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Global Equity Flow

STRUCTURED PRODUCTS & THEIR IMPACT ON MARKETS: WHAT YOU NEED TO KNOW

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1. Structured products : “where” means “what”

2. Impact analysis on parameters

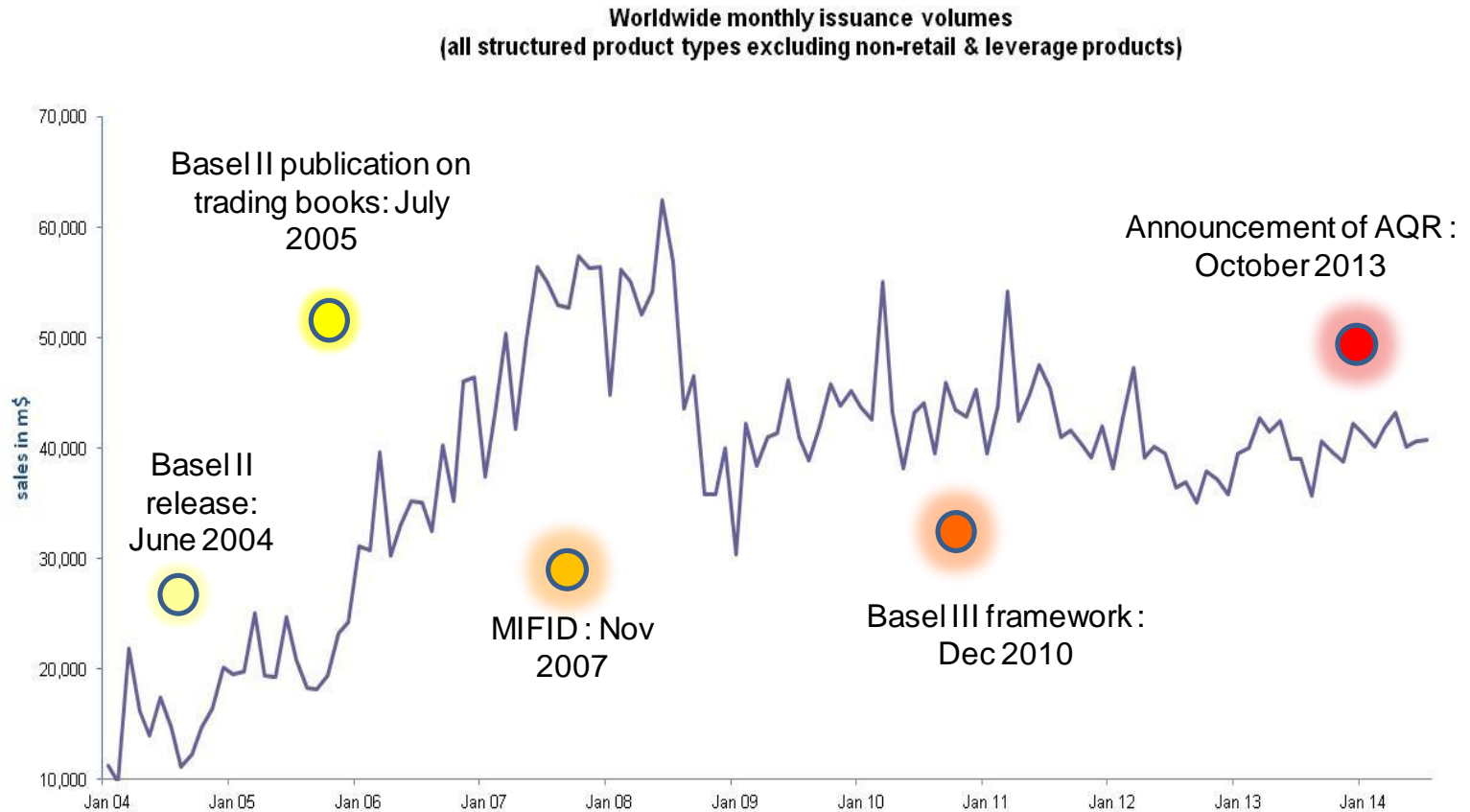
- ✓ Volatility
- ✓ Skew
- ✓ Repo
- ✓ Dividends



STRUCTURED PRODUCTS : “WHERE” MEANS “WHAT”



