As Nav points out below, there is a crowded long China trade with leverage, financed by selling options. Calls on USDCNH present a convex payoff caused by investors selling too many options - timeframe on a move is uncertain which is why he picked 1y (2y options are not very liquid).

Please see below, let us know your thoughts.

Best Regards,
Tazia

----- Forwarded by Tazia Smith/db/dbcom on 01/28/2014 11:58 AM -----

From: Nav Gupta/db/[redacted]
To: [redacted]
Date: 01/28/2014 09:44 AM
Subject: Depressed options volatility makes 'Renmimbi weaker' hedges very cheap | KCP Capital Markets [I]

USDCNH call options underprice the possibility of higher USDCNH. This could result from unwinding of heavy positioning long CNH vs USD resulting from credit tapering, investor awareness of worsening bank asset quality and declining growth. The correlation between China and other EM is presently low. Sustained outflows from broader EM will likely impact China also

1) Buy a 1y expiry, 6.2 / 6.7 strike USDCNH call spread. Premium (offer) ~0.43% of USD notional. Spot breakeven 6.226
2) Buy a 1y expiry, 6.3 / 6.8 strike USDCNH call spread. Premium (offer) ~0.30% of USD notional. Spot breakeven 6.318

USDCNH spot = 6.029, 1y ATMF = 6.093
Indicative levels only, subject to market movement. Source: DB KCP London, 1/28/14.

These premiums are very low compared to the potential returns if USDCNH turns higher. Implied vol is approx. 3%
The complacency and positioning among FX and FX options participants in USDCNH is high

- USDCNH