

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

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19.5 is mid (offer is 21)

4) Scale into £4mm Nationwide (UK Building Society) 6.875% perpetual which yields 6.4% in GBP and is likely to be called in 5years
European Bank AT1 Hybrid Bonds (aka CoCo's) have rallied significantly. We were unable to get the BBVA issue at the right levels.
A very similar bond which has rallied 30bp less than the BBVA is the Nationwide (UK Building Society) 6.875% perpetual which currently yields 6.4% and is likely to be called in 5years time. It has a tier1 capital trigger of 7% and current tier1 capital ratio is 13% which is fair margin.

The Nationwide one i'm suggesting today is rated Fitch/S&P BB+, its parent is Fitch/S&P rated single-A
The BBVA bond we tried to buy earlier is rated Fitch BB-, its parent is S&P rated BBB-

I suggest scaling £2mm at 6.5% and £2mm at 6.75%. Transaction cost is 6bp from mid.

Yield to call of Nationwide 6.875% perpetual ISIN XS1043181269
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Tazia for any execution, Q&A to me.

Best,
Nav

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