

Subject: RE: [/] FX Trade idea: Time to buy USDJPY FVA? [C]  
From: Martin Zeman <[REDACTED]>  
Date: Mon, 25 Sep 2017 08:29:41 -0400  
To: Paul Barrett <[REDACTED]>  
Cc: Vahe Stepanian <[REDACTED]>, Stewart Oldfield <[REDACTED]>, Xavier Avila <[REDACTED]>, Joshua Shoshan <[REDACTED]>, Davide-A Sferrazza <[REDACTED]>

Classification: Confidential

Paul,

Back to your question on how wide we make the vol markets on the USDJPY FVA idea we discussed Friday.

The two-way price on the way in is half a vol wide max and possibly tighter. On the unwind the same or less. Meaning the total transactions costs between inception and unwind should be half a vol or less.

Martin

From: Paul Barrett [mailto:[REDACTED]]  
Sent: Friday, September 22, 2017 8:16 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  


On Sep 22, 2017, at 7:57 AM, Martin Zeman  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.

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Disclaimer: <http://globalmarkets.db.com/new/content/3045.html>

<image001.gif>

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