LESS ISSUANCE BUT MORE REGULATION

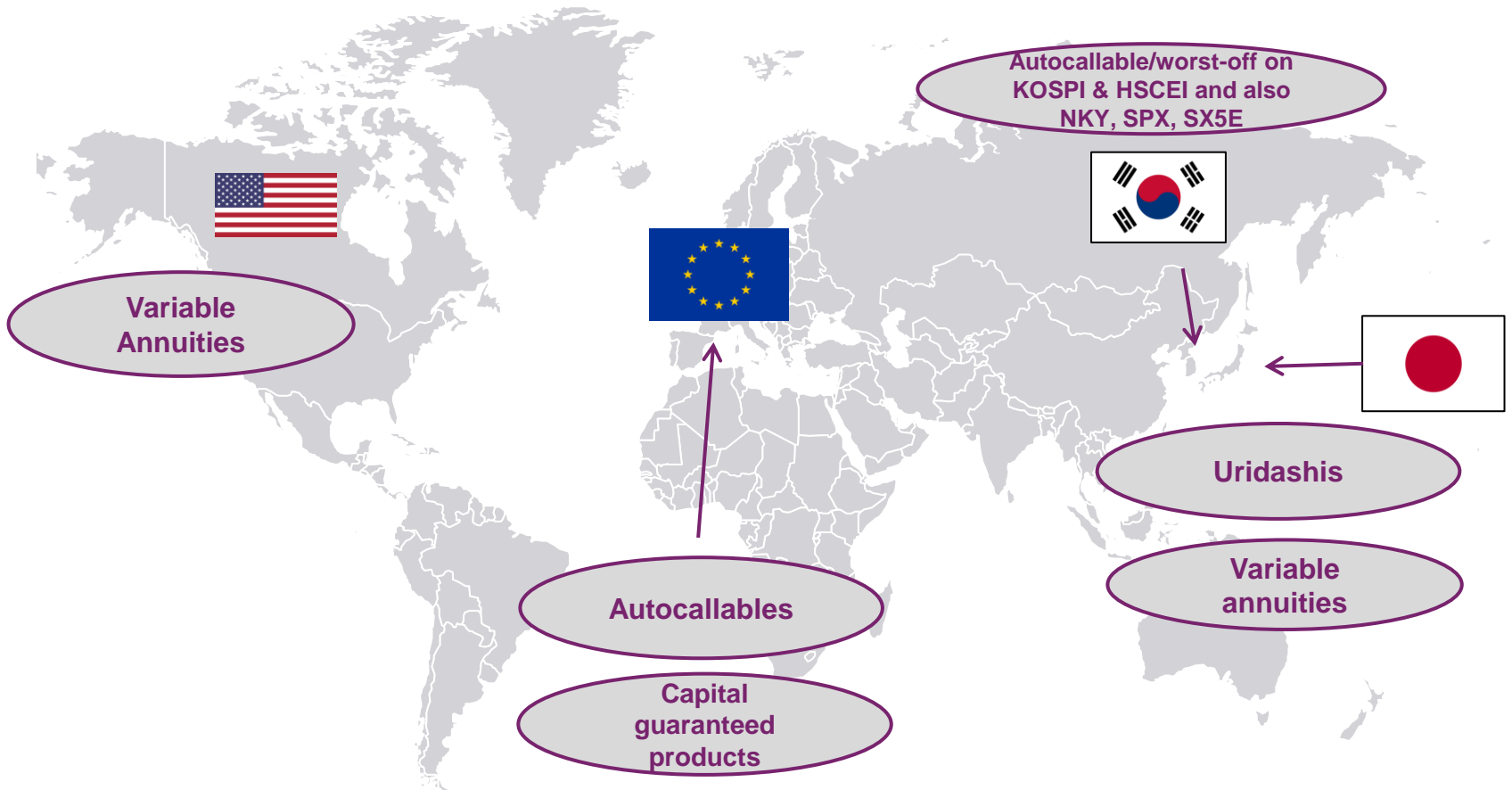


Source: www.structuredetailproducts.com

THE VALUE OF YOUR INVESTMENT MAY FLUCTUATE. THE FIGURES RELATING TO PAST PERFORMANCES AND SIMULATED PERFORMANCES REFER TO PAST PERIODS AND ARE NOT A RELIABLE INDICATOR OF FUTURE RESULTS. THIS ALSO APPLIES TO HISTORICAL MARKET DATA.

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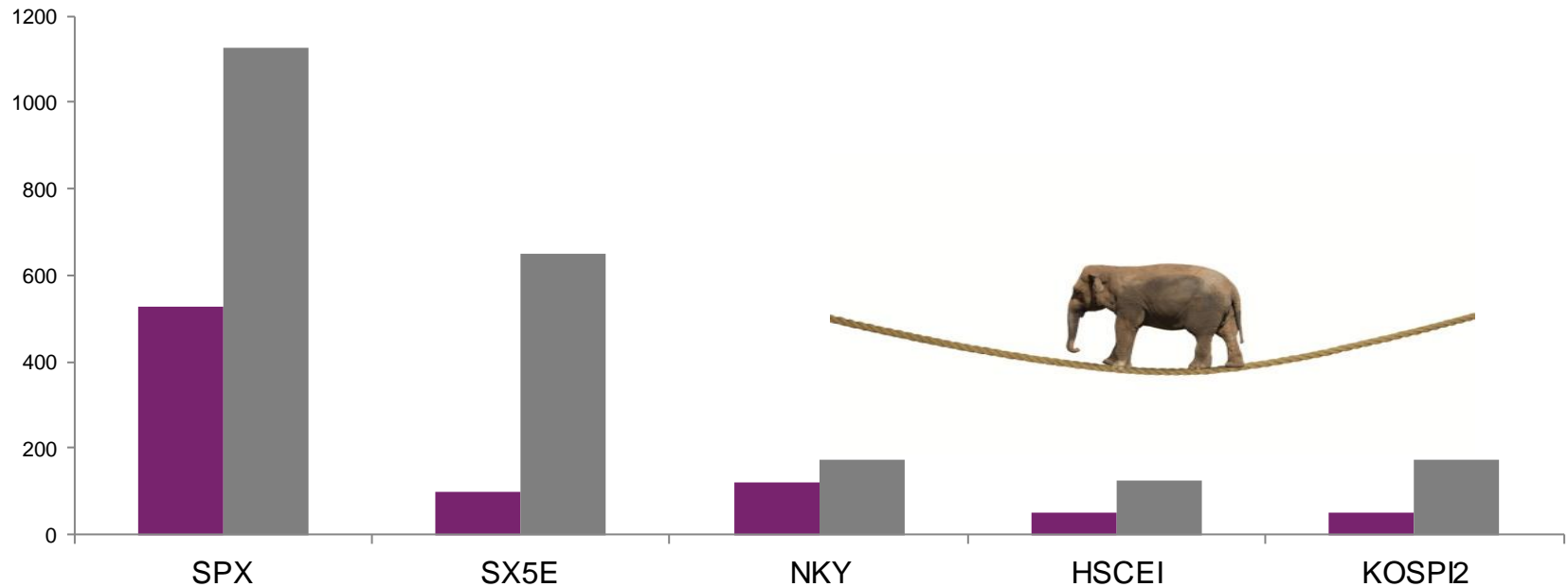
“WHERE” MEANS “WHAT”



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WHY IS THERE MORE IMPACT IN ASIA? BALANCE IS KEY

Average yearly vega issued via SP vs total vega traded for options >1Y maturity (€m)
(SG estimates)



