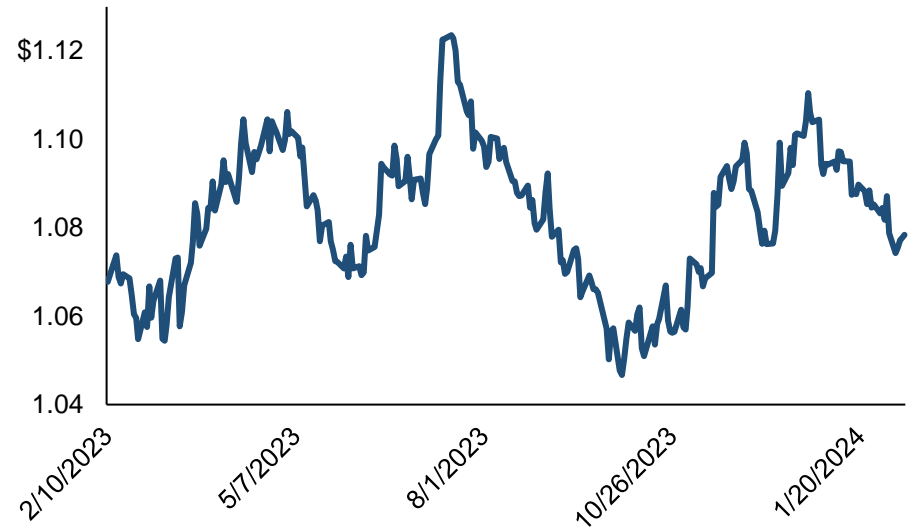


## EURUSD | One-Year Price Chart



### Position Details

- Euro/US Dollar Spot Exchange Rate | EURUSD
- Underlying Price: 1.0784
- Bear Put Spread
- Expiration Date: August 12, 2024

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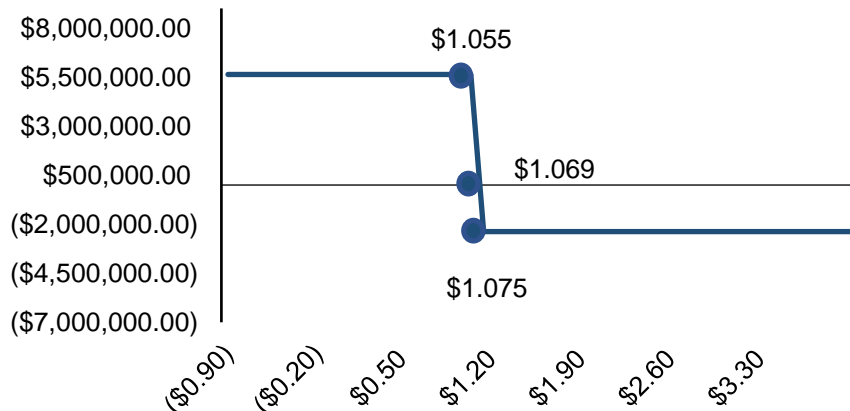
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **Euro – U.S. Dollar Exchange Rate**
  - EURUSD is the pairing used to denote the spot exchange rate between the Euro and USD. The Pair dictates how much USD is required to buy one Euro
  - EURUSD is the most commonly traded currency pair as the U.S. and the E.A. are two of the world's largest economies lending to two of the most popular currencies
  - The pair is mainly impacted by differentials in interest rates, the labor market, CPI and GDP data, as well as general sentiment regarding the two countries' economies

### Payoff Diagram



### Trade Breakdown

- **Bear Put Spread**
  - This trade benefits from bearish movements in the underlying currency exchange cross rate
- **Setup**
  - We Buy – 2.00 mm OTM \$1.075 Puts | EURUSD
  - We Sell – 2.00 mm OTM \$1.055 Puts | EURUSD
    - Max Profit: \$5,624,564.70
    - Max Loss: (\$2,375,435.30)
- **Expiration**
  - Date: August 12, 2024

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **\$1.055 / \$1.060 / \$1.075**
  - Breakeven – \$1.069
- **Methodology**
  - The Sector aims to benefit from a ~2.17% 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



