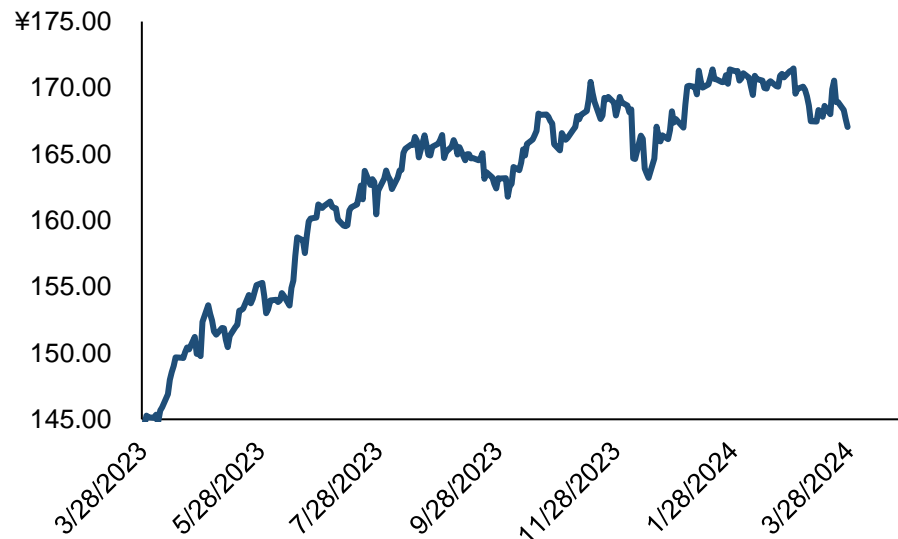




## CHFJPY | One-Year Price Chart



### Position Details

- Swiss Franc/Japanese Yen Spot Exchange Rate | CHFJPY
- Underlying Price: 168.02
- Bear Put Spread
- Expiration Date: November 15, 2024

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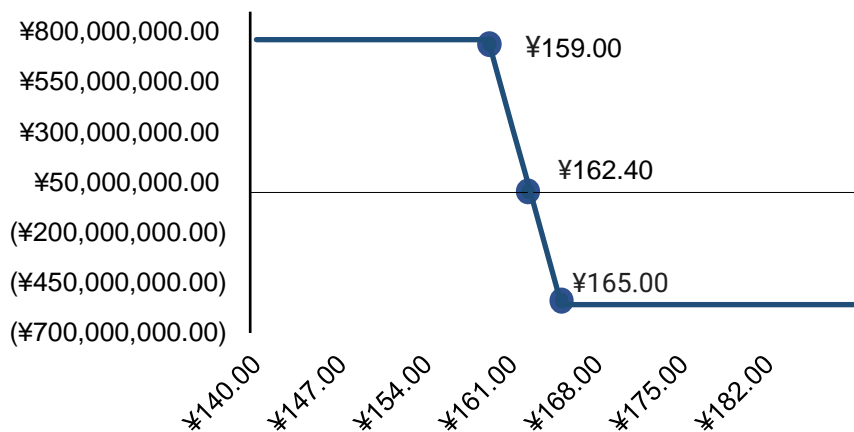
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **Swiss Franc – Japanese Yen Exchange Rate**
  - CHFJPY denotes the spot exchange rate between the Swiss franc and Japanese yen. This pairing indicates how many Japanese yen are required to buy one Swiss franc
  - CHFJPY is a relatively uncommon currency pair, although the franc and yen are both part of the G10 currencies, which are the ten most commonly traded currencies
  - The biggest factors that influence this pair is interest rate differentials, economic data like CPI and real wage growth, as well as currency intervention by Switzerland and Japan

### Payoff Diagram



### Trade Breakdown

- **Bear Put Spread**
  - This trade benefits from bearish movements in the underlying currency exchange cross rate
- **Setup**
  - We Buy – 2.20 mm OTM ¥ 165.00 Puts | CHFJPY
  - We Sell – 2.20 mm OTM ¥ 159.00 Puts | CHFJPY
    - Max Profit: ¥761,338,979.65 [\$5,022,058.38]
    - Max Loss: (¥558,661,020.35) [(\$3,685,123.62)]
- **Expiration**
  - Date: November 15, 2024

