AMG
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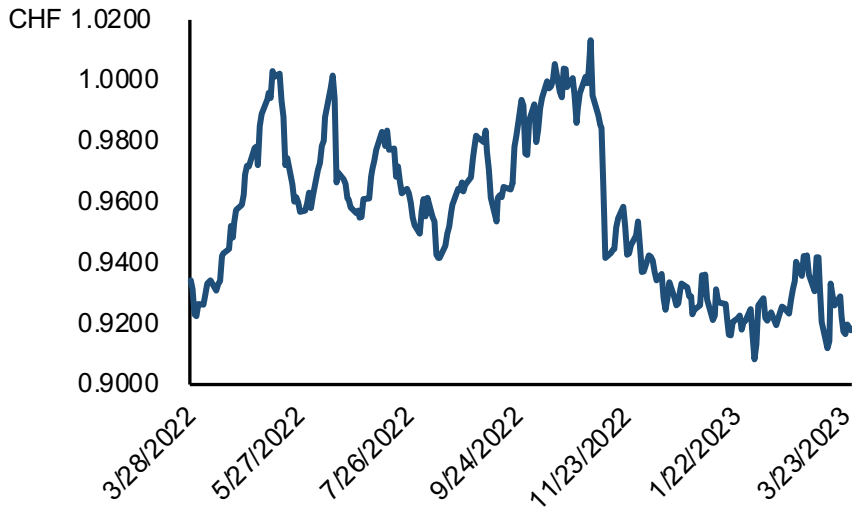
**USDCHF | One-Year Price Chart**




## Position Details

- US Dollar/Swiss Franc Spot Exchange Rate | USDCHF
- Underlying Price: 0.9161
- Bear Put Spread
- Expiration Date: June 27th, 2023

## Foreign Exchange Sector

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# I. Product & Position Overview

# Product & Position Overview

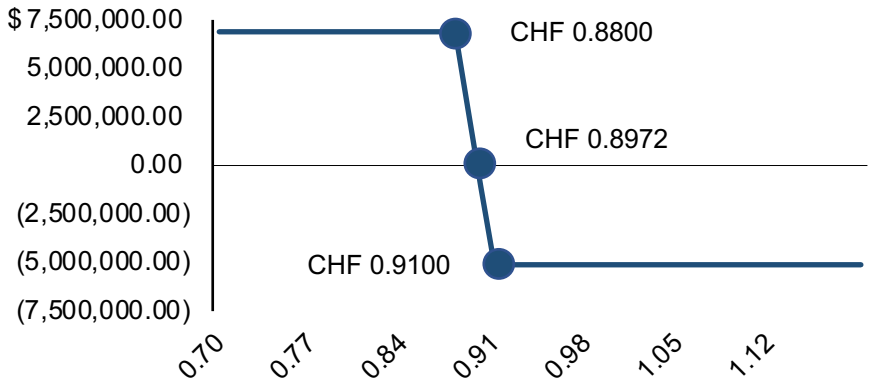
## Product Description

- **US Dollar/Swiss Franc Spot Exchange Rate**
  - The US Dollar/Swiss Franc Spot exchange rate tracks the spot exchange rate between the two currencies, expressing the amount of Swiss Franc needed to buy a Dollar
  - The Swiss Franc makes up 3.60% of DXY and is included in the G10, making it one of the top traded currencies in the world, when paired with the United States Dollar
  - Common factors that shift the price of USDCHF included changes in interest rate decisions by the Fed and SNB and demand for goods and services provided by both countries

## Trade Breakdown

- **Bear Put Spread**
  - The trade benefits from negative price movements in the underlying currency pair
- **Setup**
  - We Buy 1.00 Put w/ $400.00 mm notional at CHF 0.9100
  - We Sell 1.00 Put w/ $400.00 mm notional at CHF 0.8800
- **Expiration**
  - Date: June 27, 2023

## Payoff Diagram




## Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **CHF 0.8800** / CHF **0.8900** / **CHF 0.9100**
  - Breakeven – CHF 0.8972
- **Methodology**
  - The Sector looks to benefit from ~3.00% bearish movement in the underlying towards the low strike
- **Hedge Strategy**
  - In the event of adverse price movement, the Sector would purchase CHF to rebalance our portfolio

