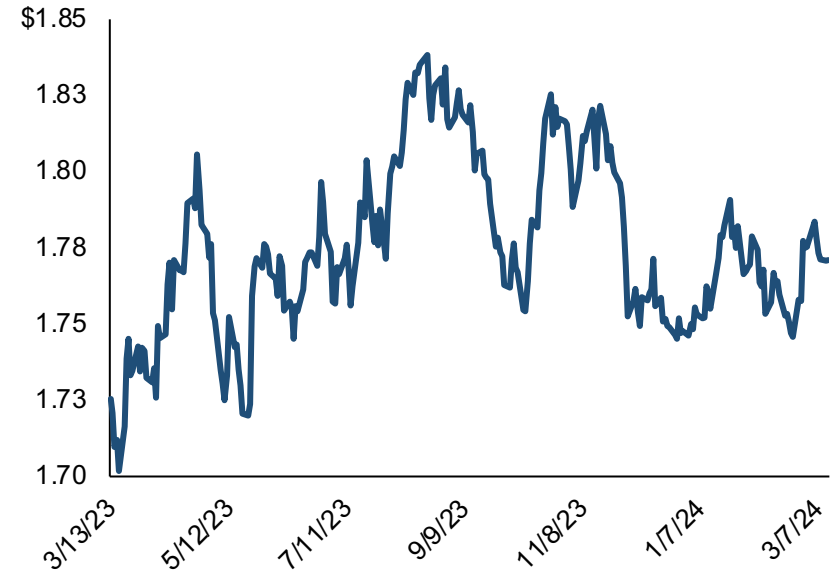


## EURNZD | One-Year Price Chart



### Position Details

- Euro/New Zealand Dollar Spot Exchange Rate | EURNZD
- Underlying Price: 1.7718
- Bear Put Spread
- Expiration Date: September 12, 2024

### Foreign Exchange

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- III. Risk Analysis
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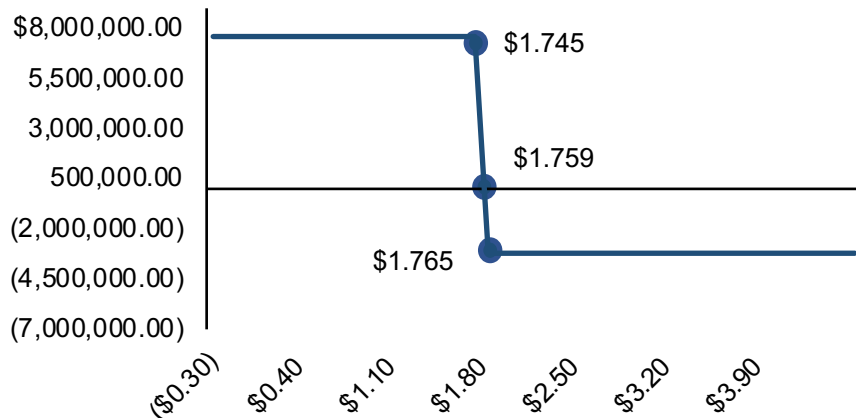
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **Euro – New Zealand Dollar Exchange Rate**
  - EURNZD is the pairing used to denote the spot exchange rate between the Euro and NZD. The Pair dictates how much NZD is required to buy one Euro
  - EURNZD is not commonly traded currency pair as NZD is not part of the DXY, EUR is the second most commonly traded currency and has the largest percentage of the DXY
  - The pair is mainly impacted by differentials in interest rates, sentiment from the ECB and RBNZ, inflation data, GDP data, and unemployment changes

### Payoff Diagram



### Trade Breakdown

- **Bear Put Spread**
  - This trade benefits from bearish movements in the underlying currency exchange cross rate
- **Setup**
  - We Buy – 270.00 k OTM \$1.765 Puts | EURNZD
  - We Sell – 270.00 k OTM \$1.745 Puts | EURNZD
    - Max Profit: €6948123.21 [\$7,593,162.35]
    - Max Loss: (€2934416.79) [(\$3,206,837.65)]
- **Expiration**
  - Date: September 12, 2024

