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# **Buy Short Dated Channeling Ranges**

# 3 Month USDJPY Channeling Range Option

Trade Idea - February 2012



For clients with the view that USDJPY may grind higher over the short term, a "channeling range" provides a discount to static ranges by allowing the client to predict the channel USDJPY spot may follow on its steady move higher.

USDJPY short-dated risk-reversals are bid for high strikes. Given that this channeling range sells high side volatility, it provides an additional discount to the standard range trade.

### **Channeling Range Option**

Tenor: 3 Month Initial Range: 78.00-82.50

**Daily Shift** 4 pips (10am NY cut)

Each day, the range will shift up by 4 pips. For example, on day 2,

the new range will be 78.04-82.54.

Offer Price: 10.25% of USD Payout Spot Reference: USDJPY: 80.25

Static Range: 3m USDJPY 78.00-82.50 range is 14% of USD payout

**Positioning** 

**Spot:** Moderately Bullish USDJPY spot

**Volatility:** Short USDJPY volatility

Short USDJPY risk-reversal

### **Profitability Analysis**

Risk is limited to premium paid. If USDJPY spot never breaches the barriers for the duration of the trade, the option pays out 100% of

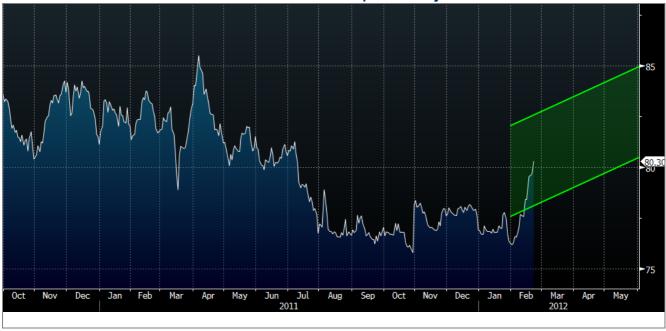
notional.

If at anytime, a barrier is breached, the option expires worthless.

#### **Trade Rationale**

- Given the view that USDJPY may grind higher over the short term, this trade takes advantage of the channelling nature commonly exhibited by currency pairs beginning a trend. —Exhibit 1
- USDJPY 3m risk-reversals are currently bid for high strikes. This product sells that risk-reversal, which provides a significant discount (unlike the static symmetric range, which has no initial exposure to the riskies).

**Exhibit 1- USDJPY Spot History** 



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