

29<sup>th</sup> November 2024

## Trade Ideas EMEA

### Trade Idea: EURUSD Downside < 1.00 expiry 27th Feb 2025

Spot ref: 1.0575

Indic Premium: Zero cost structure, Put financed by selling Call Spread

Figure 1: Long-Term Bearish Trend



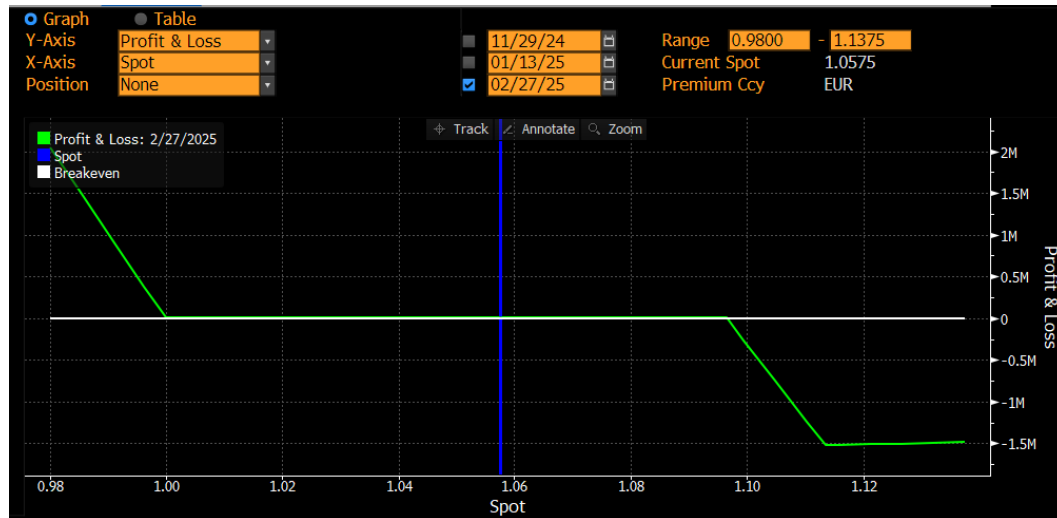
Source: Bloomberg

### The Trade

- Net Premium: Zero cost
- BUY 1.0000 EURpUSDc 27Feb 2025 in EUR 100mio (9.45 vol) = pay 21.5bp (EUR 215k)
- SELL 1.0965 EURcUSDp 27Feb 2025 in EUR 100mio (7.45 vol) = receive 29.8bp (EUR 398k)
- BUY 1.1135 EURcUSDp 27Feb 2025 in EUR 100mio (7.45 vol) = pay 17.8bp (EUR 177k).

This ensures downside is capped, see Fig 2 below.

