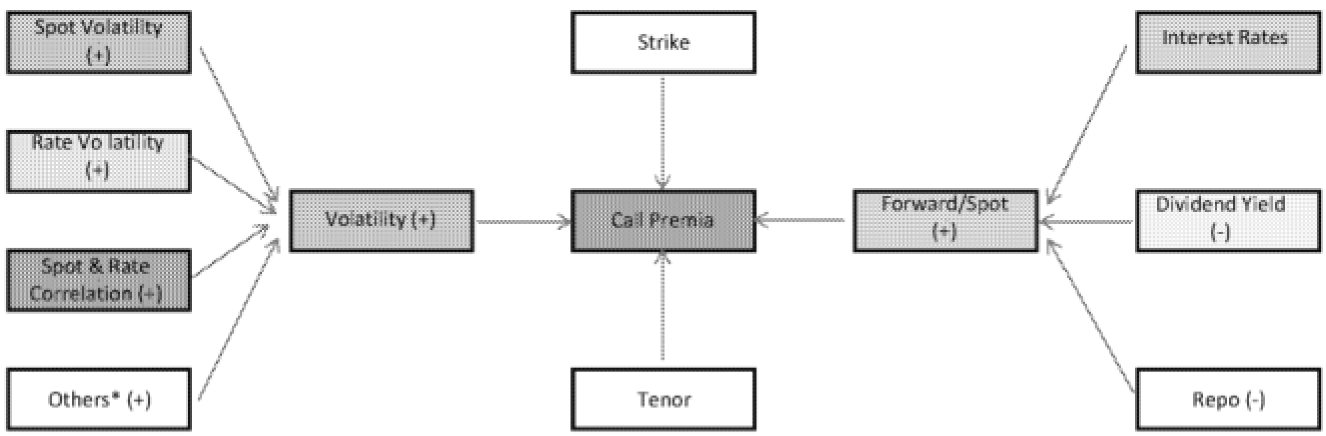
## Low rates, high dividend yields, and low implied volatility levels make long-dated calls historically cheap

Figure 2 shows the drivers of call option pricing, which are now at levels that make current pricing attractive. The colors signify whether these values are low (green) or high (red) within their history since Jan-03. We also annotate the boxes if higher values of these factors affect call premia positively ('+') or negatively ('—'). For example, dividend yields are currently high from a historical perspective (red) and increasing yields would lead to lower call premia ('—' sign). Thus we can infer from the figure that the currently elevated dividend yields help lower call premia. Most of these drivers of long-dated call prices are addressed below.

Figure 2: Low vol, low rates, and high implied dividend yields depress call premia[1]




*Others includes dividend yield volatility, repo volatility and some correlation terms
Source: Deutsche Bank

Figure 3 shows the distribution of call pricing for different maturities and strikes over the past ten years. As you can see current pricing for these calls strategies is near the bottom of its range over the past decade. It is particularly notable that levels are near lows for the range of maturities and strikes.

[1] The boxes are color coded depending on the percentile rank of current values compared with their histories over the past eight years. Green color is for a low percentile rank and red is for high.