Source: Bloomberg, SG CIB Cross Asset Research, SG CIB

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VOLATILITY/SKEW

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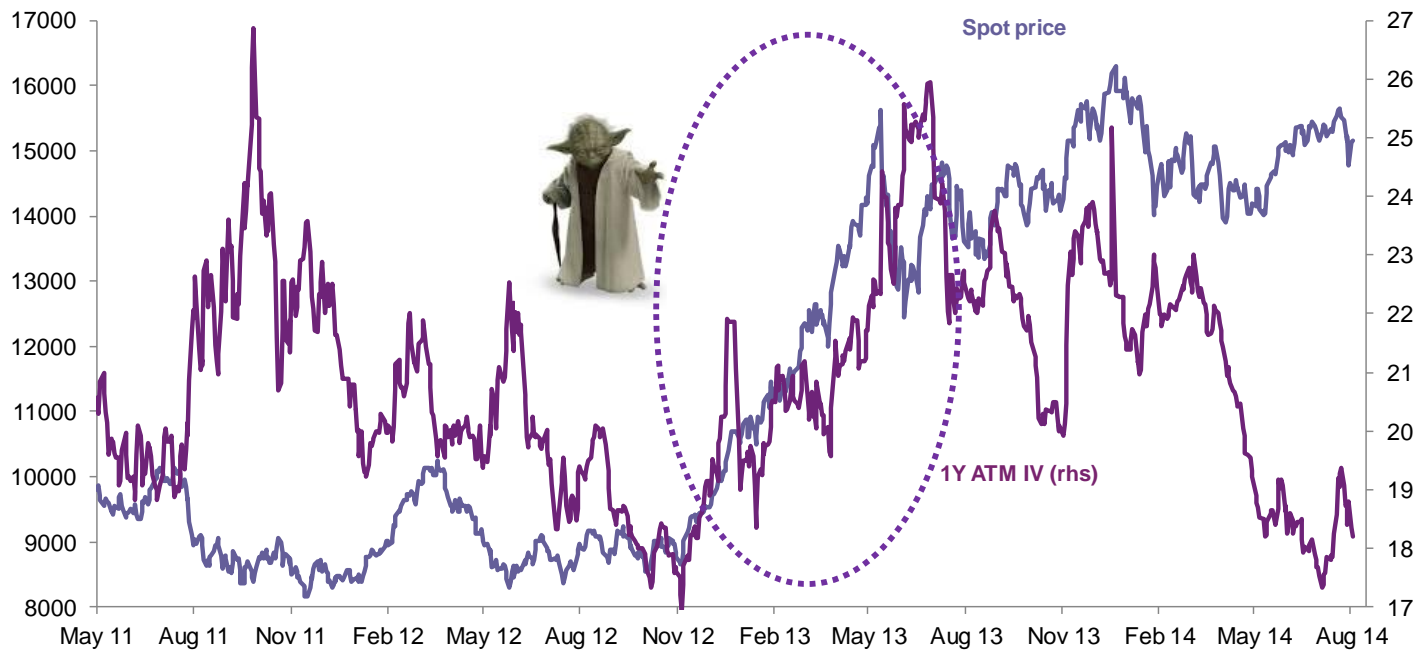
VOLATILITY – THE NIKKEI CASE

“Fear is the path to the dark side”

Yoda

“The path is the fear of the trader”

SocGen



Source: SG CIBC Cross Asset Research/Derivatives, www.starwars.com

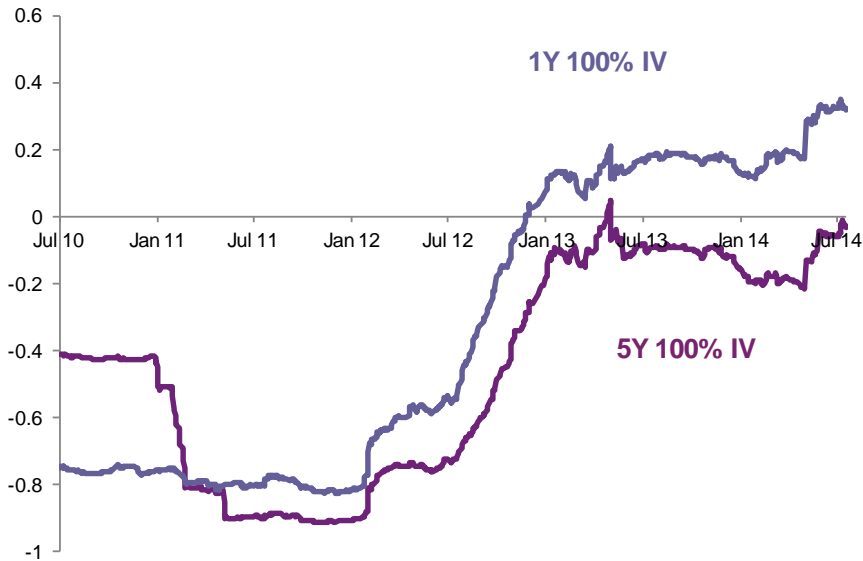
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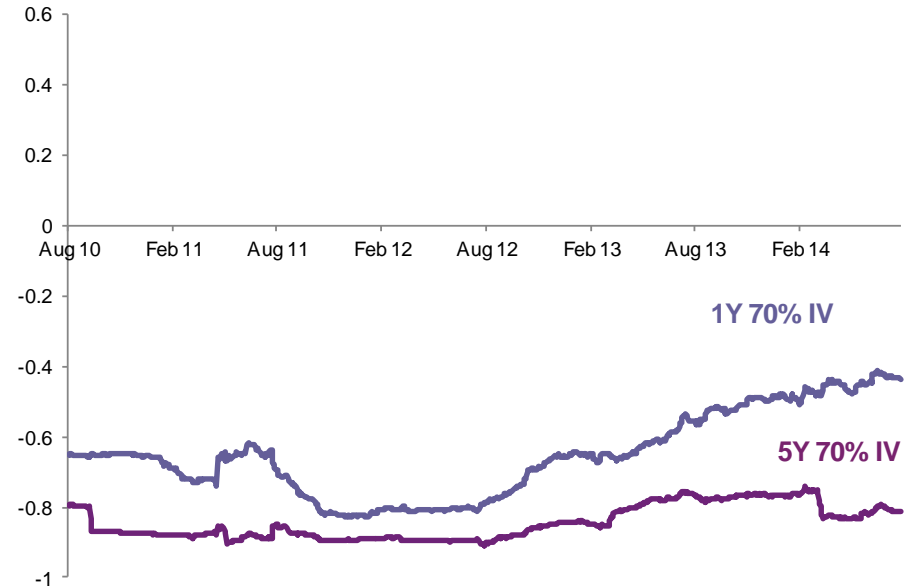
THE POWER OF BALANCED FLOW