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - ¥159.00 / ¥161.00 / ¥165.00
  - Breakeven – ¥162.40
- **Methodology**
  - The Sector aims to benefit from a ~5.37% 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



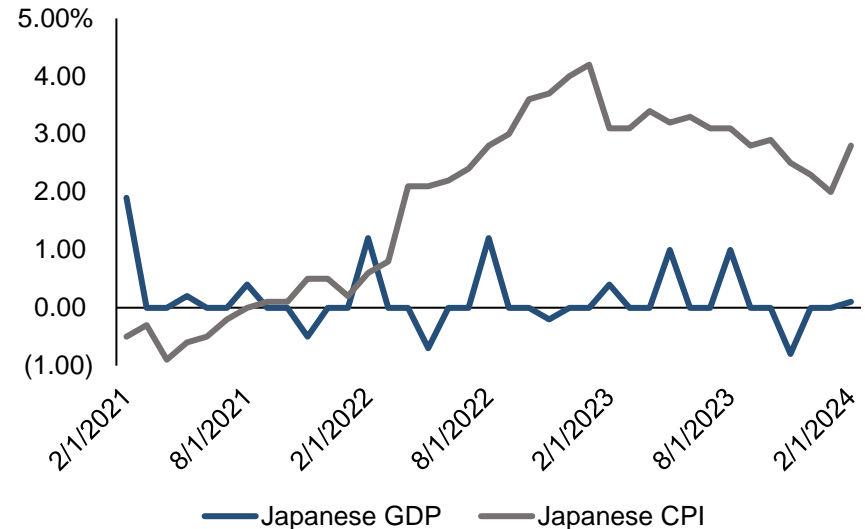
## II. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **BoJ Shift Causes Investors to Rethink Position**
  - After the BoJ historically hiked rates ending an eight-year negative interest rate era, the yen saw widespread weakness against currencies like the USD and CHF
  - Governor Ueda indicated the BoJ would remain cautious about raising rates in the short-term, however, decided to hike as nominal monthly wages grew 2.30% m/m
  - Many Japanese companies have agreed to large wage increases with unions, including Honda Motors which agreed to a 5.60% annual increase
- **Outlook on the SNB Lends to a Weaker Franc**
  - Swiss inflation dropped to 1.20% in February and has held below the 2.00% mark consistently prompting the SNB to cut rates to 1.50% making it the first G10 country to cut
  - SNB officials have indicated an openness to more changes in the coming months with the chairman stating, “the bank will adjust monetary policy again if necessary”
  - Switzerland and Japan have a relatively small interest rate gap compared to Japan and other countries, with this gap set to continue to close in the coming months
- **Potential Japanese Intervention to Support the Yen**
  - Japan’s top currency official in the ministry of finance, Masato Kanda, indicated that moves in the yen have been highly speculative and he expects that actions against excessive moves will be taken to fight this
  - Japan’s last currency intervention was in September and October of 2022 when the USDJPY pair hit levels of 145.00 and 152.00 and 9.20 T yen were bought

Japanese GDP vs. Japanese CPI | Three-Year Chart



### Market Pros & Cons

- Balance of trade in Japan shifts supporting the yen
- Closing inflation gap between foreign countries and Switzerland
- Manufacturing weakens off the back of a difficult quarter
- The Japanese consumer remain reluctant to spend



## III. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The trade has a net Delta of (0.197541) mm
  - With every significant figure alteration in the underlying, the position will shift by ~\$197.54 k in notional value
- **Gamma Analysis**
  - The trade has a Gamma value of 0.014441 mm
  - Each significant figure shift in the pair will lead to a Delta change of ~\$14.44 k at this point in the trade

### Implied Volatility Risk

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- **Vega Analysis**
  - The Vega for this trade is 0.000598 mm which indicates the option's responsiveness to fluctuations in implied volatility
    - A 1.00% change in implied volatility would result in a \$597.54 increase or decrease in the option's premium
  - The annualized implied volatility of the bought put was 7.27% and sold put was 7.89%

