

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
 <image010.png>

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
Underlying Window	1y	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%
	2y	-0.3%	-0.2%	-0.2%	-0.3%	-0.4%
	3y		-0.4%	-0.4%	-0.6%	-1.0%
	4y		-0.5%	-0.8%	-1.3%	-1.8%
	5y		-1.1%	-1.7%	-2.2%	-2.6%

1y2y Forward Volatility is at the lows and so is vol carry
 <image011.png> <image012.png>

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

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