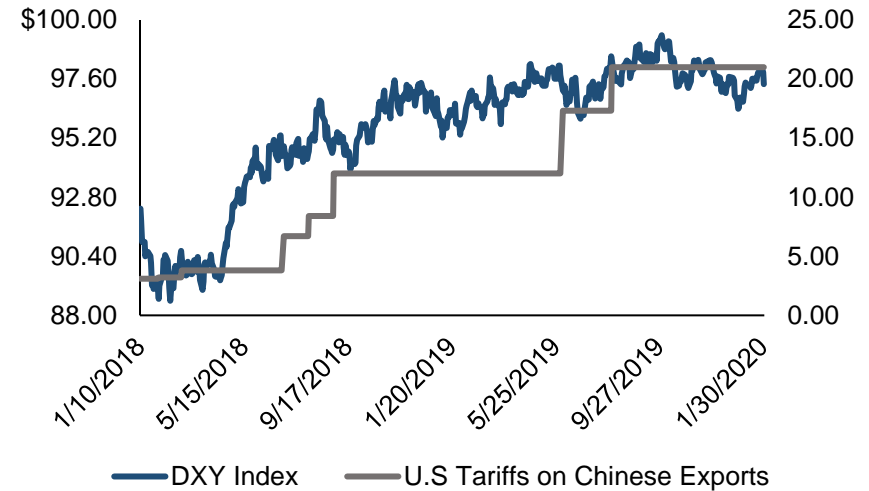
## II. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **U.S. Economic Outlook Supports Strong USD and Less Cuts**
  - Despite markets suggesting an 80.00% chance for two or more cuts in July, resilient GDP, with a 3.30% y/y higher than expected increase, the timeline for cuts may be later
  - Labor data within the U.S. continues to indicate strength, as nonfarm payrolls doubled expectations at 353.00 k in January indicating a strong consumer
  - Grocery prices were 22.00% higher than they were at the end of 2019, indicating consumers are still feeling the effects of inflation despite the efforts of the Fed
- **Weak consumer and low GDP growth force ECB to cut**
  - Retails sales were down (1.10)% m/m in December and consumer fell from (15.10) to (16.10) in January showing weakness in the consumer from high interest rates
  - The Governor of the Bank of Italy, Fabio Panetta, said "the time for a reversal of the monetary policy stance is fast approaching" signaling a dovish turn from the ECB
  - GDP growth in the E.A. for 4Q2023 was 0.10% y/y and in 3Q2023 it was stagnant. Inflation for January was 2.80% y/y with a 2.00% target inflation rate for the ECB
- **2024 Election Year Boosts US Dollar**
  - With the election likely featuring president Joe Biden and former president Donald Trump the dollar will likely elevate due to potential intensification of trade wars
  - Additional tariff renewals will be positive for the dollar. There's also the potential expansion of tariffs to regions beyond China, such as Europe and Mexico that would strength the value of the U.S. dollar over time

### U.S Tariffs on Chinese Exports vs. DXY Index | Two-Year Chart



### Market Pros & Cons

- U.S. consumer remains confident and continues to spend
- Demographic shifts in the E.A. continue to harm working population
- Eurozone nominal wage growth reignites
- E.A. services industry improves similar to U.K. services industry



## III. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The trade has a net Delta of (0.144599) mm
  - With every significant figure alteration in the underlying, the position will shift by ~\$144.59 k in notional value
- **Gamma Analysis**
  - The trade has a Gamma value of 0.016285 mm
  - Each significant figure shift in the pair will lead to a Delta change of ~\$16.28 k at this point in the trade

### Implied Volatility Risk

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- **Vega Analysis**
  - The Vega for this trade is 0.004961 mm which indicates the option's responsiveness to fluctuations in implied volatility
    - A 1.00% change in implied volatility would result in a \$49.61 increase or decrease in the option's premium
  - The annualized implied volatility of the bought put was 6.44% and sold put was 6.74%