Spot/Vol correlation

NIKKEI



EuroSTOXX 50

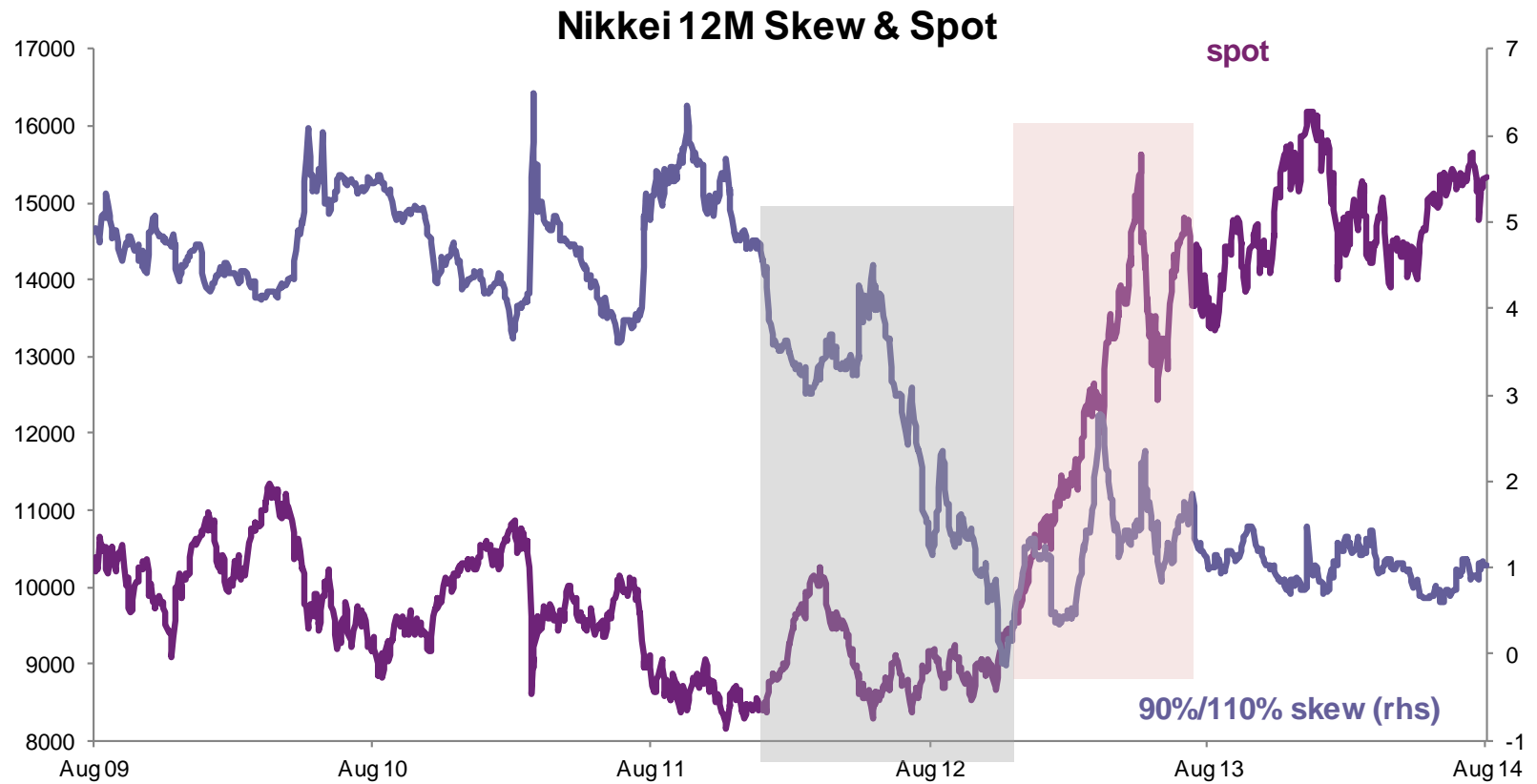


Source: Bloomberg, SG CIB Cross Asset Research/Derivatives, SG CIB Trading

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THE SKEW CONUNDRUM

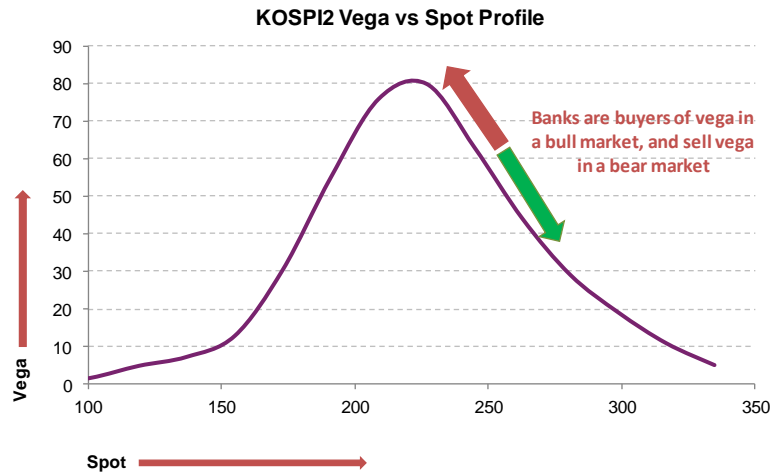
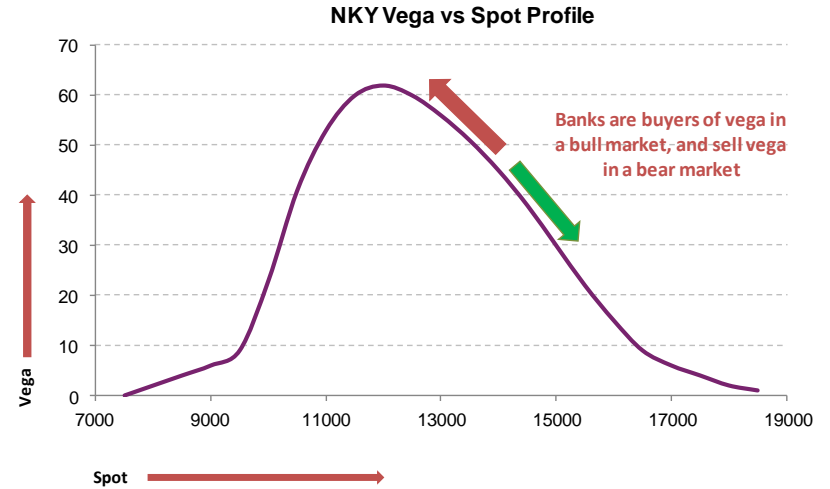
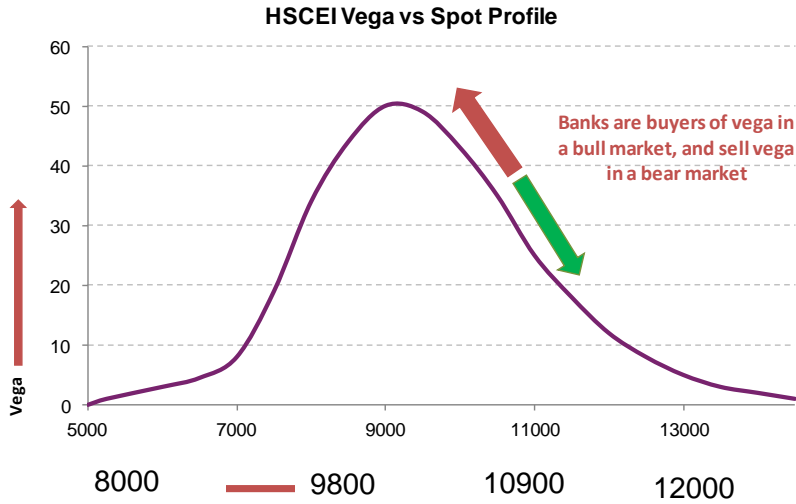