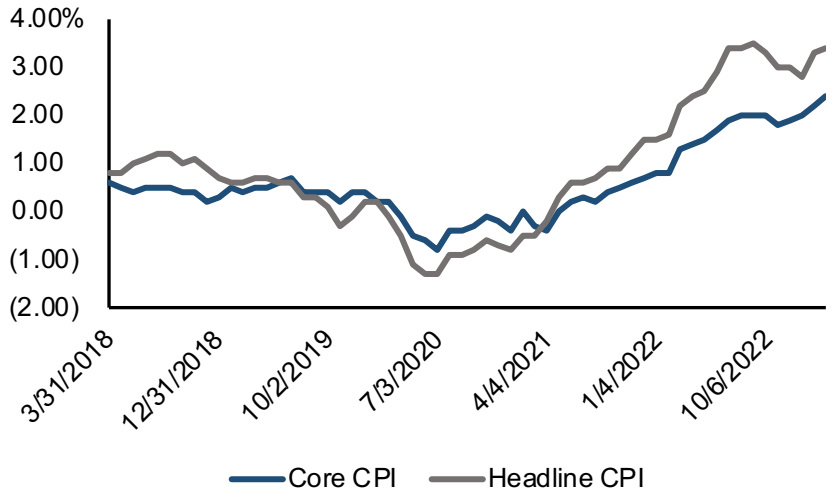
# II. Macroeconomic Thesis

# Macroeconomic Thesis

## Macroeconomic Summary

- **Ineffective Price Regulation of goods and services**
  - Swiss inflation rose to 3.40% y/y which forced the SNB to raise the Swiss Policy Rate 50.00bps to 1.50% at their interest rate decision meeting in March
  - Switzerland's price regulation makes climbing prices more concerning than many other nations with higher y/y CPI
  - Switzerland's policy and recent decision to hike rates illustrate the country's priority to keep inflation low and to keep the Swiss Franc competitive in the global market
- **Tight Labor Market leading to inflation**
  - Swiss Unemployment came in at 2.10% after it hit a 20.00 year low of 1.90% in September and October, before the SNB began raising interest rates to slow down inflation
  - The tight labor market has fueled inflation, with hotel services, coffee and bread being the goods and services seeing the largest jumps in prices
- **SVB situation reshapes expectations for US Target Rate**
  - As a result of the second largest bank failure in US history market sentiment and Fed rhetoric turns dovish as worry increases about the strength of US banking system
  - Although many contribute Bank defaults to poor risk management, undoubtedly high interest rates was a major factor in devaluing many of SVB long term assets

**Swiss Core CPI vs Swiss Headline CPI | Five-Year Chart**




## Market Pros & Cons

- Credit Suisse's merger increases demand for its services
- Summer Season approaching leads to increase in tourism
- USD Liquidity Plan adds value to Dollar in the short term
- Federal Reserve takes hawkish approach moving forward

# III. Risk Analysis

# Risk Analysis

## Directional & Magnitude Risk

- **Delta Analysis**
  - The trade has a net Delta of CHF -27.4151 mm
  - If the Delta is divided by 100.00 to get -274,151, that is the amount of the options price would change given a CHF 0.01 change in the underlying currency pair
- **Gamma Analysis**
  - The trade has a Gama of CHF 9.80 mm
  - For every one franc change, the delta would gain or lose 9.80 mm

## Time Risk

- **Theta Analysis**
  - The trade has a Theta (8,659.29)
  - For every one day that passes with no change in the underlying, the trade would lose 8,659.29
  - As the trade moves closer to expiration expect theta to grow in absolute value

## Implied Volatility Risk

- **Vega Analysis**
  - The trade has a Vega of 199.97 k
  - If volatility changes 1.00%, the premium will go up by the value of Vega
  - The implied volatility of the underlying is ~8.82%