### Time Risk

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- **Theta Analysis**
  - The trade has a net Theta value of (0.000004) k
  - As the trade loses value for every day it spends OTM, the premiums will decrease by minimal amounts
  - Considering our six-month time frame and the minimal move that is needed for us to be ITM, Theta is extremely small

### Interest Rate Risk

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- **Rho Analysis**
  - XXXXXX
- **Phi Analysis**
  - XXXXXX

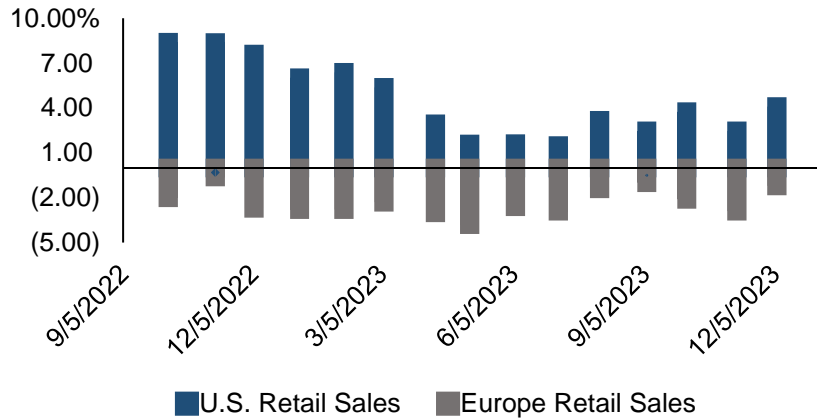




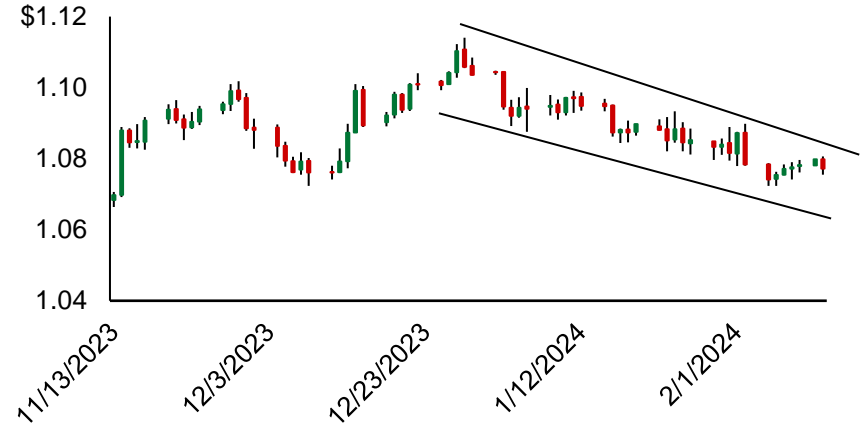
## IV. Technical Bias & Fair Value

## Technical Bias & Fair Value

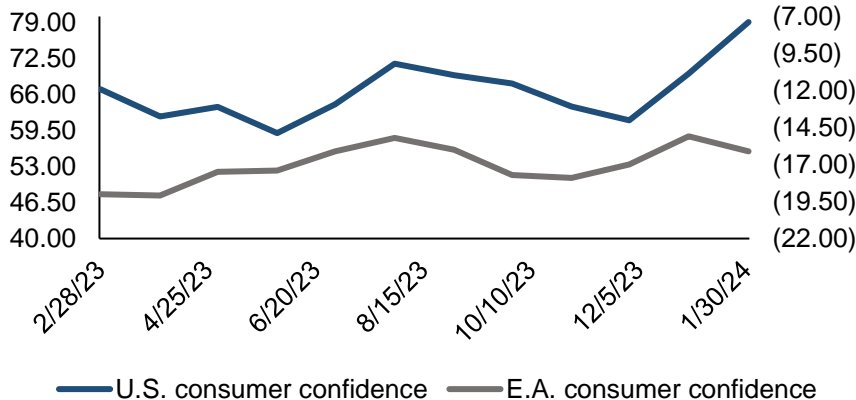
U.S. Retail Sales vs. Europe Retail Sales YoY Growth | 1.50-Year Chart