### Time Risk

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- **Theta Analysis**
  - The trade has a net Theta value of (0.000023) k
  - As the trade loses value for every day it spends OTM, the premiums will decrease by minimal amounts
  - Considering our seven-month time frame that we have to reach an ITM position, Theta is extremely small and is relatively negligible for this trade
    - Additionally, the percent move required to reach an ITM position is relatively small overall considering the time frame of the trade

### Interest Rate Risk

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- **Rho Analysis**
  - XXXXX
- **Phi Analysis**
  - XXXXX

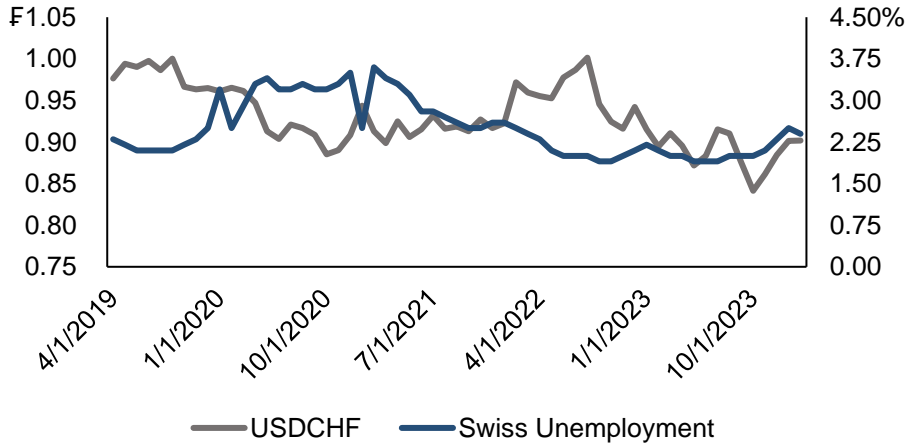




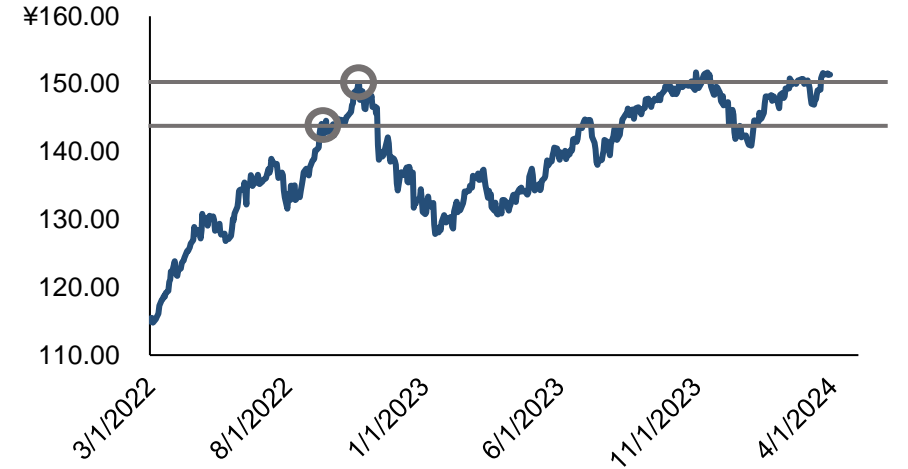
## IV. Technical Bias & Fair Value

## Technical Bias & Fair Value

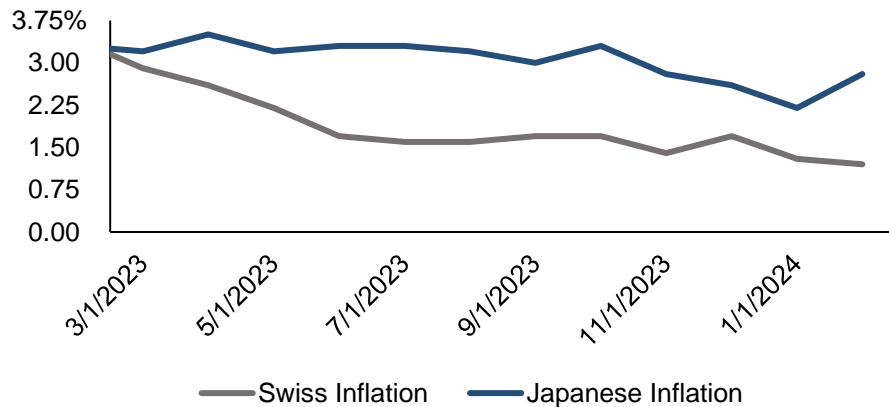
USDCHF vs. Swiss Unemployment Rate | Four-Year Chart