Source: SG CIB Cross Asset Research/Derivatives, Bloomberg

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VEGA AMOUNT IN THE MARKET - ESTIMATES



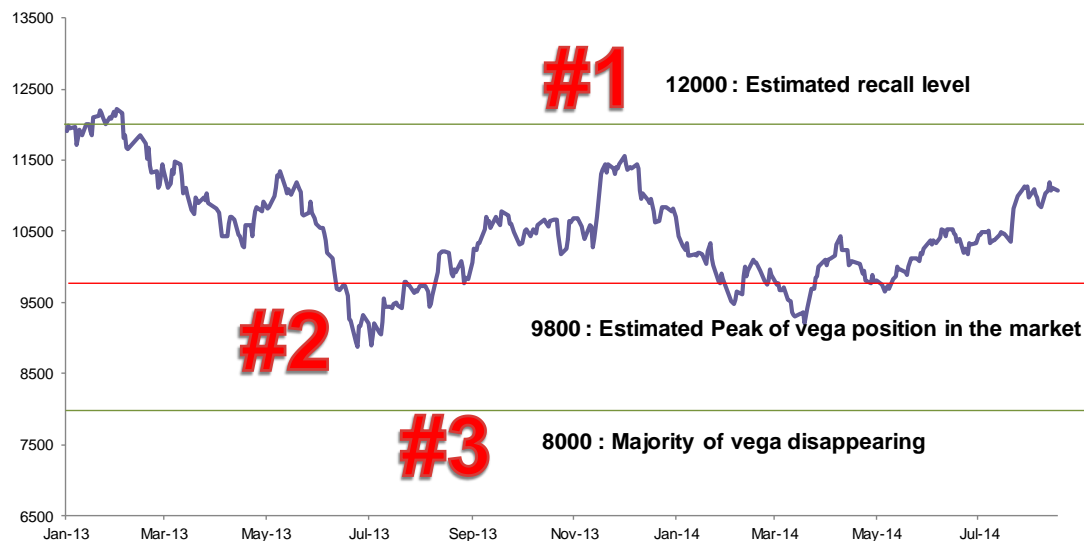
Source : SG CIB Trading

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WHAT TO DO WITH THESE ESTIMATES ON A VOL PERSPECTIVE?

HSCEI example : way, path and skew



Source: Bloomberg, SG CIB Global Engineering & Strategy

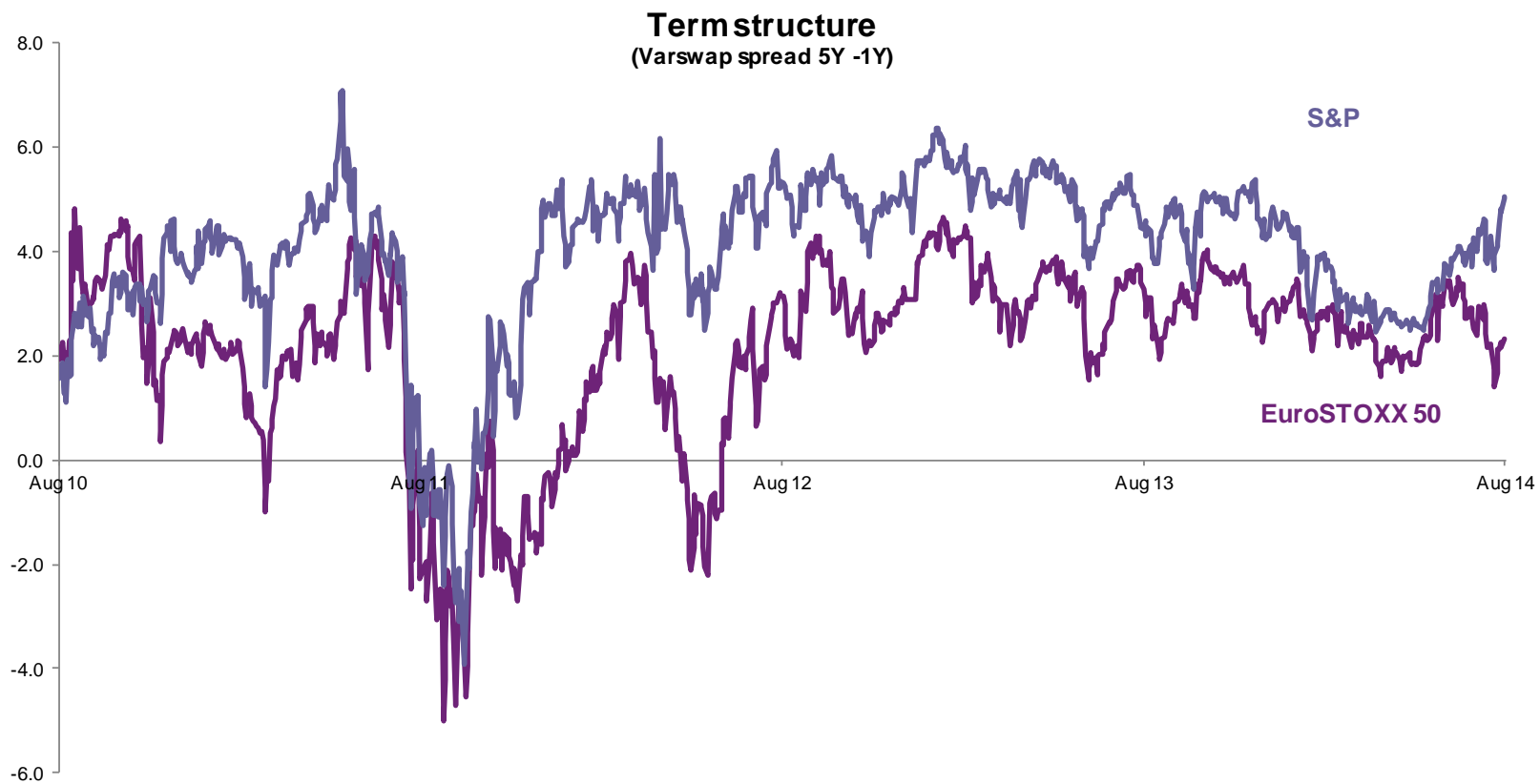
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Scenario :