EURUSD | Three-Month Price Chart



U.S. vs E.A. consumer confidence | 12-month Chart



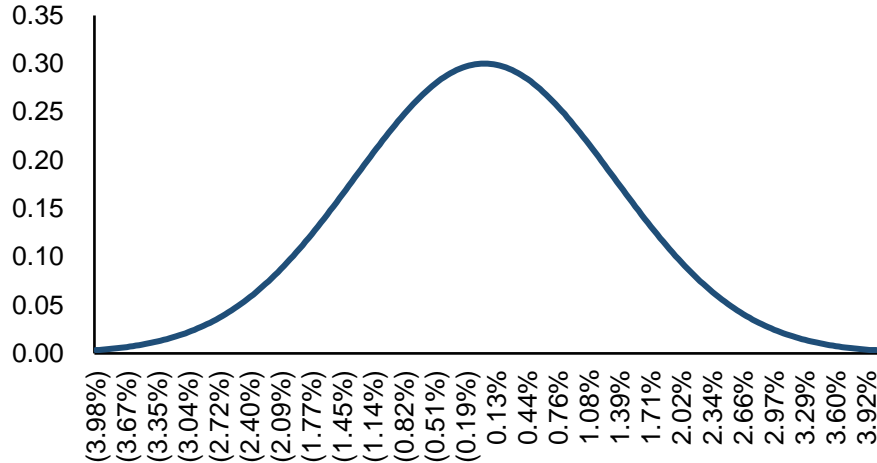
### Synopsis

- Retail sales have shown to grow consistently more in the U.S. compared to Europe. This indicates a stronger consumer with the ability to prop up the economy as compared to the E.A.
- The Sector has identified a downward price trend on the EURUSD, which is a basic technical signal that may indicate a potential further downward movement of the currency pair
  - This is a long-term trend that has continued for roughly the past one and a half months and we expect it to continue to slowly reduce the asset's price for the duration of the trade
- The U.S. consumer has become more confident over the last year, E.A. consumer still lacks confidence and has declined. High consumer confidence allows the Fed and ECB to hold rates