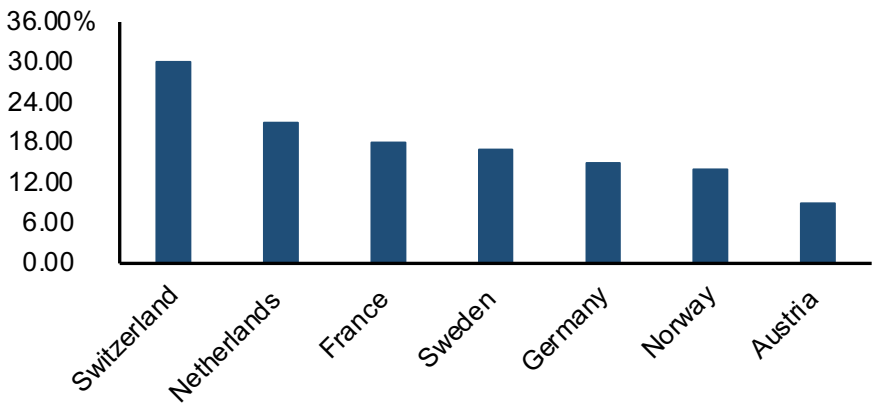
## Interest Rate Risk

- **Rho Analysis**
  - The trade has a rho of (276.41 k)
  - A 1.00% change in the U.S. interest rate would cause the option to gain or lose 276.41 k
- **Phi Analysis**
  - The trade has a Phi value of 264.93 k. Therefore, a 1.00% change in the foreign interest rate would result in a 264.93 k gain or loss

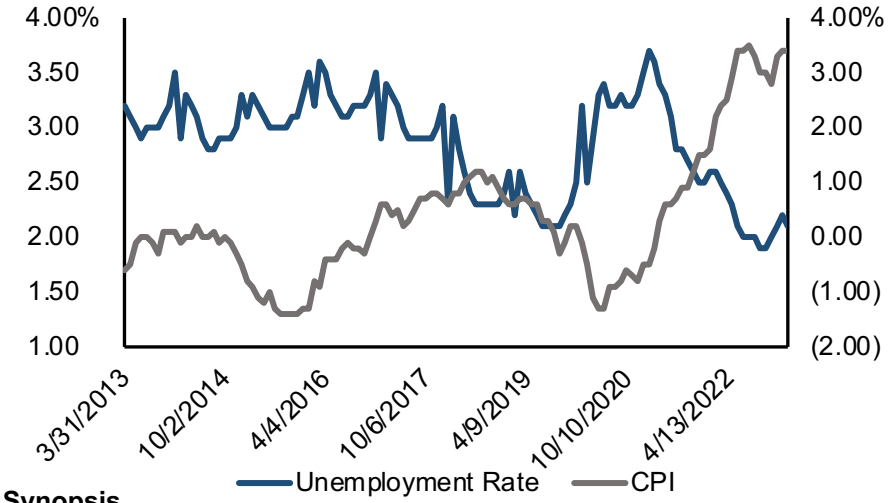
# IV. Technical Bias & Fair Value

# Technical Bias & Fair Value

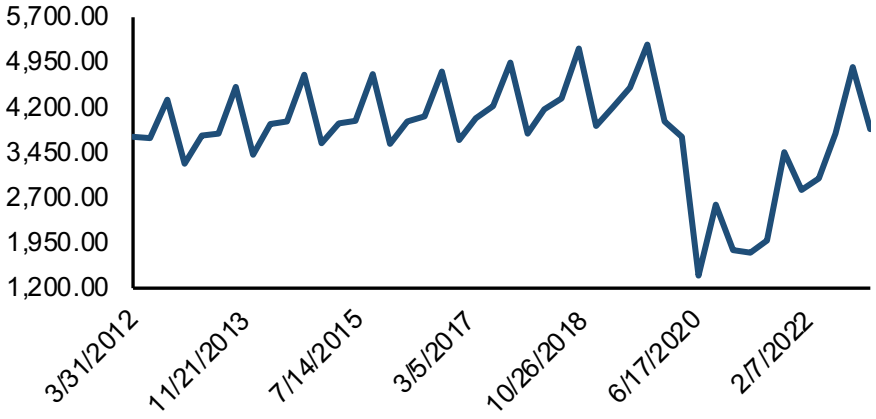
**Goods and Services Subject to Price Regulation in European Union**




**Swiss Employment Rate vs Swiss CPI y/y | Ten-Year Chart**




**Switzerland Current Account Tourist Receipts in mm | Ten-Year Chart**




**Synopsis**

- Switzerland regulates the price of ~30.00% of all goods and services in order to keep inflation low and keep the franc safe and stable
  - Due to Switzerland's extremely high GDP per capita, the government and SNB looks to keep the currency stable in hopes of maintaining many of its ultrawealthy citizens
- Swiss Unemployment recently reached a 10.00 year low of 1.90% in September and October, before the SNB began raising interest rates
- One of the largest industries in Switzerland is tourism, which peaks every year during the summer months. As a result of Covid-19 limiting travel, look for higher than average tourism numbers this summer

# V. Capital Allocation

# Capital Allocation