**Figure 2: Downside capped with Call Spread**



Source: Bloomberg

### Rationale

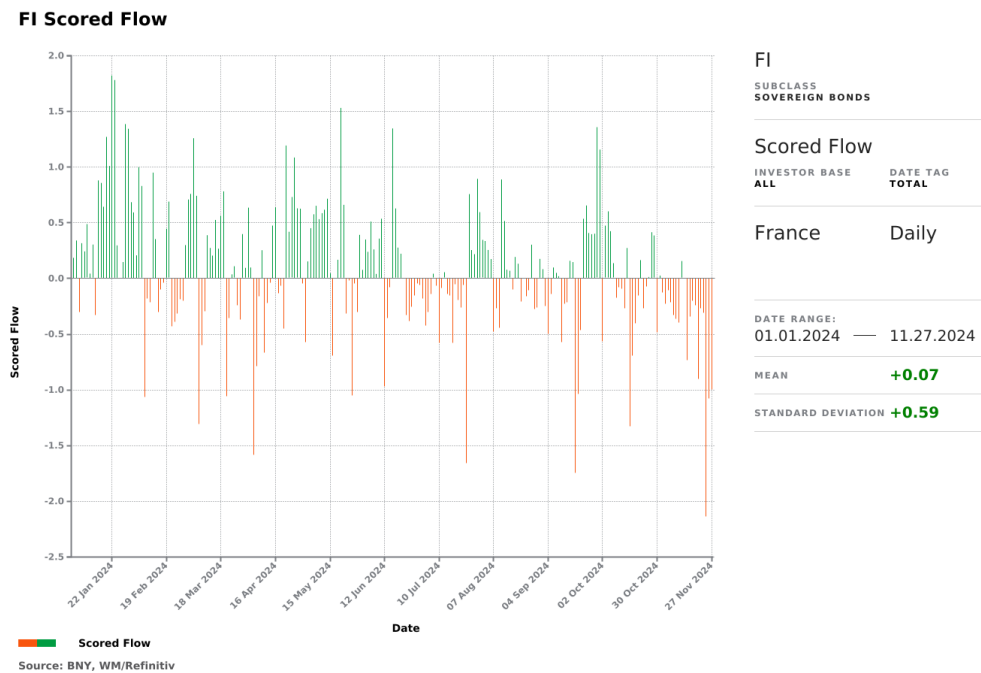
- **Bearish Trend:** Emergence of “Death Cross” with 50DM moving below 200DMA signalling long-term bearish trend, see Fig 1.
- **Month-End Tactical Entry Point:** Throughout much of November the USD has been aggressively bought, approaching four standard deviations overweight, the biggest upward move in 10 months and US equities have outperformed on the prospect of Trump's pro-growth and reflationary policies. Therefore, the USD faces heavy rebalancing risk, the DXY has come off its highs and iFlow shows that before month-end that the dollar has been facing significant selling pressure, providing a good tactical entry point for the structure.
- **Political Turmoil in Europe:** Recent developments in France could point to earlier elections, not just for the legislature but even for the presidency. Germany will also hold elections in Q1, and drawn-out government formation talks. Therefore, it is possible we will have no functional government in Germany and France through much of the first months of Trump's presidency, significantly damaging sentiment. We are already seeing some of the strongest levels of selling in OATs for several years (see Figure 3) and its spreads vs bunds continues to widen, as well as PMIs falling further into contraction. 3-month tenor on the option fully accounts for Q1.
- **Aggressive ECB Cutting Cycle:** Prices continue to ease across Europe, with stubborn services inflation showing signs of slowing. Leading inflation data from key nations barely showing any sequential growth. Spanish HICP was flat on the month, France registered a small decline of 0.1% but German HICP contracted by -0.7%. These numbers contradict ECB Board Member Schnabel's comments earlier this week that there would be a consumption-drive recovery in the Eurozone and even warned against rates falling too quickly. Overall, we expect a 50bp cut as highly likely in

upcoming meetings, while the OIS market is currently pricing ~63bp cuts over the next 2 meetings.

### Risks to the trade:

- **Stretched Short-Term EUR Positioning:** Much of the negativity is in the price in the near-term. EUR cross-border shorts are at the highest levels in 16 years, and recent French OAT selling was the strongest in 2 years on a weekly basis. It could be difficult for this to be replicated.
- **Domestic Stability Restored:** If the budget standoff is resolved soon and Germany also brings together a new and stable government in short order, there is prospect for a turnaround in EU and Eurozone governance.
- **Geopolitical De-escalation:** Trump has vowed to end the war in Russia/Ukraine, if successful, this will boost sentiment in the region and provide longer-term support for EUR. Trump's tariff focus also seems to be on China, Mexico and Canada for now.

**Figure 3: France is worst-performing Eurozone market and also the 3rd-worst performer out of the 45 markets we track. This marks 10 straight days of selling.**



This trade idea was produced by Tommy Carter, Geoff Yu and Lionel Etienne employed by BNY Mellon London Branch.

**Name:** Tommy Carter

**Team:** FX Sales

**Address and Contact Details:** BNY 160 Queen Victoria Street, London  
EC4V 4LA

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*Disclaimer/Disclosure for Recommendations ("Trade Ideas")*

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