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **\$1.745 / \$1.755 / \$1.765**
  - Breakeven – \$1.759
- **Methodology**
  - The Sector aims to benefit from a ~1.51% bearish movement in the underlying currency pair
- **Hedge Strategy**
  - In the event of adverse price movement, the Sector will look to reverse trade to mitigate losses



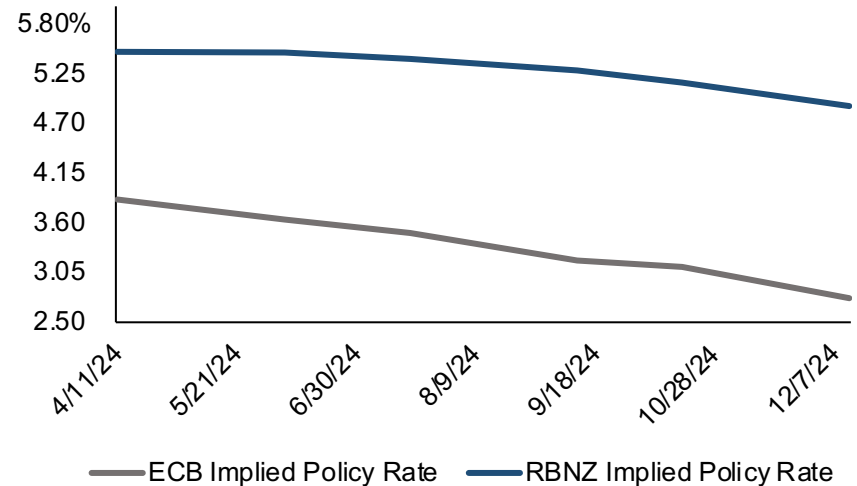
## II. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **New Zealand Parliament Removed Dual-Mandate**
  - Inflation control is the sole mandate of the RBNZ allowing the monetary policy committee to remain hawkish
  - Inflation in 4Q2023 was 4.70% falling from 5.60% in 3Q2023, significantly above the target of 1.00-3.00%. Non-tradables made up 72.34% of 4Q2023 CPI
  - GDP is expected to rebound after 3Q2023 was reported at (0.60%) y/y, 2024 is expected to be 1.00% and 2025 is expected to be 2.20%. Missing expectations for 4Q2023 would have New Zealand in a technical recession
  
- **Dovish ECB and Lower Inflation Allow ECB Cut**
  - In the March ECB meeting President Lagarde came out with dovish sentiment during the hold. Signaled June cut opposed to April as more information will be available
  - CPI fell to 2.60% y/y in February, nearing the November low of 2.40% y/y. Unemployment for the E.A. remains at an all-time low as the ECB focuses on their dual mandate
  - Business confidence was (0.42) for February and has been negative since July 2023, is expected to remain negative until June as businesses are relying on an ECB cut
  
- **ECB Faces Pressure From Consumers to Cut**
  - Retail sales were (1.00%) y/y in January. Retail sales readings have been negative since September 2022, which was the start of ECB rate hikes
  - E.A. consumer confidence for February was (15.50), has been below (15.00) since March 2022 which signals an economic downturn due to heightened rates

### RBNZ vs ECB Implied Policy Rate | 9-Month Chart



### Market Pros & Cons

- Low inflation and deflation continues in China
- Russian Ukraine war continues
- Energy prices increase due to the conflict in the Red Sea
- Disinflation for New Zealand non-tradables increases



## III. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The trade has a net Delta of (0.087478) mm
  - With every substantial change in the underlying, the position will shift by ~\$87.48 k in notional value
- **Gamma Analysis**
  - The trade has a Gamma value of 0.007811 mm
  - Each significant figure shift in the pair will lead to a Delta change of ~\$78.11 k at this point in the trade

### Implied Volatility Risk

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- **Vega Analysis**
  - The Vega for this trade is 0.000440 mm which indicates the option's sensitivity to fluctuations in implied volatility
    - A 1.00% change in implied volatility would result in a \$44.00 increase or decrease in the option's premium. As markets become more volatile Vega will benefit the trade pushing it closer to being ITM
  - The annualized implied volatility of the bought put was 7.24% and sold put was 7.34%

