

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



This Table shows mid-market premiums (in % of notional) as spot and time change.

EURUSD binary option prices Spot: 1.382

Spot		At exp	1m	2m	3m	6m	9m	12m
± X%	Abs Spot							
5.0	1.451	0	0	0	1	3	6	8
2.5	1.416	0	0	1	2	6	10	12
0.0	1.382	0	1	3	6	12	16	19.5
-2.5	1.347	0	7	13	18	25	28	30
-5.0	1.313	100	48	48	47	46	45	45
-7.5	1.278	100	95	88	82	71	66	62
-10.0	1.244	100	100	99	96	88	82	77

19.5 is mid (offer is 21)