



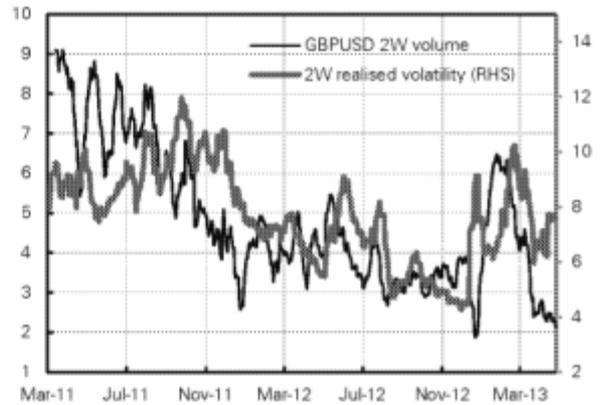
G10 and hence is susceptible to rebound. Within the Eurozone, another factor to consider is the risk sensitive safe-haven unwinds (mainly from Switzerland and the UK) which could further add to this trend.

The favoured trades

In sum, a further increase in trading volumes and monetary policy divergence could see a broad-based volatility pick-up. Looking across a number of relative value trades, we recommended buying a 6M GBP/USD variance swap struck at 7.75%, and a 3M AUD/USD variance swap (9.00% strike), due to the low transaction volumes in GBP/USD and attractive historical realized volatility levels (see chart 6). Furthermore, these trades benefit from the negative spot-to-empirical volatility skew.

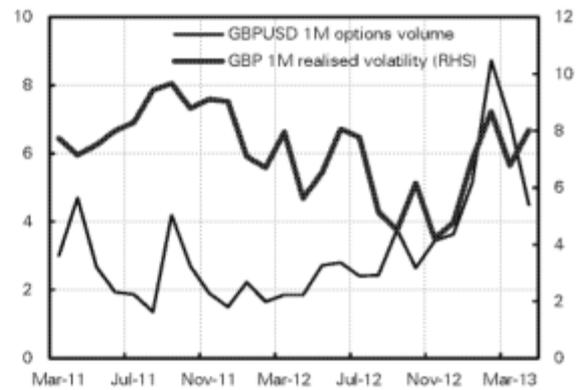
Nicholas Weng, London,
James Malcolm, London,

GBP/USD volumes falling sharply in 2013



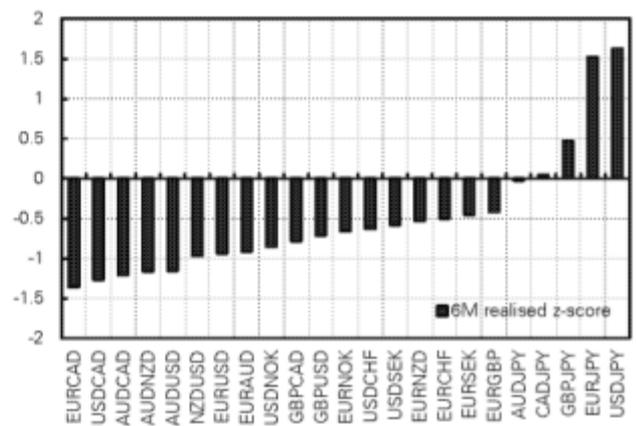
Source: EBS, Bloomberg Finance LP.

Options market ADVs on the rise



Source: CME group.

AUD and GBP realised volatilities are historically cheap



Source: Bloomberg Finance LP. Z-score values are calculated using three years of historical data.