To: 'Paul Barrett (█████████████████)' <███████████████████████>
**Cc:** Stewart Oldfield <█████████████████████>; Joshua Shoshan <████████████████████████> Martin Zeman <██████████████████>
Subject: RE: DB FX trade idea: EURZAR-USDZAR correlation swap

Paul, Vimal is working on the analysis and we'll send soon with the termsheet and mathematical claculations of implied and reaslied correlation.

See also below the same idea but in EURMXN-USDMXN, the strike is a bit lower but Vimal wanted to point out that the historical realized has gone also much lower than in the ZAR situation, so the potential for positive payout seems higher here than in ZAR.
Vimal also told me that we have seen clients do more the MXN and TRY crosses than the ZAR one, but typically MXN and TRY are currencies with more interest.

Talk soon. Thanks

DB FX Trade Idea
EURMXN-USDMXN Correlation Swap
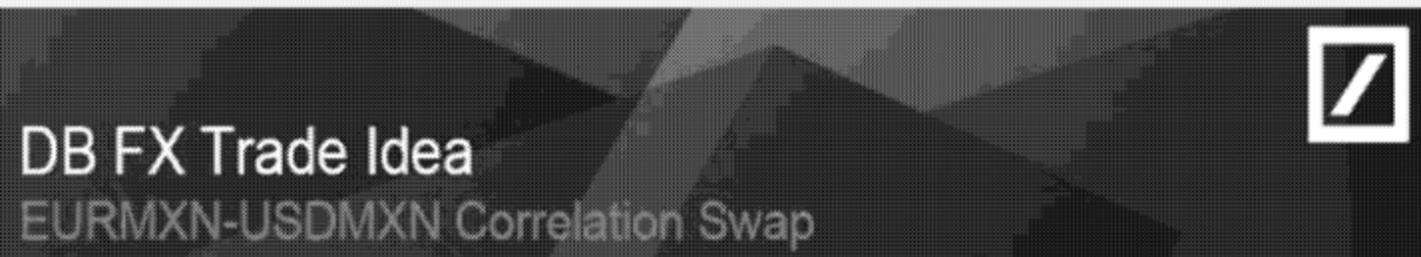
Trade Idea

- Sell 1y EURMXN-USDMXN correlation swap at 77%
- Sell 2y EURMXN-USDMXN correlation swap at 77%

Rationale

- EURMXN-USDMXN implied correlations are close to the highest levels since 2007 (see graph 1)
- This has been driven by MXN implied volatilities trading at their highest levels relative to EURUSD volatility since the financial crisis, largely a result of concerns regarding the Mexico elections in 2018 (see graph 2)
- Since 2007 the highest 1y realized correlation is 87% and the lowest is 11%. For 2y the highest is 83% and the lowest is 44%. Whilst current levels of 1y and 2y realized correlations are close to their highest levels, 3m realized correlation has fallen from recent highs to now sit close to current strikes (see graphs 3 & 4)
- The correlation swap provides a limited loss way of fading elevated MXN volatilities and buying cheap EURUSD volatility, which could perform in the event of rising Italian election and Catalonia independence concerns

Graphs

Graph 1: EURMXN-USDMXN implied correlation at highs

Graph 2: MXN vols elevated compared to EURUSD vols

Graph 3: 1y realized correlation vs. strike

Graph 4: 2y realized correlation vs. strike