- skew is high, I expect the market to go up strongly in the coming weeks : buy **#1** : a 12000 call
- skew is low, vol is low I expect the market to go up in the coming weeks : buy **#2** : a 9800 put
- market will go down quickly : I sell **#2** and I buy several times **#3**
- I expect the market to be rangy : expect hedge pile up - sell **#2** and buy **#1** – sell the skew

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US : THE INSURANCE FLOW IS DISTORTING THE TERM STRUCTURE



Source: SG CIB Cross Asset Research/Derivatives

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REPO

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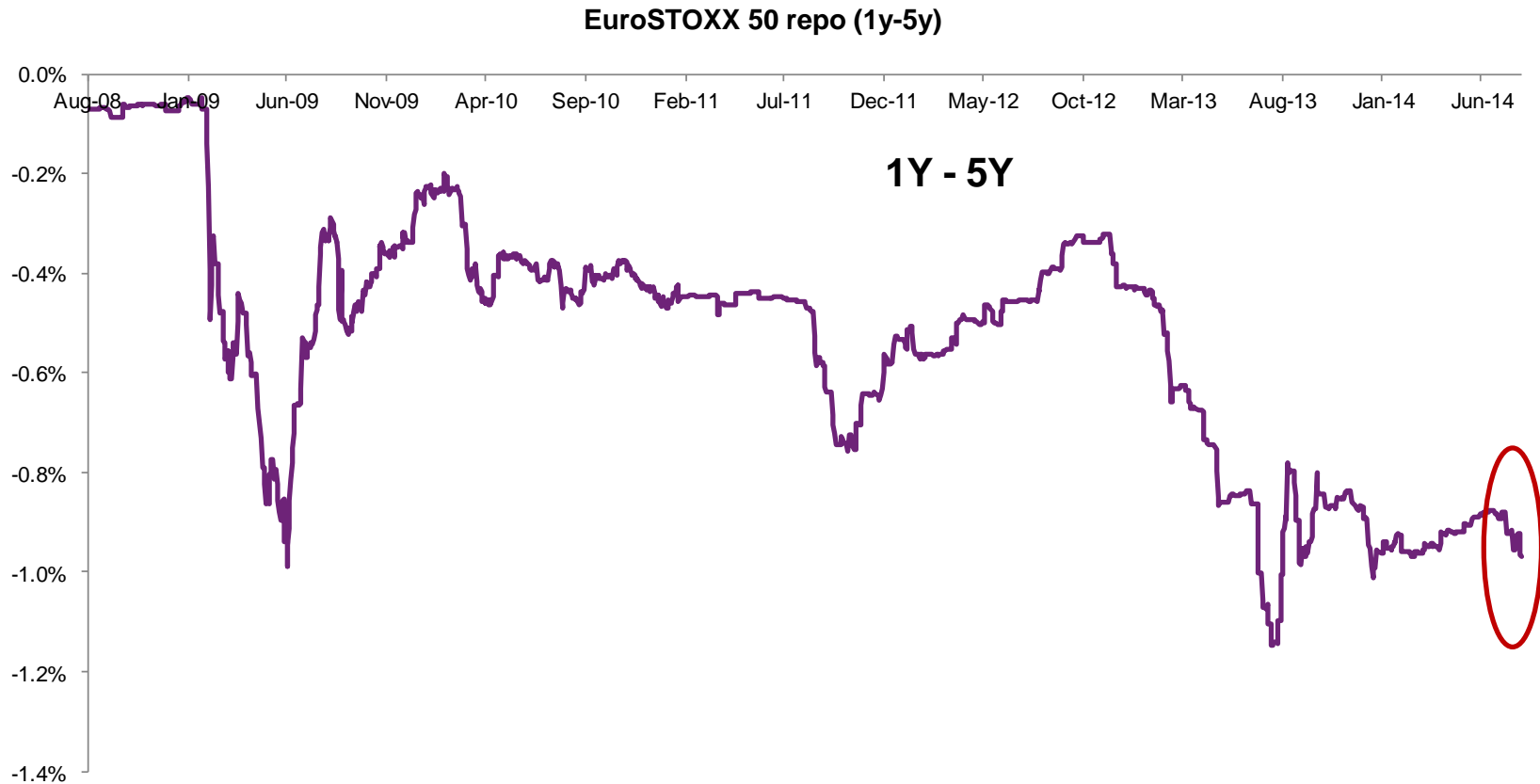
THE REPO : THE WRIGGLE FACTOR

$$\text{Forward price} = \text{Spot} * e^{((\text{rate} - \text{div} - \text{repo})t)}$$



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EUROSTOXX 50 REPO : AN OPPORTUNITY?

