

this could be an interesting trade on ZAR without really getting directional exposure to it. The payout is defined as a \$amount per point of correlation. So that means selling the correlation at 80% for \$10k per point of correlation is a max loss of \$200k.

Let me know if you'd like to discuss.

Martin



DB FX Trade Idea

EURZAR-USDZAR Correlation Swap

Trade Idea

- Sell 6m EURZAR-USDZAR correlation swap at 80% (USD payout)
- Sell 1y EURZAR-USDZAR correlation swap at 80.5% (USD payout)

Rationale

- EURZAR-USDZAR implied correlations are close to the highest levels since 2007 (see graph 1)
- This has been driven by ZAR implied volatilities trading at their highest levels relative to EURUSD volatility since the financial crisis (see graph 2)
- Since 2007 the highest 6m realized correlation is 94% and the lowest is 41%. For 1y the highest is 93% and the lowest is 48%. Looking at shorter dated metrics, 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 ZAR volatilities and buying cheap EURUSD volatility, which could perform in the event of any Eurozone concerns such as the Italian election

Graphs

Graph 1: EURZAR-USDZAR implied correlation at highs



Graph 2: ZAR vols elevated compared to EURUSD vols



Graph 3: 6m realized correlation vs. strike

Graph 4: 1y realized correlation vs. strike