

**From:** Martin Zeman [redacted]  
**Sent:** 9/22/2017 7:57:40 AM  
**To:** Paul Barrett [redacted]  
**CC:** Vahe Stepanian [redacted]; Stewart Oldfield [redacted]; Xavier Avila [redacted]  
**Subject:** [/] FX Trade idea: Time to buy USDJPY FVA? [C]

Classification: **Confidential**

Good morning, Paul,

Not sure you look at FVA stuff, but this one in USDJPY looks good to me.

Martin



**Trade Ideas**

Buy 1y2y USDJPY FVA at **10.50%**

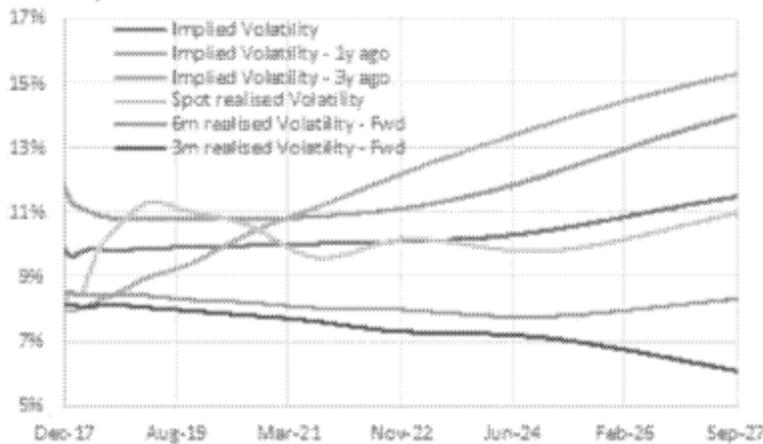
Current 2y Implied volatility is at 9.95%

**Rationale**

- The USDJPY volatility curve has flattened and reduced over the past year: Implied volatility is around 10% for maturities between 1y and 7y, is historically low and carries flat. Hence USDJPY provides interesting entry points to buy forward volatility
- Volatility of USDJPY long-dated forwards is extremely low, with changes in forward points often having opposite changes in spot (typical of carry trade dynamics). As a consequence, we view back-end volatility as trading at a premium
- Medium term vols (3y-5y) may therefore be more optimal points in the curve. Current 1y2y forward implied is at multi-year lows and negative carry has substantially reduced making it an attractive part of the curve
- Finally, holding USDJPY volatility would historically been a good diversifier against tail risk

**Analysis**

Implied Volatility Curve vs past / Spot vol curve / 3m&6m realised volatility of the forward



Forward Volatility

		Forward Starting Window				
		1y	2y	3y	4y	5y
Underlying Window	1y	10.0%	10.0%	10.1%	10.2%	10.2%
	2y	10.1%	10.1%	10.2%	10.3%	10.5%
	3y		10.3%	10.4%	10.6%	11.1%
	4y		10.4%	10.8%	11.3%	11.9%
	5y		11.0%	11.7%	12.3%	12.7%

Volatility Carry

		Forward Starting Window				
		1y	2y	3y	4y	5y
down	1y	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%