

Premium: USD -74,120  
Premium Date: Tue 04-Feb-2014

Net Premium:  
<Client> Pays USD 88,980

From: Tazia Smith/db/dbcom  
To: jeevacation@gmail.com,  
Cc: Paul Morris, Vinit Sahni/db/dbcom@DBEMEA, Nav Gupta/db/dbcom@DBEMEA, Vahe Stepanian/db/dbcom@DBAmericas  
Date: 01/30/2014 06:26 PM  
Subject: 10yr \$/Y.... [C]

Classification: Confidential

Jeffrey -

Below is the description and scenario analysis from Nav and team for the 10y USDJPY call option, strike 85 with American style KO at 90 (v spot). If you review and like the long-term position ("IRR" like trade, as Vinit said), our suggestion is to leg in, perhaps \$5mm notional x2 for total \$10mm notional.

Let's discuss the below in the morning (Fri) and depending on your review/the market we can potentially add the first leg.

Best Regards,  
Tazia

----- Forwarded by Tazia Smith/db/dbcom on 01/30/2014 06:14 PM -----

Classification: Confidential

The trade below is a structure to reduce the cost of a near-dated USDJPY call and express a long-term bearish view on the yen; it's a trade that Vinit and Nav have been kicking around to take advantage of dislocations in FX and like it a lot

10y Expiry:  
European style USDJPY 85.00 strike, call option which knocks out (KO) if \$Y trades at 90 at any time during the life of the option  
Spot Ref 102.5  
Mid market 4.0% of USD notional. Offer 4.35%  
Maximum loss is premium paid

Indicative level only. Subject to market movement. Source: DB FX London, 1/30/14.

Key Points:

- We find that buyers often cheapen call options by selling in-the-money knockouts - so if the buyers view is "too right" the option knocks out and becomes worthless
- Rather than "trying to be right, but not too right," consider buying call options which knock-out if spot trades down (ie. against your view) because in that case, you are wrong on the direction bet and probably do not want the option anymore.
- The challenge is that is no one ever pays much for the out-of-the-money KO feature so its almost never worth doing - except, in our view, in USDJPY