MARKET CONDITIONS

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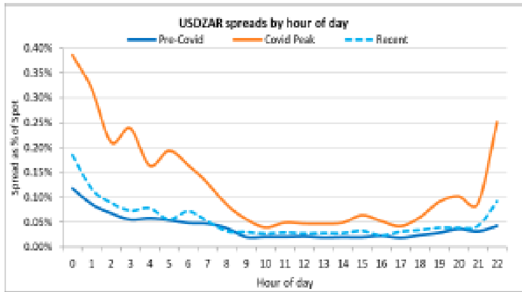
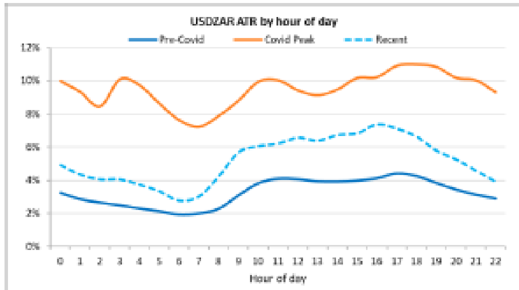
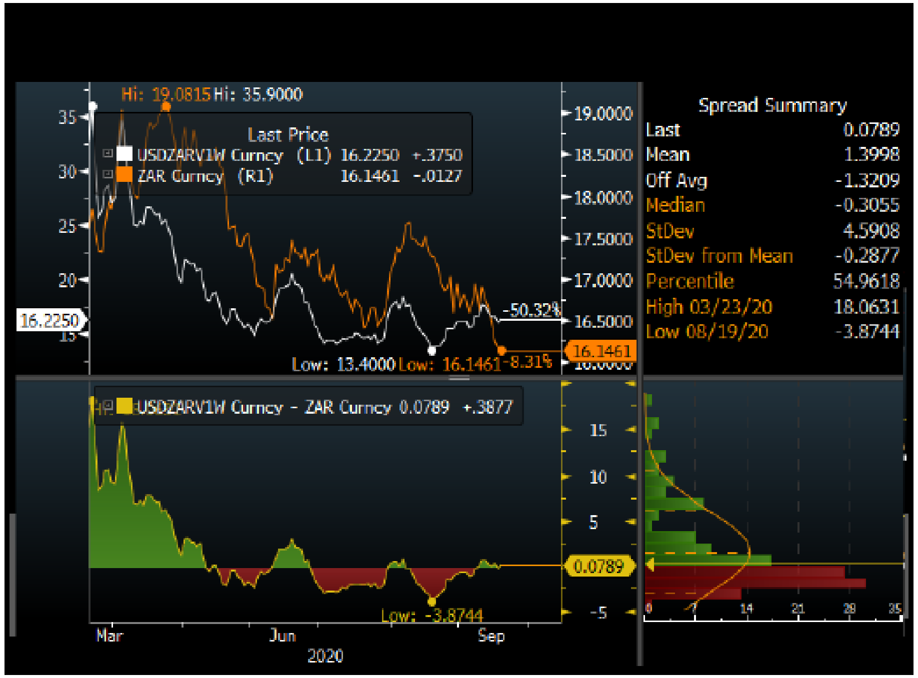
- Involvement of High Frequency LPs changing the intraday vol dynamic.





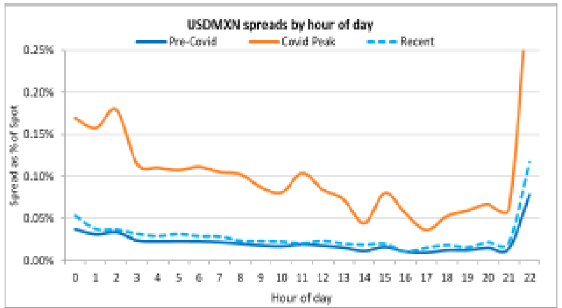
Source: Bloomberg data, CLS and Mosaic Smart Data

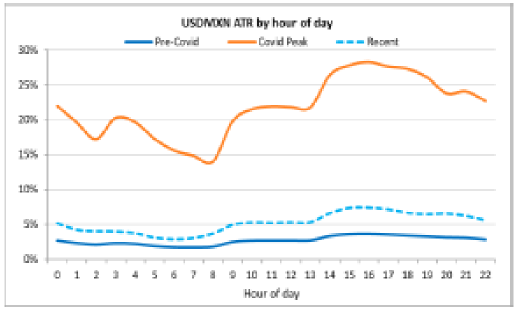
- The average spread has returned (on a relative basis) to the levels we saw pre-Covid. Whilst average true range on an hourly basis, a measure of intraday volatility, hasn't.
- We would attribute this to the return of the high frequency LPs, in a market that has lost much of its 'real' flow. This is in essence mispricing of intraday vol in the spot market spreads.
- You can see below that the options market realises this dynamic – the 1w ATM vol hasn't followed the zar lower (these are normally very positively correlated). They can make money intraday from the cheap liquidity that's being provided by the spot market.