USDJPY Currency Intervention Points | Two-Year Price Chart



Swiss vs Japanese Inflation Rate | One-Year Chart



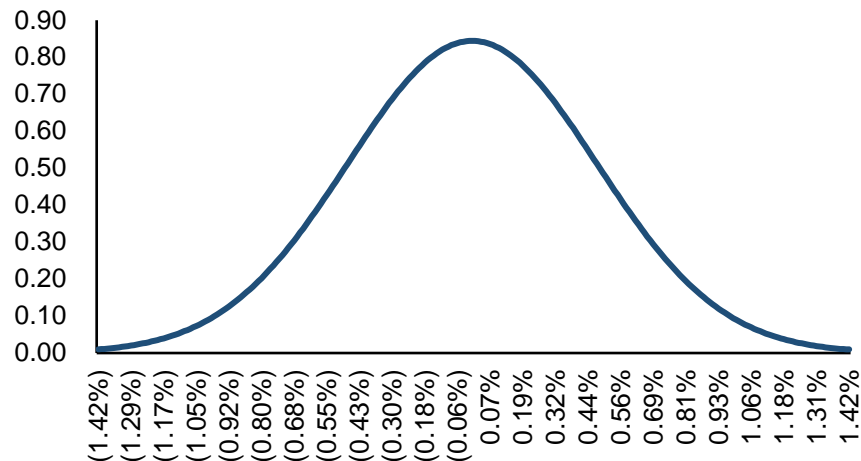
### Synopsis

- A stronger franc has been correlated with a weaker labor market. In the 1970s and 1990s, appreciation of the franc caused major downturn in the job market. The SNB will want to avoid this downturn
- The yen is currently weaker than previous levels where the Japanese ministry of finance intervened. We are hovering around the 152.00 mark. If the yen pushes much higher, intervention may be necessary
- Inflation in Japan has remained consistently higher over the past year than in Switzerland. With inflation being the most important metric considered by central banks, this may be telling of future policy

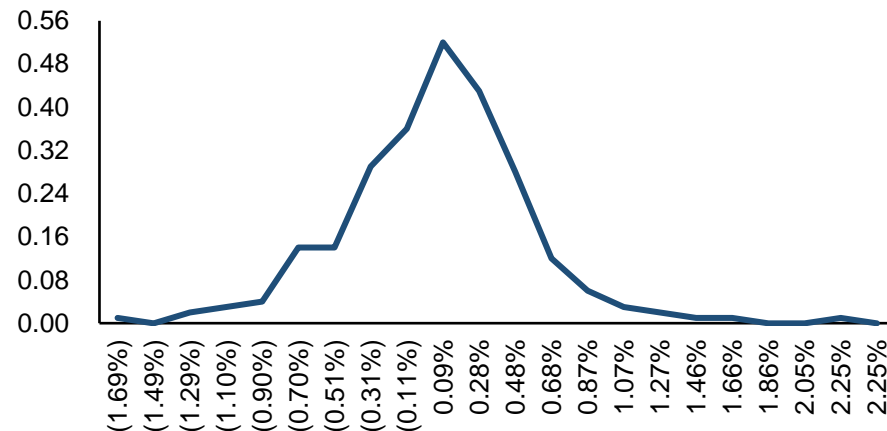
## V. Volatility Analysis

## Volatility Analysis

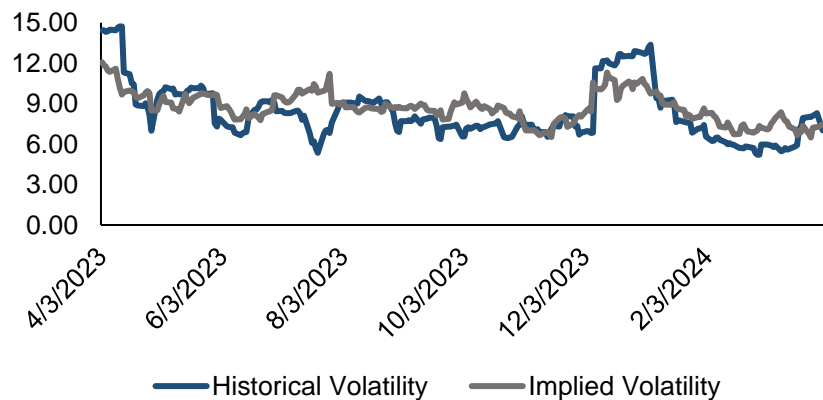
Expected Theoretical Daily Return Distribution



