

Subject: GE [C]  
From: Tazia Smith <[REDACTED]>  
Date: Fri, 31 Jan 2014 10:02:55 -0500  
To: jeevacation@gmail.com  
Cc: Paul Morris <[REDACTED]>

Classification: Confidential

...Not sexy, but consider adding to your GE here ~\$25.23 (recall you own 23k shs at \$21.57, or ~\$580k worth). Sold off after earnings, believe re-rating is done and it heads back >\$27.

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From: Tazia Smith/db/dbcom  
To: jeevacation@gmail.com,  
Cc: Paul Morris  
Date: 01/31/2014 09:50 AM  
Subject: Re: 10yr \$/Y.... [C]

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 hit: 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/dbcom@DBEMEA, Nav Gupta/db/dbcom@DBEMEA, Vahe Stepanian/db/dbcom@DBAmericas

Date: 01/30/2014 06:26 PM

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

Classification: Confidential

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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