Subject: Re: Key themes & trades
From: Paul Morris <[redacted]>
Date: Thu, 25 Sep 2014 11:29:26 -0400
To: Uzair Aqeel <[redacted]
Cc: Caroline Kitidis [redacted]
Nav Gupta <[redacted]>,
Tazia Smith <[redacted]>,
Vinit Sahni <[redacted]>

thanks, let's try to get some folks engaged on these

Paul Morris
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Date: 09/25/2014 08:07
AM

Subject: Key themes &
trades

Hi Tazia,

Here are some trades we're thinking about that Nav suggested you may wish to highlight to Jeffrey Epstein.

Key themes:

- Divergence in monetary policy between the Fed & Bank of England on the one hand and ECB & Bank of Japan on the other
- Continued capital inflows into Asian countries where financial conditions are easing (eg, Japan) and/or structural reforms are being implemented (eg, India)
- US recovery - buying into dips as US anchors global growth

EURUSD continues to break down -- if you're looking to reload:

Trade: A 1y EURUSD 1.25 put financed by selling the 1.30 call has zero net premium (spot ref: 1.2740)

- EURUSD has broken below 1.28 during the last 24 hours
- With US data continuing to firm, the market is recalibrating when the Fed will deliver hikes - earlier rather than later
- On the other hand, given the ECB's stated determination to spur inflation in the Eurozone, full-blown QE looks likely next year

This chart shows the correlation between EURUSD and the spread between EUR and
US interest rates (yellow)
(Embedded image moved to file: pic21923.gif)
Source: Bloomberg 25-Sep-2014

EURINR lower as a combined play on continued inflows into India and ECB activism:

Trade: A 6m EURINR 78 put (at-the-money spot) financed by selling the 83
call has zero net premium (spot ref: 77.95, forward: 80.50)

- With the Modi government showing decisiveness in pursuing its reform agenda, capital inflows into India look likely to continue for the foreseeable future
- Indian equities are at all-time highs and the entry point is not very attractive
- The rupee also embeds carry of 7%/year, cheapening risk reversals

Chart of EURINR spot
(Embedded image moved to file: pic08924.gif)
Source: Bloomberg 25-Sep-2014

S&P 500 Put options dislocated relative to Call options

Trade: A 6m 110% calls financed by 6m 90% puts in a ratio of 4 calls bought per put sold has zero net premium (spot ref: 1998)

Very high demand for SPX puts makes it possible to buy multiple calls for each call sold
Across major indices, the ratio of calls-to-puts is highest for US equities

Skew (y-axis) vs ATM vol (x-axis) is stretched
(Embedded image moved to file: pic02531.gif)
Source: Bloomberg 24-Sep-2014

Renewed interest in Japanese equities ahead of GPIF re-allocation and policy momentum

Trade: A 6m 110% call financed by 6m 90% put has zero net premium (spot ref: 16374)

Investors are waiting for the giant Japanese pension funds to re-allocate away from bonds to equities
The Abe administration is looking for additional ways to stimulate the economy
Nikkei vols are high and skew is poor -- no easy way to get into the trade, best to do calls vs puts 1-to-1 struck around major technical levels

Chart showing NKY history with strike of 90% put highlighted
(Embedded image moved to file: pic22504.gif)
Source: Bloomberg 25-Sep-2014

Past performance is not a reliable indicator of future results.

Best regards,

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Uzair Aqeel
Investment Specialist
Key Client Partners

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