Subject: [/] Trade Idea -> TRY autocall swap
From: Martin Zeman <[redacted]>
Date: Wed, 20 Jun 2018 11:58:15 -0400
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Paul,

the dislocation in EM continues and we'd like to offer the below idea that can be traded in a note format and offers a 17-18% annual net coupon. If you don't like Turkey, but would like to see a similar payout structure in Brazil, Mexico, Rubble or a basket or EM currencies, we can price that up as well.

- this is not principal-protected (client is short an at-expiry knock-in barrier = EKI) but the whole point is that spot, forwards and vol are currently extended and 2 out of 3 (forwards + vol) are likely to come back in the next 12-18 months as political risk in Turkey goes down and inflation dynamics stabilise

- We have set the final autocall super-high (ATMF = at-the-money-forward) so that if client doesn't get autocalled the likelihood of them receiving the snowball coupon is still relatively high

In a note format, the indication we have from WM CRM was that they would give this a 75% LTV.

IN PLAIN ENGLISH, THE CLIENT TAKES ADVANTAGE OF A DISLOCATION IN TURKEY, RECEIVES AN ANNUALIZED COUPON OF 17-18%, AND WHEN USDTRY TRADES BELOW 4.75 ON ANY QUARTERLY OBSERVATION, THE TRADE ENDS. THE RISK TO THE CLIENT IS MODELED IN THE MARK-TO-MARKET ANALYSIS BELOW.

IF USDTRY NEVER FIXES BELOW 4.75 ON ANY QUARTERLY OBSERVATION AND ENDS UP ABOVE 8.90 IN 5 YEARS, THE CLIENT INCURS A SIGNIFICANT LOSS (SEE ANALYSIS BELOW.)

Refs:

USDTRY Spot = 4.75

USDTRY 5y forward = 8.90

Indicative terms:

Format

Autocallable Swap

Tenor

5 years, subject to early autocall

Underlying

USDTRY FX Rate

Observation Dates

Quarterly from Trade Date

Autocall Barrier

ATMS (= initial level as of Trade Date) for first 19 observation dates but ATMF level for last observation date

Client pays

3m$LIBOR on a quarterly basis, subject to early autocall

Client receives

5.20% x t (t = 1,2….20) if USDTRY < Autocall Barrier (and the swap stops) else 0 on that observation date.

If never autocalled

Then client is short USDTRY EKI Call Option with Strike = ATMS and EKI = ATMF

Scenario Analysis assuming $10M notional - at yearly intervals* (the analysis is the MtM on the leg the client receives and does not include the 3mLibor payments)

USDTRY Autocallable Swap MtM as of	Trade Date	Trade Date+1y	Trade Date+2y	Trade Date+3Y	Trade Date+4y	at Maturity
USDTRY Spot Scenario						
3.00	434,548	2,506,839	4,547,947	6,615,062	8,702,309	10,400,000
3.40	399,115					

2,458,923

4,499,751

6,565,840

8,680,736

10,400,000

3.80

319,582

2,354,432

4,405,681

6,486,303

8,650,596

10,400,000

4.20

138,685

2,101,845

4,255,904

6,405,653

8,635,510

10,400,000

4.60

-290,675

1,665,865

3,880,006

6,327,389

8,732,346

10,400,000

5.00

-968,630

898,766

3,282,830

6,156,333

8,847,394

10,400,000

5.40

-1,764,484

-1,764,484

2,449,747

5,569,924

8,721,061

10,400,000

5.80

-2,619,886

-2,619,886

1,394,751

4,607,107

8,247,953

10,400,000

6.20

-3,481,588

-3,481,588

203,379

3,362,585

7,558,745

10,400,000

6.60

-4,297,245

-4,297,245

-1,015,976

1,945,424

6,600,819

10,400,000

7.00

-4,968,063

-4,968,063

-2,186,240

480,324

5,346,136

10,400,000

7.40

-5,569,177

-5,569,177

-3,266,189

-948,728

3,754,386

10,400,000

7.80

-6,045,274

-6,045,274

-4,221,886

-2,309,102

1,867,575

10,400,000

8.20

-6,456,375

-6,456,375

-5,001,091

-3,516,730

-59,745

10,400,000

8.60

-6,796,988

-6,796,988

-5,661,708

-4,467,434

-1,931,011

10,400,000

9.00

-7,068,686

-7,068,686

-6,153,564

-5,219,182

-3,377,233

-4,722,222

9.40

-7,280,117

-7,280,117

-6,522,842

-5,770,923

-4,557,597

-4,946,809

9.80

-7,451,348

-7,451,348

-6,807,704

-6,155,720

-5,299,238

-5,153,061

10.20

-7,581,454

-7,581,454

-6,997,152

-6,453,373

-5,804,593

-5,343,137

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Martin

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