

Subject: FW: DB James Malcolm: Are the BoJ shifting stance? Own some cheap  
optionality..... [C] [I]  
From: Paul Morris <[REDACTED]>  
Date: Wed, 06 May 2015 11:07:46 -0400  
To: Daniel Sabba <[REDACTED]>

Classification: For internal use only

Daniel, are you reviewing before going out to clients?

Paul Morris

Managing Director

Deutsche Bank Private Bank

Office: [REDACTED]

Cell: [REDACTED]

From: jeffrey E. [mailto:jeevacation@gmail.com]  
Sent: Monday, May 04, 2015 10:08 AM  
To: Vahe Stepanian  
Cc: Paul Morris; Daniel Sabba; Ariane Dwyer; Richard Kahn  
Subject: Re: DB James Malcolm: Are the BoJ shifting stance? Own some cheap  
optionality..... [C]

these prices seem wrong. please send me bid and ask for each put call  
and strike.

On Mon, May 4, 2015 at 10:00 AM, Vahe Stepanian <[REDACTED]>  
wrote:

Classification: Confidential

Jeffrey- please find risk reversal pricing below per your request.

Spot ref = 120.15

#1) SFLLC sells Put, buys Call on USD/JPY in a premium neutral Risk Reversal

Put Strike: 118.00

Call Strike: 122.45

Notional: USD 10,000,000 USD

Expiry: Thu 06-Aug-2015 (3m)

Structure Mid: USD -113,000

#2) SFLLC sells Put, buys Call on USD/JPY in a premium neutral Risk Reversal

Put Strike: 117.00

Call Strike: 123.45

Notional: USD 10,000,000 USD

Expiry: Thu 05-Nov-2015 (6m)

Structure Mid: USD -160,000

#3) SFLLC sells Put, buys Call on USD/JPY in a premium neutral Risk Reversal

Put Strike: 116.00

Call Strike: 125.00

Notional: USD 10,000,000 USD

Expiry: Thu 05-Nov-2015 (6m)

Structure Mid: USD -130,000

Thank you,

Vahe

From: Daniel Sabba  
Sent: Friday, May 01, 2015 4:35 PM  
To: jeffrey E.; Paul Morris  
Cc: Vahe Stepanian; Ariane Dwyer; Richard Kahn  
Subject: RE: DB James Malcolm: Are the BoJ shifting stance? Own some cheap optionality..... [C]

Classification: Confidential

The reason why one would do the trade below is for its embedded leverage. While it requires upfront premium, there is no IA required besides it. A premium neutral risk reversal utilizes your capital as it requires Initial Amount under your Credit Support Annex terms.

We will send risk reversals quotes when market reopens. Could you please clarify what expiries you would like to look at?

From: jeffrey E. [mailto:jeevacation@gmail.com]  
Sent: Friday, May 01, 2015 4:02 PM  
To: Daniel Sabba; Paul Morris  
Subject: Re: DB James Malcolm: Are the BoJ shifting stance? Own some cheap optionality.....

send me put and calls at different strikes and duration, why in the world would i put up any money if i can short puts ? buyu calls .risk reversal. sorry

On Fri, May 1, 2015 at 10:15 AM, Daniel Sabba <[REDACTED]> wrote:

Jeffrey – we wanted to share this note with you as it relates to what we perceive to be your macro views.

James Malcolm is updating his view on the BoJ - he thinks there is now material event risk for the July meeting which warrants some 3-month vol premium on Yen assets and a close following of domestic data and news in the interim. Is the BoJ stance shifting from “no-ease-unless-things-worsen” .... to “ease-unless-things improve” mode ?

I think it makes a lot of sense to own some low delta, low premium \$JPY upside at the moment

We are axed to sell 50m\$ payout of a 5th August expiry 133.15 One Touch at just 8% (mid 5%)

So invest 4m\$ upfront to make 50m\$ if the level trades at any point during the lifetime of the trade

Spot 119.95

Full piece attached below

From James Malcolm :

Minor tweaks or comments in recent BoJ reports suggest the central bank is becoming more nervous about missing its inflation target a little over two years after it was lifted and a radical new QE program to achieve it was implemented. They suggest that if the economy does not pick up substantial momentum over the next ten weeks additional easing may be warranted. The July 15 monetary policy meeting is key as it provides for an interim

assessment of policy board member's price and growth forecasts, and comes just after the Bank's quarterly Tankan and public opinion survey. Beyond the hard data, these will show whether spending intentions and inflation expectations are lifting in response to higher profits and wages absent the consumption-tax drag.

What has changed? This week's semiannual Outlook for Economic Activity and Prices report ('The Bank's View') replaced its assessment that "there are downside risks" for prices with the starker phrase that "risks are skewed to the downside." A research study on the impact of QE thus far, published today, concluded that "in order to achieve the price stability target of 2% in a stable manner, a further increase in inflation expectations is necessary." It also said that while the overall results have been broadly in line with expectations "... [the] demand component data for real GDP -- particularly private consumption -- point to considerably weaker improvements than predicted," even if, on the other hand, actual increases in corporate profits and employee income have noticeably exceeded expectations. And an empirical regime-switching model that researchers at the Bank have developed shows that the likelihood of a switch in inflation to a 2% trend remains very low. In fact, it has turned down from about 20% to 10% more recently, while the probability of the trend being at 1% has risen to about 55% from less than 20% pre-2013 (chart below). That is good in so far as the probability of the trend being at zero has dropped from stably more than 80% to less than 30% today, yet that is clearly not something which Mr Kuroda will settle for.

For his part, the central bank chief is walking a tightrope. He has conceded his much vaunted original 2-year timeframe will be missed due to inflation, but clearly also feels like he cannot give the government any scope to relax on their medium-term fiscal consolidation plan, as this was an explicit precondition for the conduct and support of extraordinary monetary easing in the first place. It warrants some 3-month vol premium on yen assets and a particularly close following of domestic data and news in the interim. Both mark a sharp shift from what was always likely to be a very quiet 4 or 5 months following last December's election.

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<http://www.boj.or.jp/en/mopo/outlook/gor1504a.pdf>

[http://www.boj.or.jp/en/research/wps\\_rev/rev\\_2015/data/rev15e03.pdf](http://www.boj.or.jp/en/research/wps_rev/rev_2015/data/rev15e03.pdf)

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