
From: Nadean Novogratz [redacted]
Sent: 11/15/2018 10:59:29 AM
To: Paul Barrett [redacted]
CC: Martin Zeman [redacted]; Stewart Oldfield [redacted]; Alan Brody [redacted]
Subject: FW: [/] Equity Derivs: FXI can outperform SPX coming out of the G20

Hi Paul,

Interesting FXI upside trade out to February below. Is international underlyings interesting to you?

Kind regards,
Nadean

From: Karthik Nagalingam [mailto:redacted]
Sent: Thursday, November 15, 2018 10:33 AM
To: Karthik Nagalingam
Subject: [/] Equity Derivs: FXI can outperform SPX coming out of the G20

Classification: **Public**



Can China Rip after G20?

Even with Brexit negotiations going back and forth, oil trading like it is 2016, and the SPX continuing to trade lower. The questions I have fielded the most this week are about Chinese upside ahead of G20 in 2 weeks. This is a trade that people have been looking to put on a while, and while conviction may not be sky high, there is clearly a feeling of not being able to miss it – that points to low premium option ideas.

Our House view remains constructive on a deal getting done and China's economy turning around.

- **The prospects of a trade deal have improved** and our strategists are now up to a 50% likelihood of a deal being reached on Nov 29
- **President Trump has asked his cabinet to draw up a potential deal.** The president sees the market turmoil, and while he likes to blame the Fed and the incoming Dem House, he would likely rather the market go back to rising.
- **Slowdown can turnaround quickly in controlled economy.** While we and most banks are downgrading China's GDP forecast given the trade war, a resolution along with continued accommodative fiscal policy in China can see that forecast reverse quickly.
- **Recently announced personal income tax cuts in China**, estimated to be ~0.5% of GDP, should boost retail sales and help offset downside risks to growth from the trade war
- **Like FXI over EEM.** Given the construction of the two indices, I like FXI better for a purer play on Chinese economic conditions improving. EEM has larger tech exposure (along with obviously other countries), while **FXI has higher weights to consumer products and industrial cyclicals that can outperform if higher global rates re-rate growth.**

2 Trades for a real Chinese recovery:

Vanilla – FXI Feb 42.5/48 Call Spreads for 96c (ref. 40.72, 28d) max payout 4.7x