

- 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



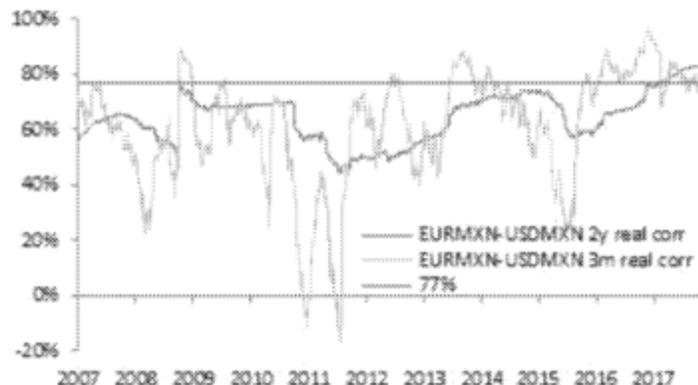
Graph 2: MXN vols elevated compared to EURUSD vols



Graph 3: 1y realized correlation vs. strike



Graph 4: 2y realized correlation vs. strike



Sources: Deutsche Bank, Bloomberg Finance L.P.
 Disclaimer: <http://globalmarkets.db.com/new/content/3045.html>

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Subject: DB FX trade idea: EURZAR-USDZAR correlation swap

Paul,