

FX Hedging Scorecard

Hedging signals - week of 18 November

Hedging indicators for this week:

- For each FX pair we consider the two distinct risk scenarios, represented by a rise and a drop of the FX pair, respectively. For each of the two cases, we inform clients about the current allocation of the model, its long term allocation and performance (in terms of hedging costs). The model is going to be updated on a weekly basis.
- In the long run, relying on the scorecard allows reducing by 50% the typical hedging costs associated with forwards, for both scenarios (see Exhibit 2, 6).
- For both upside (25.4% vs. 30.8%) and downside (30.4% vs. 35.3%) scenarios, the current allocation to forwards is below long-term historical averages. This can be understood via the benign pricing of vol levels (favoring option-based hedging solutions over forwards) and by the lack of violent moves in either directions for the FX market in general.
- For the upside risk scenario, call spreads (32.5%) and seagulls (24.2%) are receiving on average a higher allocation compared to historical averages, whereas riskies are slightly below average. For the downside risk scenario, deviations compared to long-term averages are more contained, with seagulls at present gaining a higher allocation than over the long run.
- For the EUR/USD upside risk case, current allocation to forwards at 4.2% is consistent with all-time lows: this is explained in the first place by the negative carry associated with forward hedges. Call spreads (50.0%) and seagulls (29.2%) get the highest portion of the allocation. The flip in sign of the risk-reversal over the past few weeks cut the weight associated with riskies based on the rules of the scorecard. For the downside risk case, forwards and seagulls (both with 29.2%) get the highest share and put spreads (16.7%) the lowest. Change in allocations vs. last week is understood via the momentum indicator for EUR/USD entering a less bearish territory (from -4 to -2).
- For the GBP/USD case, momentum indicator has increased over the past week, from 2 to 4. This is inducing a modest adjustment on the allocations for the upside risk case, with riskies (41.7%) getting the tow highest shares and call spreads (16.7%) the lowest. For the downside risk case, highest allocation is associated with put spreads (33.3%) and forwards (29.2%).

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FX Hedging Scorecard: upside risk case

Exhibit 1. Current weights from the scorecard

Pair	Forward	RR	CS	SG
EUR/USD	4.2%	16.7%	50.0%	29.2%
GBP/USD	20.8%	41.7%	16.7%	20.8%
EUR/GBP	4.2%	25.0%	41.7%	29.2%
USD/JPY	29.2%	25.0%	16.7%	29.2%
EUR/JPY	29.2%	25.0%	25.0%	20.8%
USD/CHF	29.2%	33.3%	16.7%	20.8%
USD/CAD	54.2%	0.0%	33.3%	12.5%
AUD/USD	29.2%	25.0%	25.0%	20.8%
NZD/USD	29.2%	25.0%	16.7%	29.2%
USD/NOK	54.2%	0.0%	25.0%	20.8%
USD/SEK	29.2%	8.3%	33.3%	29.2%
USD/CNH	29.2%	8.3%	33.3%	29.2%
USD/KRW	29.2%	8.3%	41.7%	20.8%
USD/BRL	45.8%	16.7%	25.0%	12.5%
USD/MXN	4.2%	16.7%	41.7%	37.5%
USD/ZAR	4.2%	16.7%	50.0%	29.2%
USD/TRY	4.2%	16.7%	50.0%	29.2%
USD/ILS	29.2%	16.7%	33.3%	20.8%
USD/HUF	45.8%	16.7%	25.0%	12.5%
EUR/PLN	4.2%	16.7%	50.0%	29.2%
FX-average	25.4%	17.9%	32.5%	24.2%

Source: J.P.Morgan

Exhibit 2. Long-term costs for the 4 instruments and scorecard

Pair	Forward	RR	CS	SG	Scorecard
EUR/USD	-225.4	-130.9	-36.1	-67.3	-118.0
GBP/USD	-365.0	-206.0	-74.2	-133.9	-215.0
EUR/GBP	102.6	115.5	-19.4	117.5	60.6
USD/JPY	25.9	150.3	-62.9	55.6	27.1
EUR/JPY	-189.3	-21.0	-89.6	-73.4	-117.2
USD/CHF	-66.9	-32.9	-15.5	38.6	-56.8
USD/CAD	84.3	22.1	11.8	65.5	14.2
AUD/USD	45.9	-37.6	63.8	9.9	38.3
NZD/USD	141.2	43.2	96.2	154.9	162.1
USD/NOK	137.0	98.5	39.5	142.4	57.6
USD/SEK	175.8	91.3	32.4	119.1	126.0
USD/CNH	-104.4	-74.9	3.3	-56.4	-39.7
USD/KRW	77.1	-66.1	-176.4	-49.7	-48.7
USD/BRL	-376.1	-104.0	-95.0	-189.2	-202.8
USD/MXN	-22.6	11.0	-19.9	86.6	6.0
USD/ZAR	-108.8	-123.0	-21.6	92.2	-77.5
USD/TRY	-104.0	-8.8	-14.8	-64.2	-38.1
USD/ILS	-171.8	-100.1	-15.1	-29.3	-89.6
USD/HUF	-74.4	-118.1	12.0	20.9	-18.1
EUR/PLN	-188.1	-63.2	-80.9	-20.7	-74.4
FX-average	-60.3	-27.7	-23.1	10.9	-30.2