Historical Daily Return Distribution



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



### Synopsis

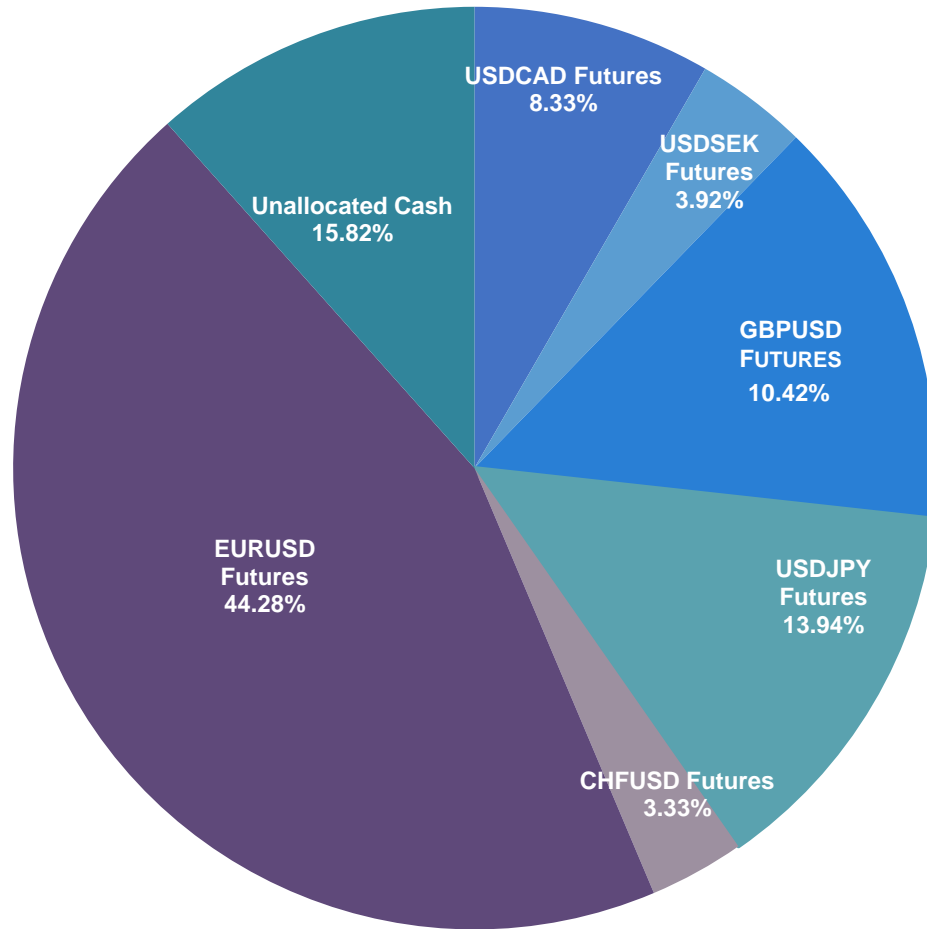
- Expected Theoretical Daily Return Distribution is normal and has an expected peak at around 0.00%, while Historical Daily Return Distribution sits at a peak of around 0.09%, which is slightly higher
- We have seen rapid changes in implied volatility over the past two weeks, moving from around 7.09%, down to 6.50%, and back up to 7.52% meaning that the pairing's volatility has been susceptible to major news
- More volatility will be added to the pairing as rhetoric from the BoJ and SNB shift over time and different forms of currency control are either talked about or put into place which will help the trade end ITM



## VI. Capital Allocation

## Capital Allocation

### Current Portfolio Allocation



### Proposed Portfolio Allocation

