

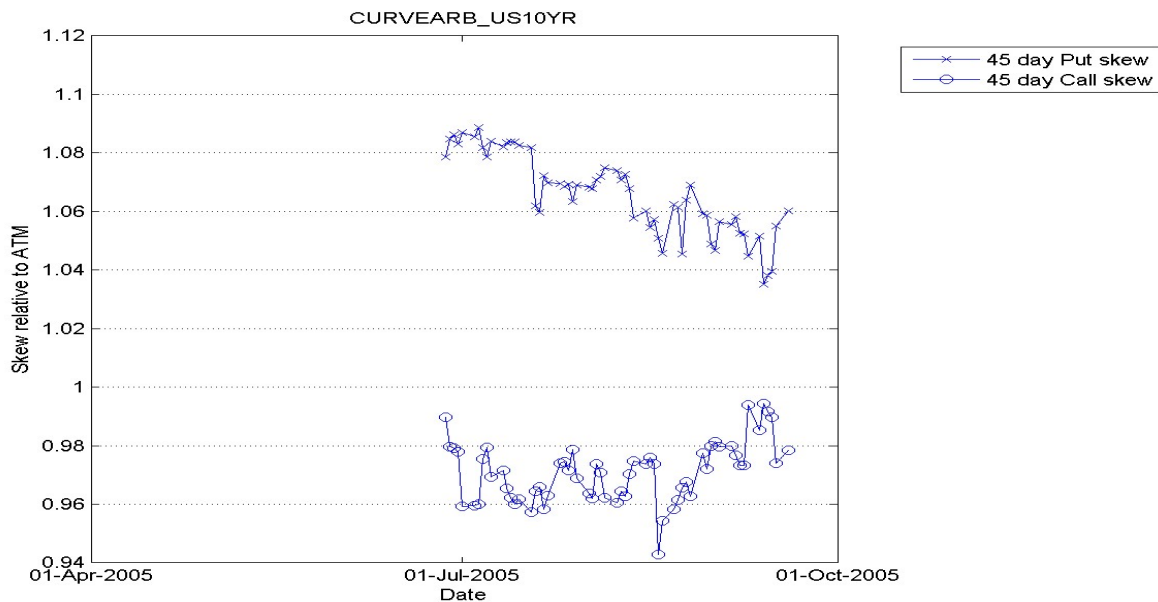
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## Looking at the US/Europe 10's/10's divergence trade

In analysing the attractiveness of the US/Europe 10's/10's divergence trade, it is worth looking at both the implied volatility priced into both the Bunds and US 10yr options, and also the shape of the skew in both markets.

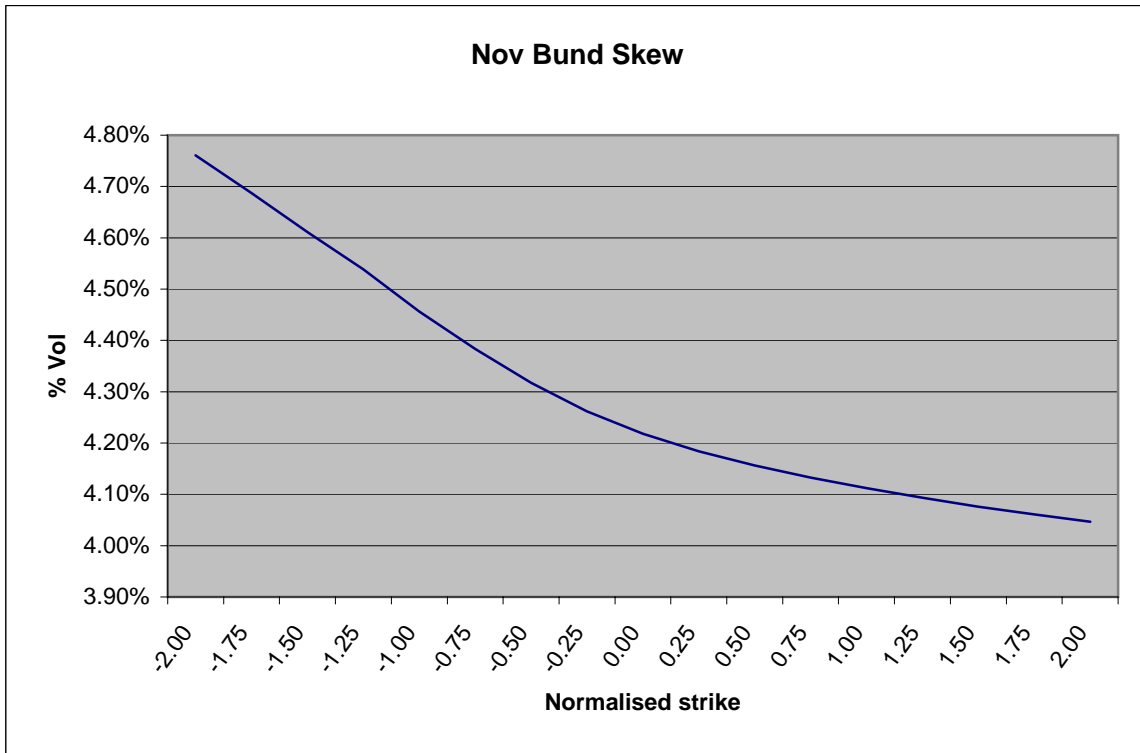
### Analysing the idea of buying put spreads in the Bund, vs selling puts in the US 10yr (November)

Firstly let's see how the puts on the November 10yr have been priced over the last few months compared to the ATM implied vol. The chart below shows the ratio of the 1 normalised put and call strike compared to the ATM. A ratio of 1 would mean the 1 normalised strike is pricing the same vol as the ATM.



The puts have been showing a higher ratio over the last several trading days. The 1 normalised strike (equates to the Nov 109 puts) has seen the ratio increase from 1.036 to 1.06 since the 15th September. In other words, Puts are bid. Therefore it is a good time to be selling.

In the Bund, the chart overleaf shows the shape of the skew, revealing its current steepness on the put side. A steep put skew implies that a put spread is a much more favourable strategy as opposed to an outright put purchase.



The steepness of the put skew (on the left) tells us that buying the Nov 123.00/121.50 put spread would involve buying 4.26% vol for the 123.00 strike, and selling 4.46% vol on the 121.50 puts.

### Conclusion

Puts in the November US 10yr have been bid up over the last several days, presenting a better opportunity for selling. It is obvious that these will soften post FED this evening so today presents the most opportune time for selling. At the same time, the put skew has remained steep in the November Bund, implying that put spread buying makes better sense than buying outright puts.

### Idea

Sell November 10 yr 110 puts (32 delta) Buy November Bund 123/121.50 put spread (29 delta)  
 (can sell 24 ticks to +39)