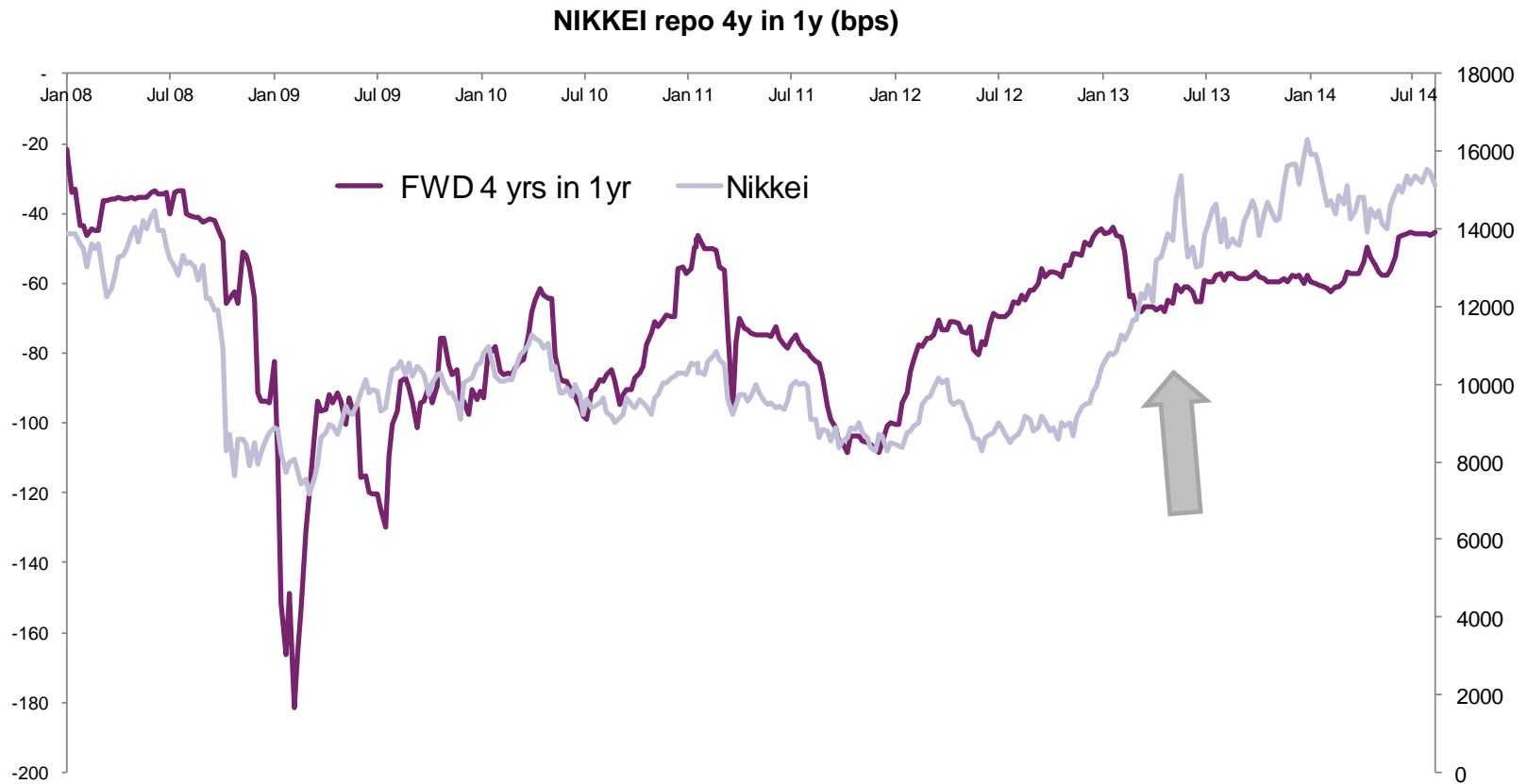


Source : SG CIB Trading

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NIKKEI REPO : THE MIRROR OF AN EVOLUTION IN STRUCTURED PRODUCT FLOW



Source: SG CIB Trading

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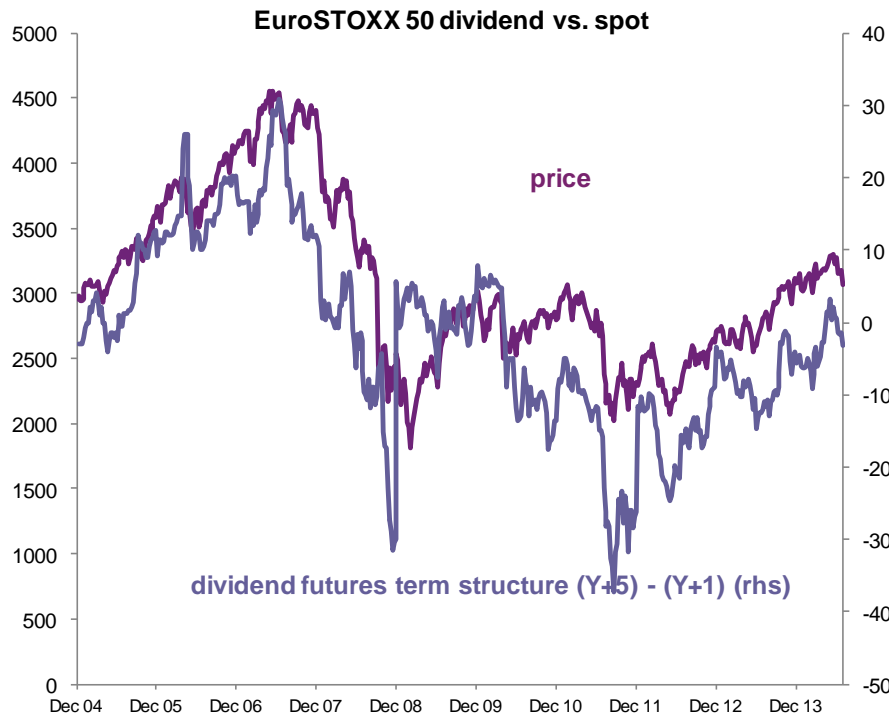
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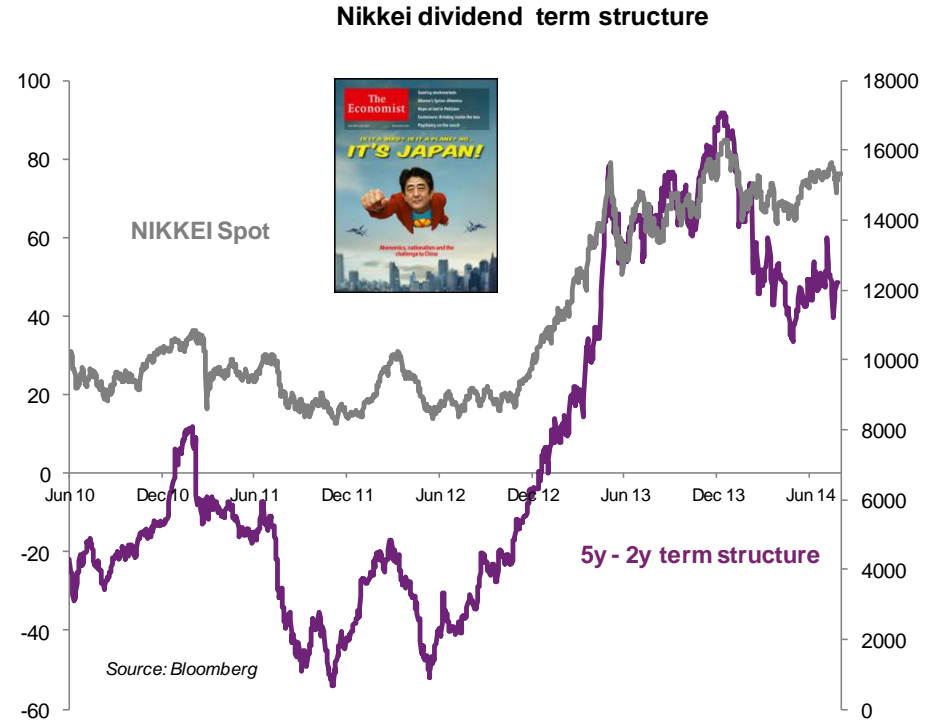
DIVIDENDS