### Time Risk

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- **Theta Analysis**
  - The trade has a net Theta value of (0.006550) k
  - As the trade loses value for every day it spends OTM, the premiums will decrease by ~\$6.55
  - Considering the large amount of time until expiration and the minimal size of the move that is needed to be ITM Theta is fairly low. As the contract becomes closer to being ITM Theta should become positive and grow as the contract approaches its expiration date in September

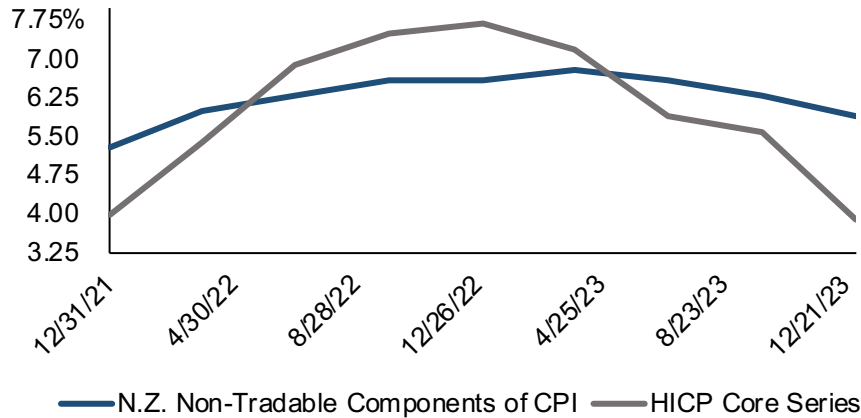




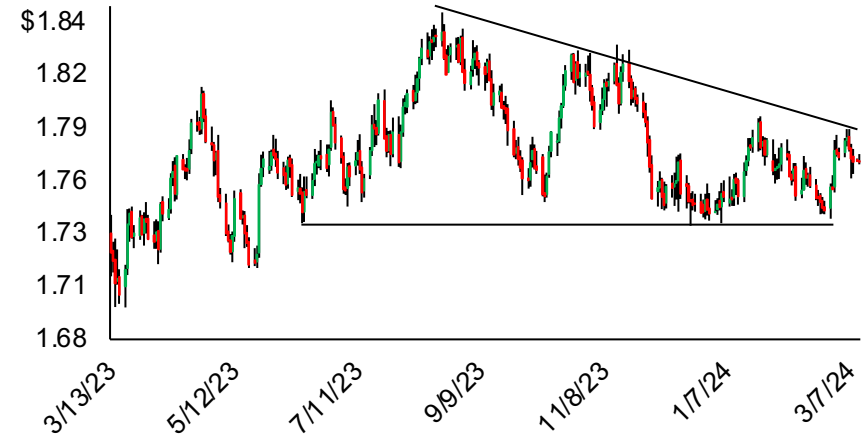
## IV. Technical Bias & Fair Value

## Technical Bias & Fair Value

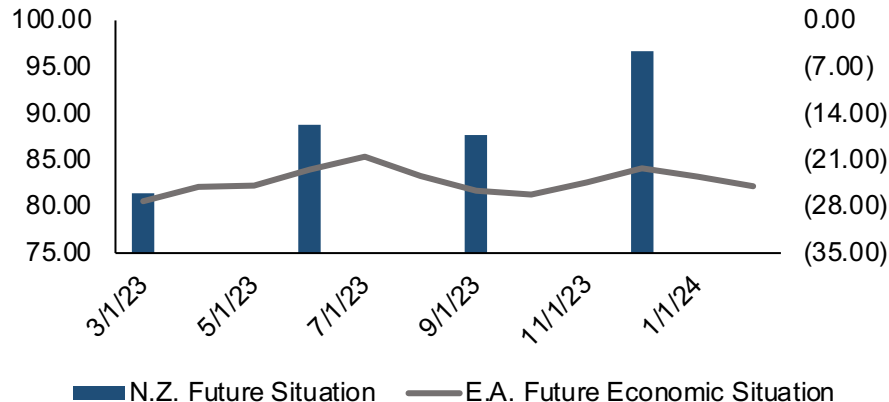
**N.Z. vs. E.A. Services Inflation | 2-Year Chart**



