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Subject: Commodity currencies: bullish reversals in BRL... [C]

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Inline-Images: unnamed

Classification: Confidential

Jeffrey,

Happy new year. This idea looks particularly interesting to USDBRL. Indicative pricing and rationale below:

Notional: USD 10mm

Expiry: 6m

Client buys USDBRL put / sells USDBRLcall

Put strike: 2.70

Call strike: 3.10

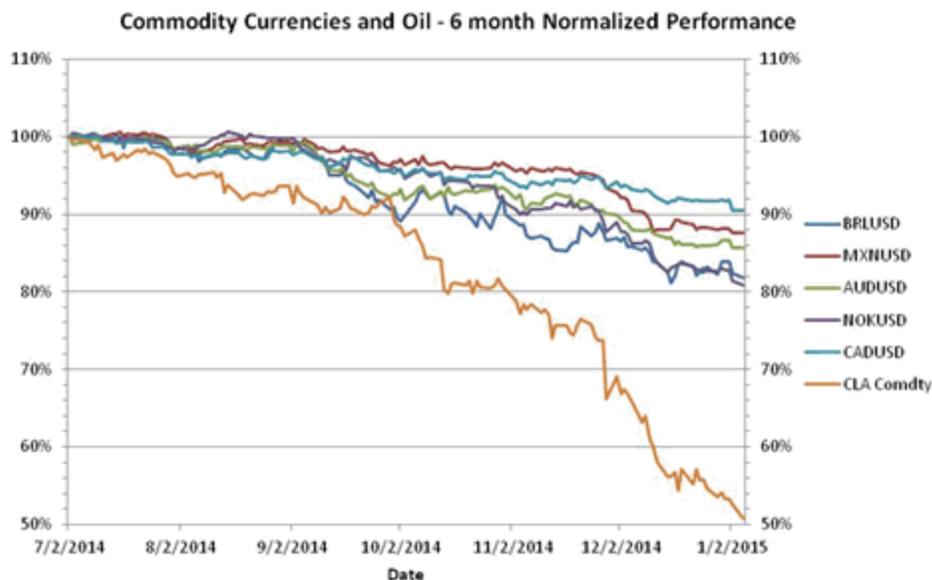
Net Premium Offer: Zero (mid of put \$162.5k and mid on call is \$175k)

Spot ref. 2.7210

6m forward ref : 2.8560 / 2.8635

Rationale:

- Given the recent downward move in commodities, commodity linked currencies have experienced increased volatility and marked depreciation vs. USD (see historical price chart below)
- Affected commodity linked currency pairs include AUDUSD, USDBRL, USDCAD, USDMXN, and USDNOK
- Premium neutral bullish risk reversals on commodity currencies can take advantage of implied vol, skew and forward dynamics (i.e. client buys foreign currency call and sells foreign currency put)
- Looking at volatility adjusted skew amongst commodity currencies, current USDBRL levels provide a compelling entry point into premium neutral risk reversals.



Other commodity currencies: While for USDBRL call strike is about 14% away from spot while put is about 1% away, for USDMXN the call strike would be approximately 8% away while put strike would be 3% away from spot.

Best regards,

Daniel

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