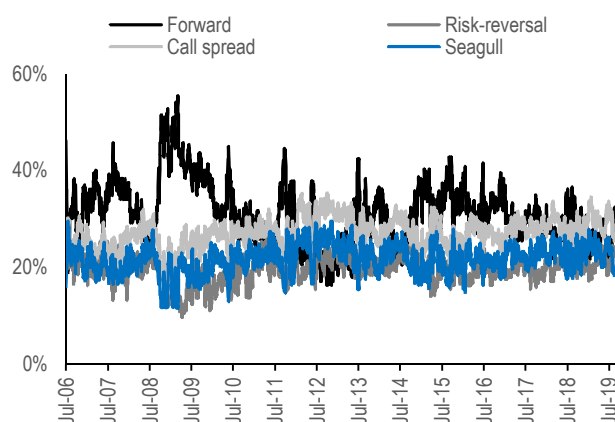
Source: J.P.Morgan

Exhibit 3. Long term average weights per currency pair

Pair	Forward	RR	CS	SG
EUR/USD	28.9%	28.0%	20.6%	22.4%
GBP/USD	34.7%	27.9%	16.6%	20.8%
EUR/GBP	22.0%	22.2%	30.9%	24.9%
USD/JPY	46.0%	22.8%	14.3%	16.9%
EUR/JPY	43.9%	26.2%	12.3%	17.6%
USD/CHF	43.9%	20.0%	18.6%	17.5%
USD/CAD	32.1%	15.3%	30.9%	21.7%
AUD/USD	43.5%	26.8%	12.1%	17.6%
NZD/USD	46.0%	25.8%	11.3%	16.9%
USD/NOK	31.4%	15.6%	31.4%	21.6%
USD/SEK	37.0%	13.5%	29.6%	20.0%
USD/CNH	23.1%	15.5%	32.1%	22.9%
USD/KRW	31.9%	15.1%	31.4%	21.7%
USD/BRL	20.9%	17.6%	36.6%	24.9%
USD/MXN	19.7%	17.9%	37.0%	25.4%
USD/ZAR	19.5%	17.9%	36.7%	26.0%
USD/TRY	20.7%	17.5%	36.4%	25.4%
USD/ILS	30.2%	14.3%	33.6%	21.9%
USD/HUF	28.9%	14.6%	33.8%	22.7%
EUR/PLN	12.3%	19.9%	39.7%	28.1%
FX-average	30.8%	19.7%	27.3%	21.8%

Source: J.P.Morgan

Exhibit 4. Time series of the average (across FX pairs) allocation weights for the four instruments



Source: J.P.Morgan

Find more details on the FX hedging scorecard [here](#) and in [this follow up note](#)

FX Hedging Scorecard: downside risk case

Exhibit 5. Current weights from the scorecard

Pair	Forward	RR	PS	SG
EUR/USD	29.2%	25.0%	16.7%	29.2%
GBP/USD	29.2%	16.7%	33.3%	20.8%
EUR/GBP	45.8%	33.3%	8.3%	12.5%
USD/JPY	4.2%	16.7%	41.7%	37.5%
EUR/JPY	54.2%	0.0%	25.0%	20.8%
USD/CHF	20.8%	25.0%	33.3%	20.8%
USD/CAD	29.2%	25.0%	16.7%	29.2%
AUD/USD	54.2%	0.0%	25.0%	20.8%
NZD/USD	54.2%	0.0%	25.0%	20.8%
USD/NOK	29.2%	25.0%	16.7%	29.2%
USD/SEK	4.2%	33.3%	25.0%	37.5%
USD/CNH	54.2%	16.7%	8.3%	20.8%
USD/KRW	4.2%	33.3%	25.0%	37.5%
USD/BRL	54.2%	25.0%	8.3%	12.5%
USD/MXN	29.2%	25.0%	16.7%	29.2%
USD/ZAR	29.2%	25.0%	16.7%	29.2%
USD/TRY	29.2%	25.0%	16.7%	29.2%
USD/ILS	20.8%	41.7%	16.7%	20.8%
USD/HUF	4.2%	41.7%	25.0%	29.2%
EUR/PLN	29.2%	25.0%	16.7%	29.2%
FX-average	30.4%	22.9%	20.8%	25.8%

