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Subject: Fw: Position for EURUSD lower ahead of ECB via vanilla put or collar [C]

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Inline-Images: unnamed; unnamed(1); unnamed(2); unnamed(3); unnamed(4); unnamed(5)

Classification: Confidential

Good Morning Jeffrey - please see below per Nav's request. To summarize, two EURUSD trade ideas:

Trade 1: Buy a 1-month European style 0.22% OTMspot EURUSD put, offered at 0.67% of EUR notional

Trade 2: Buy a 3-month European style 1.03% OTMspot EURUSD put, funded by selling a 3-month European style 0.81% OTMspot EURUSD call, offered at zero premium

Thank you,
Vahe

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- ECB members have been increasingly vocal about the link between EUR currency strength and low inflation, and the need for a lower EURUSD
- Today's lower-than-expected Eurozone CPI print is further reason for ECB to loosen monetary policy, given that ECB Governing Council already shares a consensus view on negative deposit rate and unsterilized SMP
- EUR rates have room to fall further, while USD rates should rise as economy recovers, weighing on EURUSD
 - Forward EONIA out of the June ECB meeting is 12bp (11bp below the current fix), and that out of the July ECB meeting is 9bp
 - Full liquidity measures (like LTRO, lowering reserve requirements or QE) could see EONIA drop to around zero
- Inflows into European assets, which have supported EURUSD past year, have been slowing down lately which would also weigh on EUR strength
 - Net purchases of European assets by US investors fell to zero in Q1-2014, while Japanese investors were net sellers (Q1-14 being the first negative quarter in 2 years)

Trades I like best to play EURUSD lower:

Trade 1: Buy a 1-month European style 0.22% OTMspot EURUSD put, offered at 0.67% of EUR notional

Ref spot: 1.3610

Put strike: 1.3580 (0.22% OTMspot)

Breakeven: 1.3489

1m forward: 1.3609

Mid premium: 0.64% of EUR notional

Put option vol: 6.6%

Scenario analysis for Trade 1:

Table shows mid premium (as % of EUR notional, that investor pays) for the above trade, as spot and time to expiry vary (only the highlighted premium for current spot is the offer level)

Spot % move	Spot level	Time to expiry		
		1m	15d	At exp
6%	1.4426	0.01%	0.00%	0.00%
4%	1.4154	0.03%	0.01%	0.00%
2%	1.3882	0.15%	0.06%	0.00%
0%	1.3610	0.67%	0.45%	0.00%
-2%	1.3337	1.97%	1.89%	1.79%
-4%	1.3065	3.96%	3.96%	3.79%
-6%	1.2793	6.16%	6.17%	5.80%

EURUSD 1m implied volatility - 5 year history

The volatility is still near the lower end of its recent historical range, hence the low premium



Trade 2: Buy a 3-month European style 1.03% OTMspot EURUSD put, funded by selling a 3-month European style 0.81% OTMspot EURUSD call, offered at zero premium

Ref spot: 1.3610

Put strike: 1.347 (1.03% OTMspot)

Call strike: 1.372 (0.81% OTMspot)

3m forward: 1.3611

Mid premium: -0.03% of EUR notional (i.e. investor would receive 0.03% of EUR notional)

Put option vol: 6.0%, call option vol: 5.9%

Scenario analysis for Trade 2:

Table shows mid net premium (as % of EUR notional, that investor pays) for the above trade, as spot and time to expiry vary (only the highlighted premium for current spot is the offer level)

Spot % move	Spot level	Time to expiry			
		3m	2m	1m	At exp
6%	1.4427	-4.98%	-4.94%	-4.90%	-5.15%
4%	1.4154	-3.24%	-3.18%	-3.21%	-3.17%
2%	1.3882	-1.56%	-1.50%	-1.48%	-1.18%
0%	1.3610	0.00%	-0.02%	-0.06%	0.00%
-2%	1.3338	1.48%	1.40%	1.28%	0.98%
-4%	1.3066	3.25%	3.18%	3.13%	3.00%
-6%	1.2793	5.32%	5.30%	5.30%	5.02%

EURUSD spot FX rate - 1 year history



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Passion to Perform

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