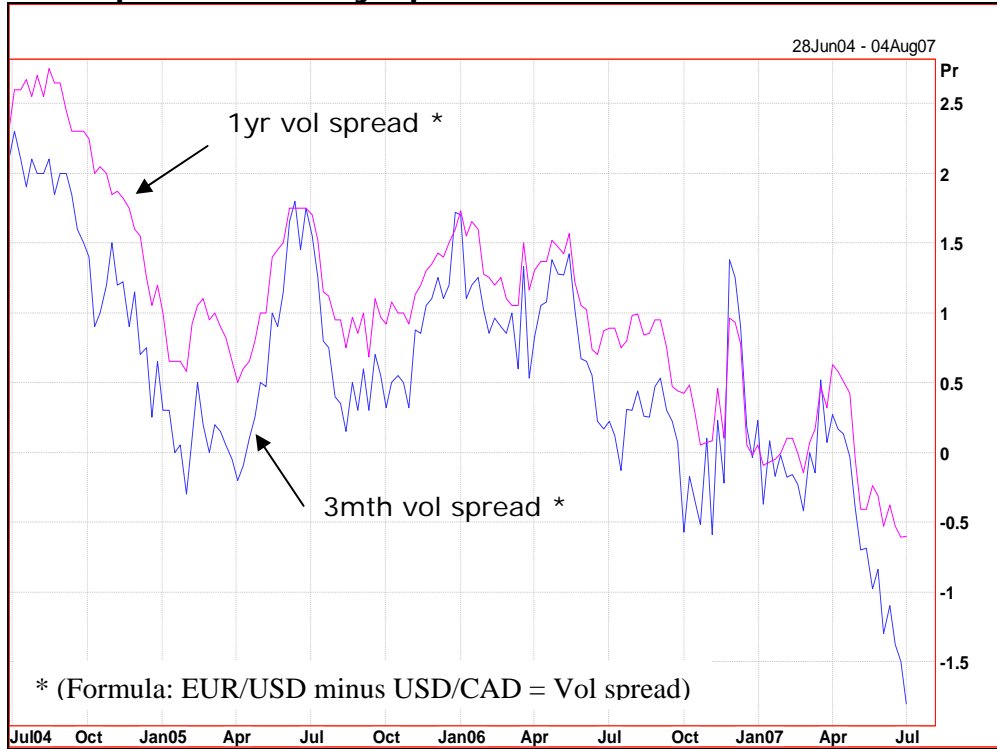


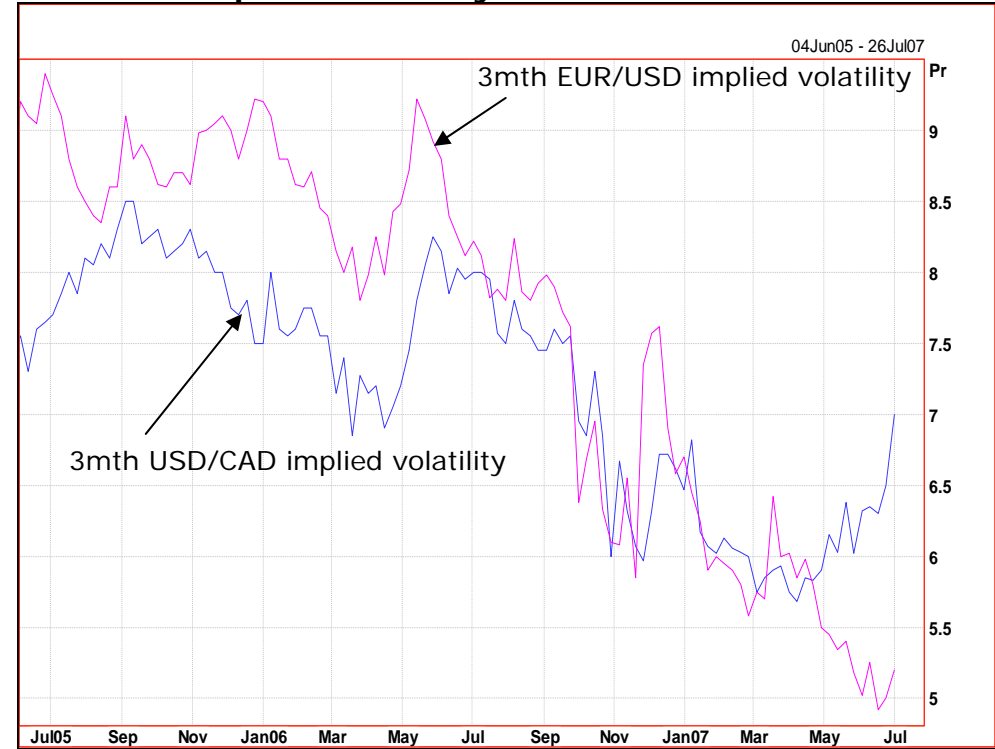


Implied Volatility Divergence Presents an Opportunity

Implied Volatility Spread: EUR/USD vs. USD/CAD



3mth Implied Volatility: EUR/USD vs. USD/CAD



Analysis: The difference in EUR/USD and USD/CAD implied volatility is now at extreme levels, never seen before. Three month EUR/USD implied vols now trade at a discount of around 1.7 vols to USD/CAD (see blue line, left chart). While the front end of the volatility curve is more susceptible to wild gyrations, the 1-year spread is also at a record of -0.70 vols (see pink line, left chart). The right hand chart shows the actual 3-month implied volatility for these currency pairs. The deviation from the norm is a recent phenomenon, accelerating dramatically since the beginning of June. The absolute drop in EUR/USD volatility is not without some merit: the spot market is fairly range bound, keeping 90% of price action with 1.33-1.36 (a 2.25% range). However, are record lows around 5% justified for 3-month implied volatility? On the other hand, USD/CAD 3-month implied volatility is at levels not seen since last October. While the spot did trade to 1.0548, a 30-year low on June 4, the subsequent correction is tame, only a 200-point rally or 1.9%. Are 8-month highs for 3-month USD/CAD implied justified? Perhaps, but mean reversion is likely as the summer holiday season gets into full swing, and trading volumes die.

Trade Idea: Earn 70bps selling 3-month USD/CAD straddles at 2.78% while buying 3-month EUR/USD straddles at 2.08%. Notional amounts must be a constant USD amount on both trades.



Legal Disclaimer

This publication is being distributed by (i) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association, the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (ii) in the European Union, CIBC World Markets plc, which is regulated in the United Kingdom by the Financial Services Authority, (iii) by CIBC World Markets affiliates in other jurisdictions in compliance with local rules and regulations (collectively, "CIBC World Markets"). This publication is provided for general informational purposes only to institutional and professional investors and does not constitute an offer or solicitation to buy or sell any specific securities or other investments discussed herein.

