From: Martin Zeman [redacted]
Sent: 1/31/2019 8:45:43 AM
To: 'Paul Barrett [redacted]]
CC: Stewart Oldfield [redacted]
Subject: Market Colour: Flash Crash in USDJPY Realized Volatility...

Good color on USDJPY vol post the flashcrash early January:

Any guesses on USDJPY Realized Volatility (Daily with WMR fixings) since the Flash Crash? (so first fixing = 4th Jan).

3.87% !

There are good reasons why it's been so low since then. The move meant that a large source of volatility was removed from the market – namely stops from positioning (especially Mrs Watanabe) and stops from barriers. Additionally, very little new positioning seems to have been added since then, at least based on what we see in the options market.

The tone from FOMC suggest even more vol could be removed from the market. The two biggest correlations for USDJPY have been between USD yields and the S&P. We are now in a situation where the FOMC wants to support stocks with lower yields, suggesting these two drivers of USDJPY will be pulling in different directions. What's more, the FOMC is going to be less data dependent now, good economic numbers are not going to change their mind until inflation returns. That means data releases will be less volatile events for yields and hence USDJPY.

We as a desk have done very well being **short USDJPY volswaps**, and continue to like that position.

Our current volswap bids:
2m: **6.925** bid
3m: **7.125** bid

The current 2m realized vol (so including the full impact of the Flash Crash) is only at **6.65%**. This was around **5.5%** before the Flash Crash. The low 2m Realized in 2018 was **4.28%**, and the high (back in March 2018) was **8.57%**.

The corresponding numbers for 3m are **6.1%** (current), **6.0%** (pre Flash Crash), **4.75%** (2018 low), **8.05%** (high in April 2018).

Timing is key of course – one might well be tempted to wait for a bid of 7.5 – 8.0 in the 3m volswap, for example, to make it even more obvious.

Martin Zeman
Director | Institutional Wealth Partners
Deutsche Bank Wealth Management
345 Park Avenue, New York, 10154
[redacted]