB	BFW
Canadian Dollar	XDC	CBW
Euro	XDE	EPW
Japanese Yen	XDN	JYW
New Zealand Dollar	XDZ	JQL
Swiss Franc	XDS	SFW

Source: Nasdaq



Recap

- There are positives & negatives to USD strength, but generally slows global growth.
- Global trade is ~70% USD denominated.
 - Concern about EM economies & potential for debt defaults?
- Dollar strength & U.S. rates are inextricably connected.
 - Implications for domestic housing market (~20% of GDP)?
- Rates forecast currently – Higher for longer.
 - Terminal rates expectations ~5%.
- The inflation outlook is opaque (CPI v. PPI v. PCE, etc.).
 - Shelter component ~34% of CPI

Mark Your Calendar!

FOMC DECISIONS	CPI DATA RELEASE
12/14/2022*	12/13/2022
1/27/2023	1/12/2023
3/17/2023*	2/14/2023
4/28/2023	3/14/2023

* Denotes Fed Economic Projections Updated

Source: FOMC & BLS

- Currency volatility expected to remain elevated.
- Foreign Currency Options available to trade in brokerage account.
 - 7 major currencies – USD denominated



Questions?

Contact Us:

indexoptions@nasdaq.com

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