

Bearish Yen, Positive Carry Trade

Deutsche Bank FX Strategists are calling for USDJPY of 115 by year-end 2014, and 120 by year-end 2015. See DB FX Blueprint published 1/9/14, and note that #2 of the top 10 themes of 2014 (p. 5-6) revolves around extended weakness in the Japanese Yen vs. USD. Consider a positive carry solution of buying a long-dated in the money call and selling an in the money knock-out for positive carry and time decay, as well as very high gamma for gearing to a short-term move.

Example:

USDJPY 10yr forward reference: ~77.75

Buy 10yr 110% USDcJPYp
 Sell 10yr 115% USDcJPYp knock-out
 Net: ~4.5% premium paid

If all else stayed equal, roll yield would result in ~10% return, thanks to the steepness of the forward curve. If the yen sold off sharply versus the dollar tomorrow through 109.50, for example, the premium of the option could spike up ~40%, for a much greater near-dated return. Max loss is premium paid.

Indicative levels only. Subject to market movement. Source: DB Key Client Partners and Bloomberg, 1/7/14.

DB Momentum Asset Allocator 6% Index (DBMUUPPN)

Start date 3/31/92