Source: J.P.Morgan

Exhibit 6. Long-term costs for the 4 instruments and scorecard

Pair	Forward	RR	PS	SG	Scorecard
EUR/USD	132.7	85.6	33.3	119.7	93.2
GBP/USD	265.8	155.0	57.9	191.5	150.1
EUR/GBP	-167.4	-145.4	-15.6	-16.0	-112.7
USD/JPY	-131.6	-218.0	29.9	-44.6	-59.9
EUR/JPY	30.4	-84.1	50.6	45.5	2.8
USD/CHF	-18.5	-6.0	-3.6	63.6	34.6
USD/CAD	-168.6	-67.3	-74.4	-70.8	-145.2
AUD/USD	-229.4	-72.3	-68.6	-117.9	-100.0
NZD/USD	-306.4	-124.7	-55.4	-73.5	-149.7
USD/NOK	-283.9	-178.7	-40.6	-97.1	-132.9
USD/SEK	-315.8	-165.8	-81.6	-138.7	-184.3
USD/CNH	85.0	63.2	29.4	37.9	53.3
USD/KRW	-199.4	-285.0	-195.1	-201.3	-218.9
USD/BRL	95.0	-60.9	124.9	14.4	91.1
USD/MXN	-120.1	-88.1	-16.1	21.3	-89.6
USD/ZAR	-127.6	7.5	-100.3	65.0	-9.5
USD/TRY	-160.1	-143.6	43.6	-111.2	-104.8
USD/ILS	105.1	68.5	40.3	110.3	81.6
USD/HUF	-144.7	-48.0	-44.6	-18.9	-72.3
EUR/PLN	110.4	25.0	27.6	122.9	71.1
FX-average	-77.5	-64.2	-12.9	-4.9	-40.1

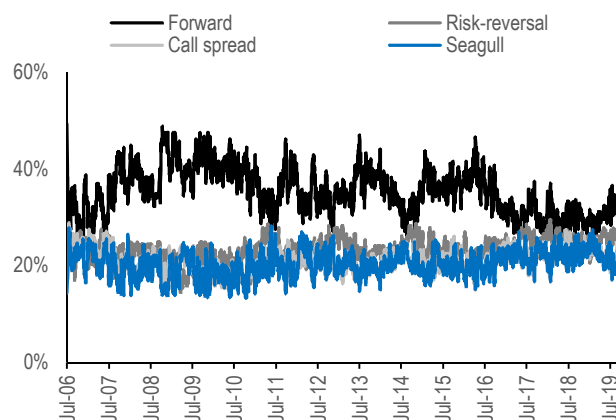
Source: J.P.Morgan

Exhibit 7. Long term average weights per currency pair

Pair	Forward	RR	PS	SG
EUR/USD	39.7%	14.4%	26.8%	19.0%
GBP/USD	28.2%	16.0%	33.1%	22.8%
EUR/GBP	41.6%	21.9%	18.2%	18.3%
USD/JPY	21.4%	19.4%	34.0%	25.2%
EUR/JPY	37.7%	11.8%	30.8%	19.7%
USD/CHF	20.1%	24.0%	30.4%	25.6%
USD/CAD	32.6%	28.1%	17.8%	21.5%
AUD/USD	24.3%	16.3%	35.5%	23.9%
NZD/USD	25.3%	15.6%	35.4%	23.7%
USD/NOK	38.1%	26.5%	15.7%	19.7%
USD/SEK	32.0%	28.2%	18.1%	21.7%
USD/CNH	42.9%	23.0%	11.3%	16.2%
USD/KRW	37.4%	27.0%	15.9%	19.7%
USD/BRL	46.1%	25.9%	11.2%	16.8%
USD/MXN	44.3%	26.2%	12.0%	17.5%
USD/ZAR	42.3%	26.2%	13.3%	18.3%
USD/TRY	42.4%	25.9%	13.3%	18.4%
USD/ILS	31.1%	31.2%	16.1%	21.6%
USD/HUF	40.5%	27.3%	13.5%	18.7%
EUR/PLN	38.8%	28.3%	13.7%	19.3%
FX-average	35.3%	23.2%	20.8%	20.4%

Source: J.P.Morgan

Exhibit 8. Time series of the average (across FX pairs) allocation weights for the four instruments



Source: J.P.Morgan

Find more details on the FX hedging scorecard [here](#) and in [this follow up note](#)

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