

Classification: External Communication

Good Morning Siri - we'd like to send this observation of skew dislocation to Epstein (KCP) client as well. If we use your disclaimer that you sent for the JPY trade, can we send?

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From: Nav Gupta
Sent: 07/23/2014 06:22 PM CET
To: loop@list.db.com
Subject: KCP Capital Markets Trade Idea - Extreme demand for S&P Put options presents very interesting trades

Intended for Non-Advisory Clients

Since the Malaysian airline disaster and rising tensions with Russia, the put skew on S&P equity options has richened. Investors bought equity puts for protection and dealers who were already short the put skew had to short cover. Result - the skew has widened to levels where calls appear really quite inexpensive to puts.

Trade 1
3mth Expiry, strikes 5% either side of the forward. Buy 3 to 3.25 calls for every 1 put sold

Trade 2
6mth Expiry, strikes 10% either side of the forward. That ratio becomes 4 to 4.35.

These are big numbers - even if you are slightly bearish on the market there's always a price at which you'd sell puts to buy calls. Is 3:1 - 4:1 compelling enough? If on the other hand you're long equities or bullish this looks way better to me.

I'm not arguing that the market rises or falls, just that you are (overly I believe) well compensated to take the risk it falls. Also the options i've priced are around the forward not around spot so we are looking at the true skew not optics involving spot/forward spread.

Call with any qns or for live pricing

best,
Nav

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