
From: Martin Zeman [REDACTED]
Sent: 1/24/2019 11:32:16 AM
To: 'Paul Barrett [REDACTED]'; Alan Brody [REDACTED]; Nadean Novogratz
CC: Stewart Oldfield [REDACTED]; Alan Brody [REDACTED]; Nadean Novogratz
Subject: [/] Trade Idea: Buy Upside on SX7E (Eurostoxx Banks Index) as ECB gradually starts shifting stance

Paul – below is something we put together more widely here but contains a couple of prices highlighted in yellow.

We are still working on the restructure of your existing note and will be back soon.

At the last ECB press conference, Mario Draghi raised the issue of the structural profitability of the banking system and the potential for a shift in ECB thinking on the cost of negative rates. **We think that one solution they could potentially look at is a tiered reserve system which would be a huge positive for the banks.** The negative interest rate policy is a huge negative for the sector (banks cannot pass on the costs to households and weighted margins have fallen 45% since the crisis). [Click here](#) for a note with an update on how ECB thinking on this issue is shifting. (the links are to research published prior to today's press conference by Draghi).

At today's press conference, Draghi acknowledged that although discussed by the members of the ECB, they **"didn't discuss policy or policy implications this time."** That basically means that there is no announcement on this as of today and as a result SX7E dropped 1% right after the conference. Having said that, the risk-reward is shifting for the index to staying more or less unchanged with upside potential on this upcoming likely change over the next few months.

Trade Idea: Earn 11.5% coupon paid at maturity by buying a 1-year structured note that gives you downside principal protection down to 75% of initial level AND pays you a coupon as long as the index stays above 85% of initial level (meaning the SX7E can go down 14.99% from initial level and you still get your coupon. If the index drops less than 25%, you get your principal back).

Alternative you asked about our call: if you have the redemption barrier at 75% and the coupon barrier at 75% as well, and the coupon was paid quarterly, it would be around 8%.

There is a recorded analyst call from yesterday titled: **"Potential Game Changer for the Banks?"** with the below agenda and replay number if you'd like to listen to more analysis:

[/] POTENTIAL GAME CHANGER FOR THE BANKS? PLEASE JOIN DB'S THOUGHT LEADERS FOR A CALL (Replay number is: 917 677 7532 and use conference ID 5299783)

- Introduction / Moderator – Shilpa Kapur and Ben Coates
- Economics – Mark Wall, Chief Economist
- Research – Kinner Lakhani, Head of European Research and Head of Financials Research
- Equities – Karim Moussalem, Co-Head of Global Equities Trading
- Equity Derivatives – Samuel Fossat, Banks Derivatives Trading Show less

Why now?

- In the December meeting Draghi FINALLY said banks profitability is an issue
- Since then the funding market has been trickier for banks. (KBC calling AT1s due to funding costs increased this year)
- Refi needs are high this year, especially given MREL forcing more funding requirements (NPS bonds)
- The TLTRO 3 needs to be implemented in June. (you may as well roll your banks package in whilst you are helping the Italian banks again)