The information, opinions and statistical data contained herein has been prepared by CIBC World Markets solely for informational purposes based upon sources believed to be reliable, however, CIBC World Markets does not represent or warrant the completeness or accuracy of any such information, opinions and statistical data. Any opinions, estimates and projections contained herein are subject to change without notice, and are provided by CIBC World Markets in good faith but with no legal responsibility or liability whatsoever. Changes in assumptions may have a material impact on any returns detailed. The securities and other investments listed reflect indicative terms only and may change in price and yield and market conditions.

The securities and investments mentioned in this publication may not be suitable for all types of investors. This publication does not take into account the investment objectives, financial situation or specific needs of any recipient or particular client of CIBC World Markets. Recipients should consider this publication as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. Nothing in this publication constitutes legal, accounting or tax advice, and recipients should independently evaluate the financial, market, legal, regulatory, credit, tax and accounting risks and consequences involved, and specific to the recipient's situation, before entering into a transaction.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding the future performance of any security or investment mentioned in this publication. The price of the securities and other investment mentioned in this publication and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this publication, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

CIBC World Markets and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities and investments mentioned herein either for their own account or the accounts of their customers. CIBC World Markets and its affiliates may at any time deal as principal in or have a long or short position in any security or investment mentioned herein, or any option, future or other derivative based thereon. Any products or services mentioned herein are made available only in accordance with local legal and regulatory requirements. As a result, the securities and investments discussed herein may not be eligible for sale in some jurisdictions.

CIBC World Markets Inc., and CIBC World Markets plc are wholly owned subsidiaries of Canadian Imperial Bank of Commerce, ("CIBC"), but each is solely responsible for its contractual obligations and commitments. Any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation, the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2007 CIBC World Markets. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.