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Hedging quantos, differential swaps and ratios

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Abstract

From first principles, using general no-arbitrage arguments across international markets, differential swaps and a variety of quanto options and futures are evaluated and replicated in closed form by explicit construction of their hedge portfolios, under the assumption of deterministic instantaneous covariances.

Keywords:

international trading strategies   cross-market hedging   pricing   replication   product and division rules

deterministic covariance

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