**EURNZD | 1-Year Price Chart**



**N.Z. vs E.A. CPI Future Expectations | 12-month Chart**



### Synopsis

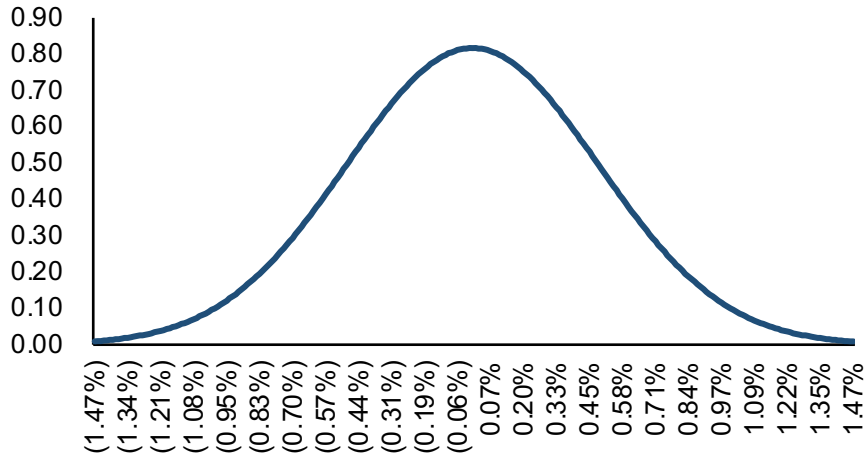
- Non-tradable inflation has been the stickiest part of inflation for New Zealand this is largely due to inflation in the services industry. The E.A. represents this with HICP excluding housing, water, electricity, gas and other fuels which declined quickly with rate hikes
- The Sector has identified a descending triangle on EURNZD, which bearish technical indicator indicating a bearish move in the pair. This long-term analysis should hold true through the duration of the trade
- Future expectations indicate how the consumer in both economies expect their economic situation to be. The New Zealand consumer is much more confident about the future despite higher current rates



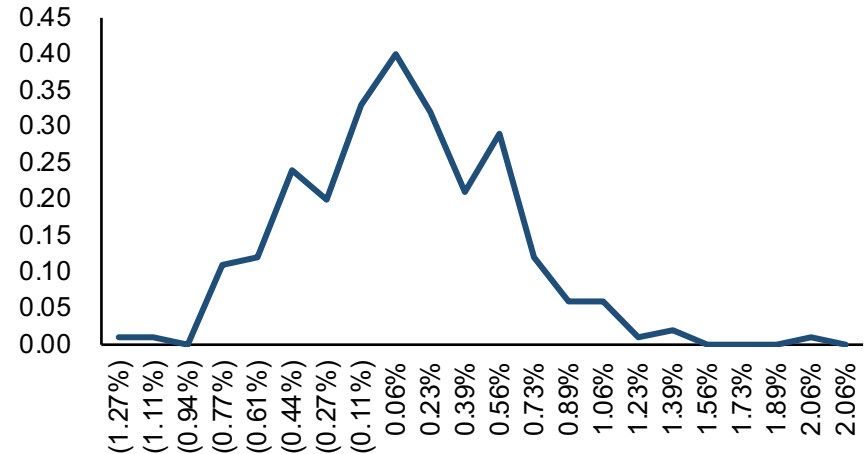
## V. Volatility Analysis

## Volatility Analysis

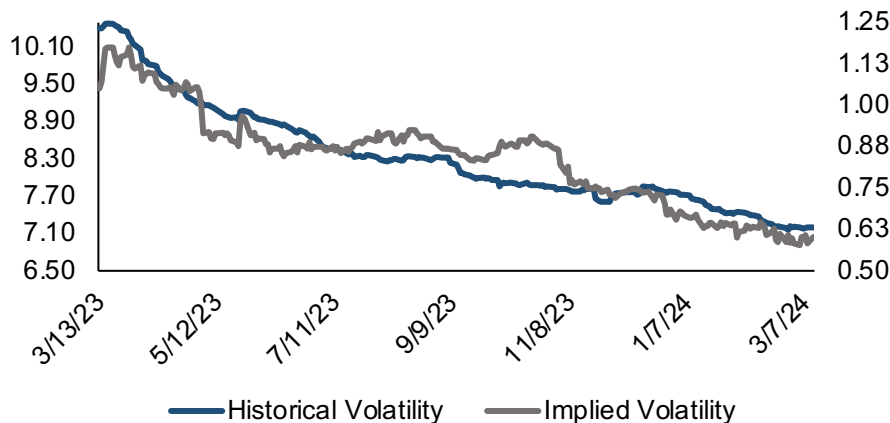
Expected Theoretical Daily Return Distribution