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DESPITE HIGHER LIQUIDITY LONG TERM DIVIDENDS IN EUROPE ARE STILL VULNERABLE TO FLOW...



Source: Bloomberg, SG CIB Global Engineering & Strategy

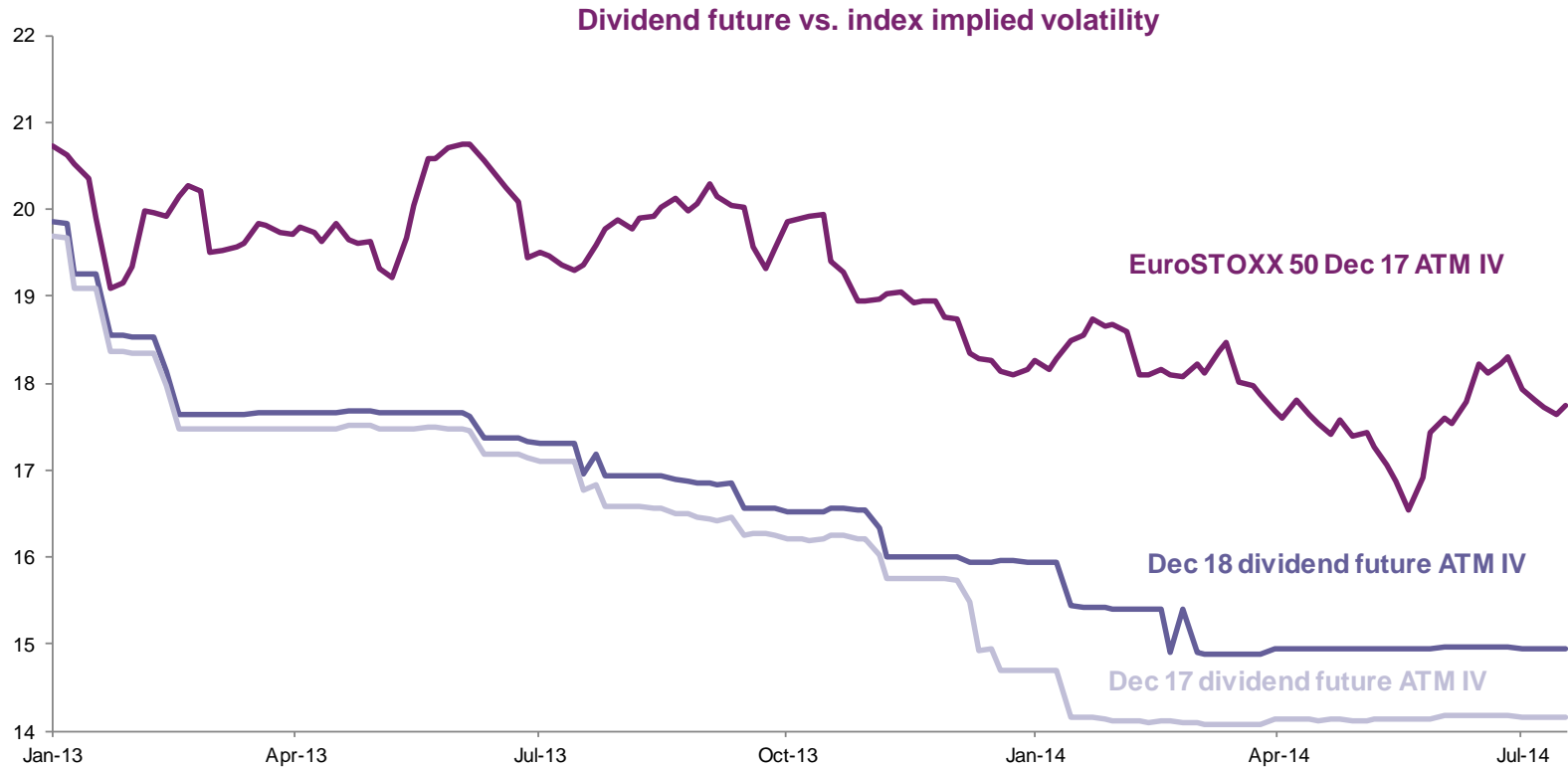


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Source : The Economist

...WHICH GIVES A TAIL HEDGE OPPORTUNITY



Source: SG CIB Trading

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CONCLUSION

- **Differences across regions is driven by product, liquidity, balance of flows**
- **Asia : all about volatility and skew**
- **Europe : dividends and repo**
- **USA : too big to be impacted**
- **OPPORTUNITIES : in all cases the slope is key! A lot of opportunities for those who know the flow**



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