

Subject: Re: 10yr \$/Y.... [C]
From: Tazia Smith <[REDACTED]>
Date: Fri, 31 Jan 2014 09:50:20 -0500
To: jeevacation@gmail.com
Cc: Paul Morris <[REDACTED]>

Classification: Confidential

Jeffrey -

Tried you this morning. Call when you have time to review. No rush; although spot is lower, markets feel quite shaky this morning.

In addition to the long dated option, just wanted to borrow a page from the USDCAD structure you have on (working well with spot now at 1.1208), for a shorter-term trade to consider on yen strength:

3mo 102.75 strike USDJPY call, RKI 107 strike (KI at 110). Add a digital one-touch at 100 (1.25% cost if hit).

Net premium paid: 0.89%
Compare to vanilla 102.75: 1.91%
If digital 100 one-touch: 2.14%
Max loss 2.14%

Indicative level only. Subject to market movement. Source: DB WM FX Sales, 1/31/14. (full detail below)

Best Regards,
Tazia

Spot ref = 102.25

Leg 1: European Option Call
<Client> buys European USD Call on USD/JPY
Strike: 102.75
Notional: USD 10,000,000
Expiry: Thu 01-May-2014 (3m)
Settlement: Wed 07-May-2014
ZoneCut: NY
Premium: USD 191,400
Premium Date: Tue 04-Feb-2014

Leg 2: ITM Knockin Call
<Client> sells European USD Call on USD/JPY with American Reverse Knock-In
Strike: 107
Notional: USD 10,000,000
American Reverse Knock-In: 110
Expiry: Thu 01-May-2014
Settlement: Wed 07-May-2014
ZoneCut: NY
Premium: USD -28,300
Premium Date: Tue 04-Feb-2014

Leg 3: One Touch
<Client> sells One Touch on USD/JPY payout
Barrier: 100
Payout: USD 125,000
Payout Ccy: <PayCurrency>
Postpone Rebate: <PostponeRebate Y/N>
Expiry: Thu 01-May-2014
Settlement: Wed 07-May-2014
ZoneCut: NY
Premium: USD -74,120
Premium Date: Tue 04-Feb-2014

Net Premium:
<Client> Pays USD 88,980

From: Tazia Smith/db/dbcom

To: jeevacation@gmail.com,

Cc: Paul Morris, Vinit Sahni/db, [REDACTED] Nav Gupta/db/[REDACTED] Vahe Stepanian/db
[REDACTED]

Date: 01/30/2014 06:26 PM

Subject: 10yr \$/Y.... [C]

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Jeffrey -

Below is the description and scenario analysis from Nav and team for the 10y USDJPY call option, strike 85 with American style KO at 90 (v spot). If you review and like the long-term position ("IRR" like trade, as Vinit said), our suggestion is to leg in, perhaps \$5mm notional x2 for total \$10mm notional.

Let's discuss the below in the morning (Fri) and depending on your review/the market we can potentially add the first leg.

Best Regards,
Tazia

----- Forwarded by Tazia Smith/db/dbcom on 01/30/2014 06:14 PM -----

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The trade below is a structure to reduce the cost of a near-dated USDJPY call and express a long-term bearish view on the yen; it's a trade that Vinit and Nav have been kicking around to take advantage of dislocations in FX and like it a lot

10y Expiry:

European style USDJPY 85.00 strike, call option which knocks out (KO) if \$Y trades at 90 at any time during the life of the option

Spot Ref 102.5

Mid market 4.0% of USD notional. Offer 4.35%

Maximum loss is premium paid

Indicative level only. Subject to market movement. Source: DB FX London, 1/30/14.

Key Points:

- We find that buyers often cheapen call options by selling in-the-money knockouts - so if the buyers view is "too right" the option knocks out and becomes worthless
- Rather than "trying to be right, but not too right," consider buying call options which knock-out if spot trades down (ie. against your view) because in that case, you are wrong on the direction bet and probably do not want the option anymore.
- The challenge is that is no one ever pays much for the out-of-the-money KO feature so its almost never worth doing - except, in our view, in USDJPY because long dated FX forwards trade so far below spot (due to the interest rate differential) that the 90 strike KO is worth a lot - arguably too much based on probabilities of where DB forecasts spot to roll up to.

Simple scenario analysis for USDJPY Call option, strike 85 with American style KO at 90

Spot Ref 102.51, 10y Fwd 77.10

This analysis implies that all else except spot remains equal (eg. volatility, rates)

At 90.0 and below the option is worth \$0. Full premium would be lost. Max loss is premium paid.

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Notes:

premium decays positively if spot is unchanged
the premium is sensitive to moves in spot - much more than a regular 10y option
the mid price for a 10year expiry 85 strike USDJPY call (without any KO feature) is 10.5% and the mid price for a 1year 102.51 strike call is 4% and compared with either of these the option with the KO feature has better risk:reward in Nav's opinion
we suggest sizing it to worst loss

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