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 because long dated FX forwards trade so far below spot (due to the interest rate differential) that the 90 strike KO is worth a lot - arguably too much based on probabilities of where DB forecasts spot to roll up to.

Simple scenario analysis for USDJPY Call option, strike 85 with American style KO at 90
Spot Ref 102.51, 10y Fwd 77.10
This analysis implies that all else except spot remains equal (eg. volatility, rates)
At 90.0 and below the option is worth $0. Full premium would be lost. Max loss is premium paid.

Spot	-12%	-10%	-5%	0%	5%	10%	15%
	90.21	92.26	97.38	102.51	107.64	112.76	117.89
7y	0.05	1.1	3.7	6.4	9.1	11.8	14.4
8y	0.04	0.9	3.1	5.4	7.7	10.1	12.5
9y	0.04	0.8	2.6	4.6	6.7	8.8	10.9
10y	0.03	0.7	2.3	4.0	5.8	7.7	9.6

Prices in % of USD notional

Notes:

1. premium decays positively if spot is unchanged
2. the premium is sensitive to moves in spot - much more than a regular 10y option
3. the mid price for a 10year expiry 85 strike USDJPY call (without any KO feature) is 10.5% and the mid price for a 1year 102.51 strike call is 4% and compared with either of these the option with the KO feature has better risk:reward in Nav's opinion
4. we suggest sizing it to worst loss

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