Historical Daily Return Distribution



6M Historical Volatility vs. 6M Implied Volatility | One-Year Chart



### Synopsis

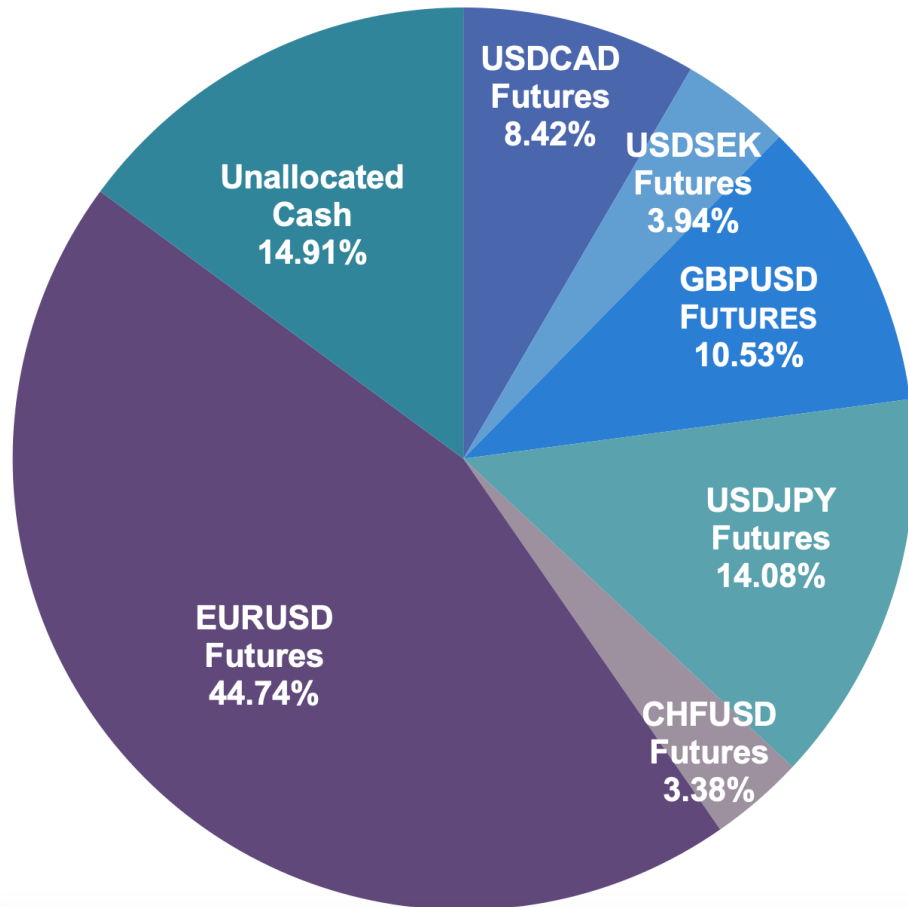
- Historical daily returns is skewed to the right and is net positive, this indicated that the pairing is historically more volatile than expected
- Markets have been pricing in less volatility recently as central banks have been driving volatility, as they reached their peaks volatility declined
  - This benefits the trade as central banks begin to reverse policy and begin to cut the pairing will become more volatile
- The pairing will become more volatile as pressure to cut rates intensifies around the E.A. and as the RBNZ considers further hikes. Speculation on when the ECB will cut will intensify volatility throughout the trade



## VI. Capital Allocation

## Capital Allocation

### Current Portfolio Allocation



### Proposed Portfolio Allocation

