

(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
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PBoC has significantly tightened money market rates to curb shadow
banking and asset speculation
Shanghai interbank offered rate fixing - 1 month
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The recent headlines on bad loans in China's shadow banking industry
have raised concerns of a systemic event

China's trust industry has relatively high risk shadow banking products given
the liquidity risks.
These products have seen rapid growth since 2010, reaching Rmb10.1 tn as of
3Q13 with a 2010-3Q13 CAGR of 55%.

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Asian corporates have sold a significant quantity of options (to enhance
returns) depressing implied volatility
IF USDCNH starts to retrace higher, option sellers will short cover options
they have
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