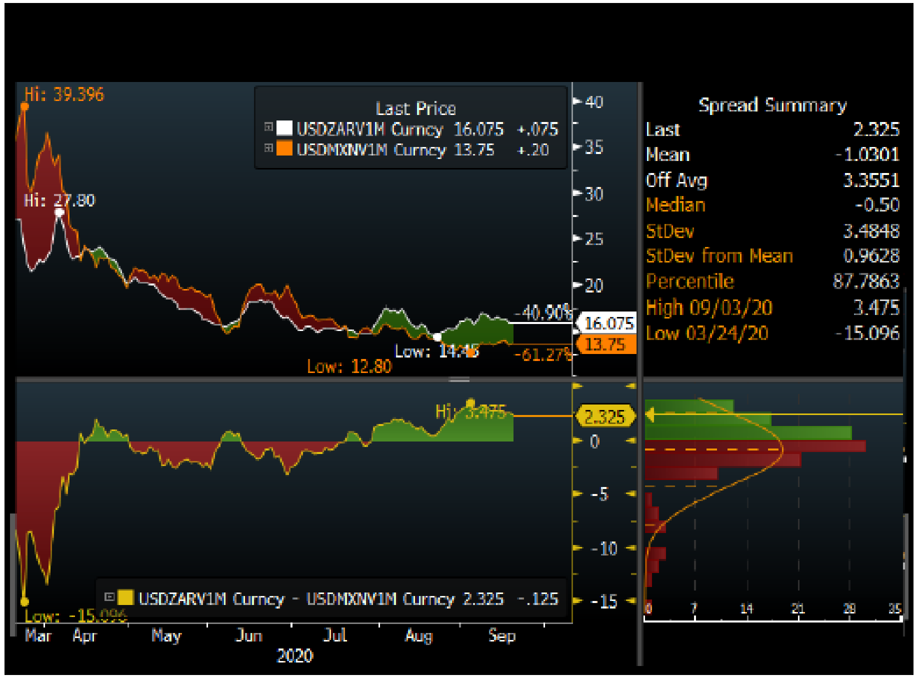
Source: Bloomberg

This isn't the case in all markets – 1m zar vol vs 1m mxn vol shows how mxn has come off with the currency move as I imagine spreads are in line.



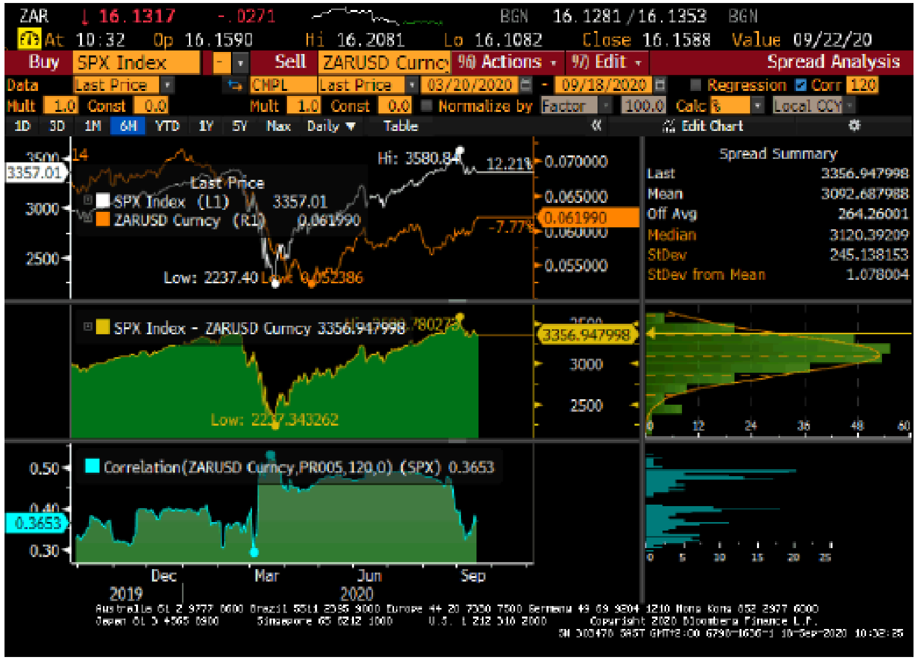


Source: Bloomberg data, CLS and Mosaic Smart Data



Source: Bloomberg

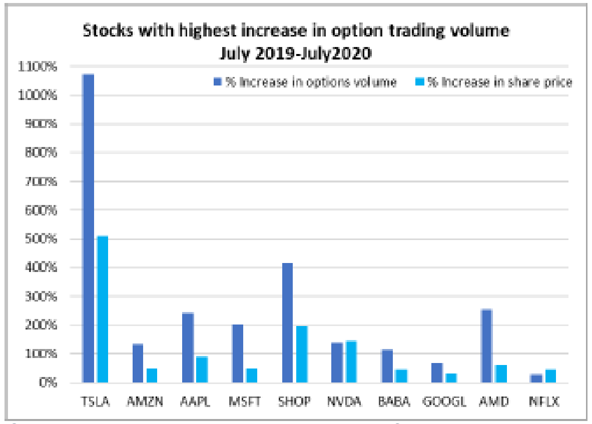
Source: OCC, SentimentTrader



Source: Bloomberg

- ZAR correlation to equities has declined due to the type of account associated with the long equities theme. See above;
- In 2002 / 2008 / 2013 the accounts the bought the index were macro funds – they also bought emerging market assets. The accounts that are buying one touch options in TSLA are not also buying 2048s – this correlation has broken down. However, it also means EM won't be as frothy as Tech stocks, this might actually be a relief for the SARB and NT.

- Impact of retail options trading – increase in options volumes being driven by retail investors. This has led to large impact on options prices, which has been material enough to affect the underlying stock price. Graphs here for options for large-cap tech stocks in the US.



Source: Bloomberg data, Barclays Research, OptionMetrics

- Correlation of ZAR & TRY starts off quite strong in the beginning of the year but becomes weaker from May, especially poor from August.

Source: Bloomberg

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