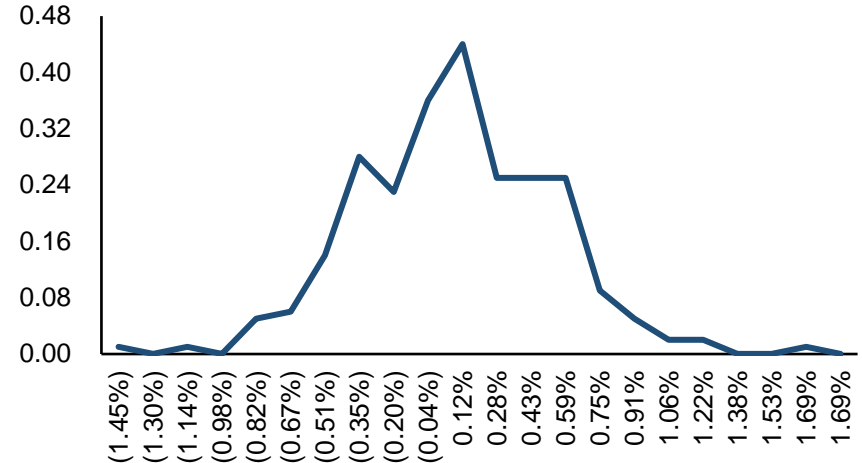
## V. Volatility Analysis

## Volatility Analysis

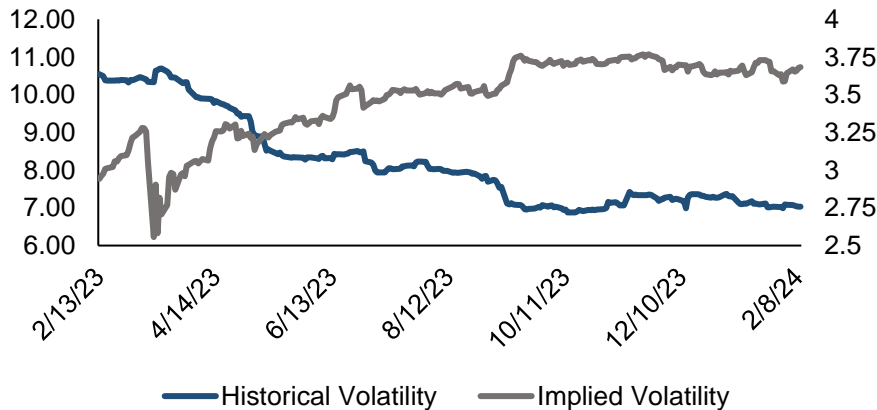
Expected Theoretical Daily Return Distribution



Historical Daily Return Distribution



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



### Synopsis

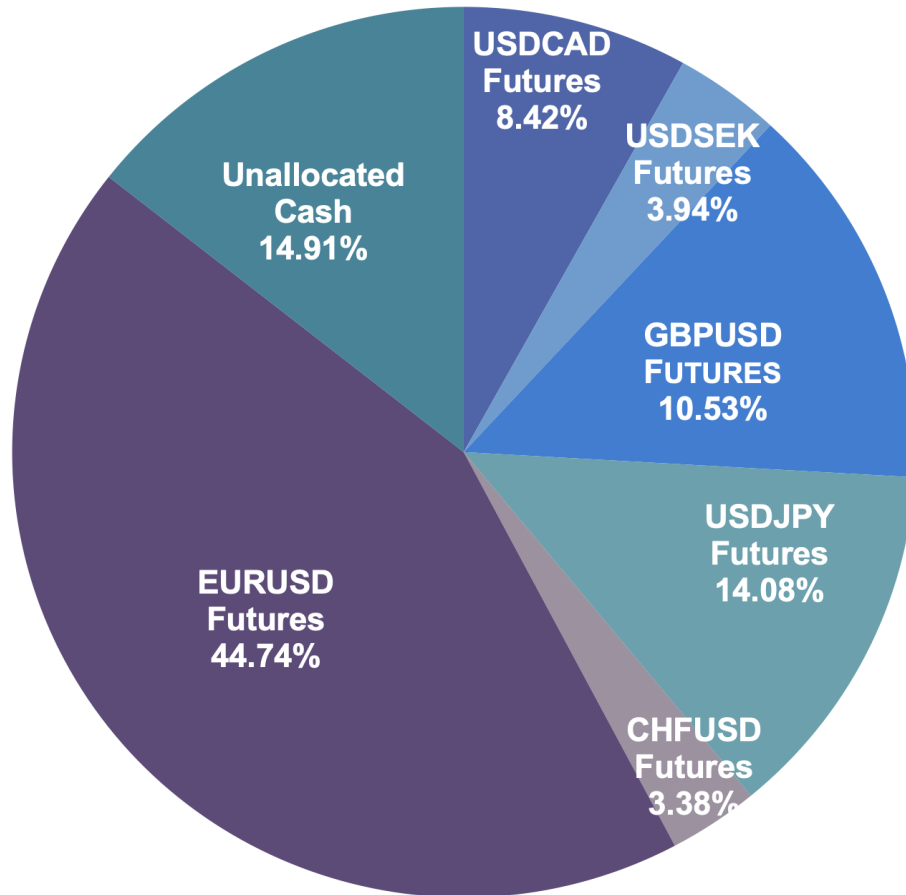
- Expected Theoretical Daily Return distribution is relatively normal and is slightly net positive with a higher than expected peak at 0.12%
- Markets currently don't have volatility priced in as historically volatility has been closer to 0.00% than the theoretical
  - This could benefit our trade as volatility has yet to be realized, the sector expects daily volatility to increase as major central bank indicators are released and speculation increases
- The pairing will become more volatile as pressure to cut rates intensifies around the U.S. and the E.A., higher pressure on the ECB will bring volatility that the sector needs for the trade to end ITM



## VI. Capital Allocation

## Capital Allocation

### Current Portfolio Allocation



### Proposed Portfolio Allocation

