

2015 Outlook Recommendations

| | Trade Detail | Rationale | Risks | Opened | Entry | Current | P/L |
|-----------------|---|---|--|----------|--------|---------|-----|
| Option | Buy 1x1, 1y1y receiver spreads with strikes ATMF and ATMS | The post-Fed sell-off has left the spot/forward spread near multi-year post-crisis highs. | Maximum total loss is the premium outlay | 12/19/14 | 29c | | |
| Swaps RV | Pay 3y1y versus 2y1y | This curve segment might be expected to steepen if, for example, higher inflation produces greater pricing power, or if the long-absent cyclical increase in productivity finally materializes. | Curve flattens | 12/19/14 | +40 bp | | |
| Option | Sell 1X2 payer spreads at the short end: Sell \$100mn 6M3Y ATMF vs. buy \$200mn 34.5bp OTM payers at zero net cost | The repricing of Fed hikes could begin in Q2 with the short end rebounding sharply after initial rally. | Vulnerable to rally below the breakevens, with potentially unlimited downside. | 12/19/14 | | | |
| Option | Sell \$100mn 6M10Y straddles vs. buy \$300mn 6M3Y straddles for a net premium of 175K | With expectations of Fed hikes, volatility should move to the front end of the curve, while the back end movements remains | Unilateral spike in backend vol. | 12/19/14 | | | |
| Option | Quiet flatteners: sell \$1bn 6M 5s/10s 9.5bp OTM curve cap vs. buy \$1bn 6M 5s/10s atmf/9.5 curve floor spread at zero cost | Potential for considerable bear flattening should the market reprice the Fed hikes. | Curve steepens. | 12/19/14 | | | |
| Option | Quiet bulls: Sell \$100mn 1Y10Y 50bp OTM payers vs. buy \$100mn 1Y10Y ATMF/33 receiver spreads costless | This captures the risk of bullish flattening of the curve where growth is unable to take off either due to fundamental weakness or in response to a policy mistake of premature hikes. | Sell-off beyond 3.10%. | 12/19/14 | | | |
| Option | Buy \$100mn 1Y30Y receivers, struck at spot, at 1270c | Bul/flatteners at the back end. | Loss equal to the options premium | 12/19/14 | | | |
| Option | 6M dual digital: 2s > F+10bp & 10s < F-10bp offer 11.5% | This is a leveraged expression of a policy-mistake trade where premature hikes cause a rally at the back end. | Loss equal to the options premium | 12/19/14 | | | |

Source: Deutsche Bank

