

Subject: Re: Key themes & trades

From: Paul Morris <[REDACTED]>

Date: Thu, 25 Sep 2014 11:29:26 -0400

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Cc: Caroline Kitidis <[REDACTED]>

Nav Gupta <[REDACTED]> ,

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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)

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Source: Bloomberg 25-Sep-2014

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

83 Trade: A 6m EURINR 78 put (at-the-money spot) financed by selling the 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

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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

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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

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Source: Bloomberg 25-Sep-2014

Past performance is not a reliable indicator of future results.

Best regards,

Uzair Aqeel
Investment Specialist
Key Client Partners

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