

EURUSD call option prices
Spot 1.382

Spot	At exp	1w	2w
1.42	141	142	145
1.41	71	76	84
1.4	0	24	37
1.39	0	4	11
1.382	0	1	4

<< 4bp is mid mkt, offer is 6bp

3) Position for a Stronger Dollar - 1 year view (now or soon)

Buy 1y expiry European style digital binary option on EURUSD struck 5% below spot @ 21% of payout (which i think is too cheap)

Current strike (spot - 5%) would be 1.3120

At expiry if EURUSD has fallen by more than 5% from current levels the option payout is EUR1mm. Upfront premium is EUR210k.

The option is liquid and can be unwound at any time.

- i) Yellen has done a poor job of communicating the Fed's thinking but its increasingly clear the Fed will brake later than usual
- ii) Betting on higher US interest rates *in the rates market* isn't cost effective because the forward curve is already pricing in higher rates
- iii) The Dollar hasn't appreciated yet because short rates in the US haven't risen meaningfully
- iv) THE KEY POINT - FX volatility is very low in currency pairs like EURUSD where central bank policy on each side is increasingly diverging. The low vol makes this bet inexpensive to put on.
- v) Because FX vol is so low betting now or soon with a one year time horizon costs very little. id rather be early than late here
- vi) i prefer 1y expiry because this trade could take 6-12mths to play out

1Y EURUSD VOL: Low - but then again most most vols are

What I like about EURUSD is that central bank policy on each side is diverging

