

prices of puts and calls?

On Thu, Nov 13, 2014 at 2:38 PM, Daniel Sabba [REDACTED] wrote:
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Jeffrey,

I met with the head of FX trading of our investment bank to discuss the EUR hedging question you posed. To build a multi-billion short, a solution would be to implement a combination of spot, forward and options transactions over the course of several trading days/weeks. We propose discussing an execution plan in case you would like to pursue that route. We wanted to share with you the following parameters, which are indications for a EUR 1bn short delta executed live in a typical trading day.

Indication Considerations:

- Spot ref 1.2450/1.2451 - a live execution of EUR 1bn spot could indicatively be done 20pips below screen bid at 1.2430
- 5y EURUSD forward mid 1.3530
- The indications below are for execution of one leg only, not all of them as a package
- You mentioned this was a consideration for a client of yours - these indications assume standard ISDA/CSA terms
- The levels below would be improved if instead of transacting EUR 1bn delta, you did a smaller size. I have also included the levels for EUR 25mm delta

Indicative Transaction Terms (for EUR 1bn delta):

- A. 5y EURUSD premium neutral risk reversal (long EURUSD put struck at 1.2450 / short EURUSD call struck at 1.4450). EUR 1.5bn notional per leg would lead to a net delta of EUR 1.05bn
- B. Short EURUSD 1bn 5y forward. Forward points: 1034/1120
- C. 1y EUR puts struck at 1.2450 (spot) offered at 3.10% - EUR 2.3bn notional would lead to a delta of EUR 967mm

Indicative Transaction Terms (for smaller size ~ EUR 25mm delta):

- A. 5y EURUSD premium neutral risk reversal (long EURUSD put struck at 1.2450 / short EURUSD call struck at 1.4600)
- B. Short EURUSD 1bn 5y forward. Forward points: 1040/1125
- C. 1y EUR puts struck at 1.2450 (spot) offered at 2.90%

As you can see the pricing for smaller size is much better. Please advise on how you would like to proceed.

Best regards,
Daniel

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