



## Netting Benefits Outweigh the Risk of Adverse FX Rate Movements

By delaying the execution of certain FX trades to capture the benefits of netting, additional market and timing risks are assumed. FX Transparency argues, however, that the FX market is efficient, and hence just as likely to move in the investor's favor over that time horizon, as it is to move against the investor, and that over the long run, the effects of market timing are a zero-sum game. The investor is left with the savings of netted trades derived from executing lower volumes in the market.

To support the view that market timing is a zero-sum game, FX Transparency offers two points of support; one theoretical and one empirical:

1. Theoretical support is in the form of the well-known Efficient Markets Hypothesis (EMH) which states that if market moves, including the FX market, were directionally predictable, those effects have already been priced into the market, and no easy profit from forecasting the direction of currency rates exists. Hence, FX rates are just as likely to rise as to fall at any given point in time:

[https://en.wikipedia.org/wiki/Efficient-market\\_hypothesis](https://en.wikipedia.org/wiki/Efficient-market_hypothesis)

2. Empirical support is in the form of FX Option Pricing. The market believes over the next 24 hours that the EURUSD rate is just as likely to increase as it is to decrease. This is visible in any option price, not just EURUSD. The the price of EUR puts vs. EUR calls are identical for a strike price at the current spot rate. The price of both puts or calls in the current market is 0.239% of the EUR notional. Hence, the market believes that EURUSD is just as likely to move higher as it is to move lower over the next 24 hours:

OVML EURUSD EU 1.1148P 08/01/19 N1M			
Strategy 1			
Leg 1			
Price Date	07/31/19		08:25
Asset	EURUSD		
Spot	Mid	1.1145	
Style	European	Vanilla	
Direction	Client buys	Physical	
Call/Put	EUR	Put	
Expiry	1 day	08/01/19	
Delivery	NY 10:00	08/05/19	
Strike	1.1148	ATMF	
Notional	EUR	1,000,000.00	
Model	Black-Scholes		
More Market Data			
Vol	BGN	9.045%/11.445%	
Vol Spread	2.400%		
Points	CMPN	Mid	2.60
Forward	Mid 1.1148...		
EUR Depo	Implied	Mid	-0.399...%
USD Depo	USD OIS	Mid	2.400%
Greeks			
Gamma	EUR	743,976.61	
Vega	208.82		
Results			
Price	% EUR	0.2390% P	
Premium	EUR	2,389.97 P	
Prem Date	08/02/19		
Delta	Spot	-50.1086%	
Hedge	501,086.33		

OVML EURUSD EU 1.1148C 08/01/19 N1M			
Strategy 1			
Leg 1			
Price Date	07/31/19		08:25
Asset	EURUSD		
Spot	Mid	1.1145	
Style	European	Vanilla	
Direction	Client buys	Physical	
Call/Put	EUR	Call	
Expiry	1 day	08/01/19	
Delivery	NY 10:00	08/05/19	
Strike	1.1148	ATMF	
Notional	EUR	1,000,000.00	
Model	Black-Scholes		
More Market Data			
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Greeks			
Gamma	EUR	743,976.61	
Vega	208.82		
Results			
Price	% EUR	0.2390% P	
Premium	EUR	2,389.97 P	
Prem Date	08/02/19		
Delta	Spot	49.8947%	
Hedge	-498,946.95		