

## Classification: Confidential

Jeffrey:

Please find the chart of PDVSA 5% 10/28/15 price history below, as well as a description of the USDJPY 10yr trade that we briefly discussed on Friday.

Speak with you soon,  
Tazia

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----- Forwarded by Tazia Smith/db/dbcom on 01/12/2014 03:29 PM -----

From: Nav Gupta/db/dbcom@DBEMEA  
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Classification: For internal use only

Long \$Y Call Options. We like long expiry options to benefit from the present dislocation between interest rates and volatility

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 10year expiry \$Y call option struck at 85 (spot fx 105, forward fx 77.70). Price 4.7% of USD notional

This option has four notable characteristics

- If \$Y stays at these levels the option decays positively by approx 15-20% per year
- If \$Y trades 90.00 at any time (arguably a scenario in which the option is no longer wanted) the option "knocks-out" and becomes worthless. While \$Y might decline to 90, our quantitative analysis indicates the probability of such a decline is significantly (double?) overpriced by the options market
- The premium of the option is quite sensitive to moves in \$Y spot - which is atypical for a 10year option. This also results from the knockout feature. This means if \$Y moves quickly by 5% the option increases / decreases in value by almost half, so if \$Y rises to 110 or 115 the option can easily be unwound to monetize the profit
- The option costs roughly 1/3rd compared to the vanilla 85 strike call
- Maximum loss is premium paid



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