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Subject: KCP Trade Ideas [I]

Classification: For internal use only

Hi All,

Please see the updated KCP trade ideas below. Presentations on the Euro curve steepener, the CLN on peripheral European sovereigns, and borrowing in JPY to invest in USD are attached below if you would like more information on those trades.

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Market Update

- § Senate agreement will reopen and fund the government until January 15 and will raise the debt limit until February 7
- § Budget negotiators must wrap up talks by December 13
 - § If lawmakers do not negotiate on the sequester, \$19 billion in automatic cuts will occur on January 15
- § World equity markets have responded tepidly to U.S. debt deal - stocks were mixed in Asia, Europe started the day in negative territory, and U.S. stock futures were little changed (S&P 500, Nasdaq, and Dow all gained more than 1% on Wednesday)
- § Some analysts say Congress is just kicking the can down the road (again); default threat could reemerge in February
 - § Deal seen as stop-gap, which sparked long-term growth concerns that could further delay Fed taper - caused U.S. Treasuries to rally
 - § Joe LaVorgna's updated forecast for Q4 GDP growth is 2.5% yoy
- § S&P forecasts that the government shutdown took 0.6% from Q4 GDP; DB's Torsten Slok estimates the impact was probably only a few tenths of a percent
- § Frank Kelly's take on last-minute debt ceiling resolution:
 - § 81-18 Senate vote shows surprisingly strong bipartisan base
 - § 205-144 in House vote, including 87 Republicans - Proves that Boehner had 100 votes in back pocket (he released some hard-line members so they could save face)
 - § Cautiously optimistic that a comprehensive budget will get done by December 15 deadline
 - § If they can pass a budget, February debt ceiling becomes a non-event because the Fed will be able to issue debt without approval well into May
- § VIX (S&P volatility) has dropped back to 14.52 from Tuesday's recent high of 18.61 (1-year average is 14.95)
 - § Selling volatility no longer as attractive
- § with forwards low, we still like synthetic longs going into year-end

Tactical Trades

Single stock ideas

- § MON -
<https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c0875896f3.pdf>
 - § Climate Corp acquisition set to drive earnings growth
 - § Integrated Farming System (IFS) represents a transformational platform
 - § Buy rated; Price target 120 (15% upside from current 104)
- § AAPL -
<https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c087680c2c.pdf>
 - § Strong sales and margins for iPhone 5S and 5C set to drive gross margins