Subject: FW: ***Market Volatility Bulletin: "Brexit" Déjà Vu? FX vs. Equity Vols Diverge Ahead of Election - Credit Suisse Equity Derivatives Strategy***
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From: Xu, Mandy [mailto:[redacted]]
Sent: Monday, October 03, 2016 9:15 AM
To: Xu, Mandy
Subject: ***Market Volatility Bulletin: "Brexit" Déjà Vu? FX vs. Equity Vols Diverge Ahead of Election - Credit Suisse Equity Derivatives Strategy***

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MARKET COMMENTARY

Market Volatility Bulletin
"Brexit" Déjà Vu? FX vs. Equity Vols Diverge Ahead of Election
Link to Report: Market Volatility Bulletin

WHAT STANDS OUT:

· Similar to what we saw heading into the "Brexit" referendum earlier this year, equity and FX implied vols have diverged as we approach the Nov 8th US presidential election. While USDMXN 2M implied vol has jumped to a 4-year high in reaction to polls showing Trump in a close race with Clinton, equity vols are pricing in very little election risk. See charts below for comparison.

· For "Brexit", equity vols didn't react until two weeks before the referendum (and even then, it still underpriced the risk of the "leave" vote). Will we see a similar pickup in equity volatility this time as the election date approaches? Historically, we've found October to be the most volatile month of election season and the VIX has gone up an average of 3.5 pts in the month leading up to the election. See pg 14 for tradable election basket ideas.

Chart: FX vs. Equity Vols Now vs. Before "Brexit"

Source: CS Equity Derivatives Strategy

MORE INSIDE (Market Volatility Bulletin)

Mandy Xu, CFA

Equity Derivatives Strategy

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Because of the importance of tax considerations to many option transactions, the investor considering options should consult with his/her tax advisor as to how taxes affect the outcome of contemplated options transactions.

Risks:

1. Call or Put Purchasing: The risk of purchasing a call/put is that you will lose the entire premium paid.

2. Uncovered Call Writing: The risk of selling an uncovered call is unlimited and may result in losses significantly greater than the premium

received.

3.   Uncovered Put Writing: The risk of selling an uncovered put is significant and may result in losses significantly greater than the premium received.

4.   Call or Put Vertical Spread Purchasing (same expiration month for both options): The basic risk of effecting a long spread transaction is limited to the premium paid when the position is established.

5.   Call or Put Vertical Spread Writing (same expiration month for both options): The basic risk of effecting a short spread transaction is limited to the difference between the strike prices less the amount received in premiums.

Call or Put Calendar Spread Purchasing (different expiration months & short must expire prior to the long): The basic risk of effecting a long calendar spread transaction is limited to the premium paid when the position is established.