

From: Paul Barrett [redacted]
Sent: 9/22/2017 8:15:40 AM
To: Martin Zeman [redacted]
CC: Vahe Stepanian [redacted]; Stewart Oldfield [redacted]; Xavier Avila [redacted]; Joshua Shoshan [redacted]; Davide-A Sferrazza [redacted]
Subject: Re: [/] FX Trade idea: Time to buy USDJPY FVA? [C]

Looks interesting.

Please clarify how DB looks at these. We assign a \$ value per point with a linear payout in 1yrs time?

ISDA required?

Paul

Paul Barrett
[redacted]

On Sep 22, 2017, at 7:57 AM, Martin Zeman <[redacted]> wrote:

Classification: **Confidential**

Good morning, Paul,

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

Martin

<image003.png>

Trade Ideas

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

Current 2y Implied volatility is at 9.95%

Rationale

- <!--[if !supportLists]--><!--[endif]-->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
- <!--[if !supportLists]--><!--[endif]-->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
- <!--[if !supportLists]--><!--[endif]-->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
- <!--[if !supportLists]--><!--[endif]-->Finally, holding USDJPY volatility would historically been a good diversifier against tail risk

Analysis

Implied Volatility Curve vs past / Spot vol curve / 3m&6m

Forward Volatility