

Subject: RE: [/] FX Trade idea: Time to buy USDJPY FVA? [C]
From: Xavier Avila <[REDACTED]>
Date: Fri, 22 Sep 2017 08:50:35 -0400
To: Paul Barrett <[REDACTED]>,
Martin Zeman <[REDACTED]>
Cc: Vahe Stepanian <[REDACTED]>,
Stewart Oldfield <[REDACTED]>,
Joshua Shoshan <[REDACTED]>,
Davide-A Sferrazza <[REDACTED]>

Paul,

FVA is typically a forward delivered FX straddle, you buy (or sell) the fwd straddle at the preagreed spot price today. Before it settles you have no delta risk as strike not set, once it settles you have delta risk but typically you sell the straddle as you are only interested in the vol trade (typically) not delta. You decide spot what notional of the straddles you want to own (or sell) forward or you can also specify a vega notional. If you dont want to bother about delivery of straddle, we can also agree to cash settle the OTC contract at the delivery time although implied vol fixings dont really exist (last time I checked) so if you deliver and sell you manage the exit, you can also choose to do the exit with another bank if price better.

Vol swaps (unlike equity that trades Var swaps, FX standard is Vol Swaps) and Corr Swaps it's always cash settled, you buy or sell implied vol or corr vs the realised result, and yes we typically specify the OTC Contract as a linear payout of USD cash per % difference.

We also do FX options contingent on vol knock outs and even FVA, Vol Swaps, Corr Swaps contingent on delta (multi currency) knock outs. In FX literally there are very few things we cannot do in vol and corr space with very reasonable bid offers.

All FX we do is OTC except bits and pieces, so yes we need the ISDA and to double check you guys are up and running in the systems with all the extra docs we might need. We are working to it as quick as we can.

Thanks
Xavier

-----Original Message-----

From: Paul Barrett [REDACTED]
Sent: Friday, September 22, 2017 08:15 AM Eastern Standard Time
To: Martin Zeman
Cc: Vahe Stepanian; Stewart Oldfield; Xavier Avila; Joshua Shoshan; Davide-A Sferrazza
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 yrs 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

- 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: [REDACTED]

<image001.gif>

Martin Zeman
Director | Key Client Partners

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