
From: Daniel Sabba [REDACTED]
Sent: Wednesday, June 3, 2015 6:55 PM
To: 'jeffrey E.'
Subject: RE: Idea for US equity hedging... [C]

Did you have a chance to think about the Credit Suisse note we sent over?

-----Original Message-----

From: jeffrey E. [jeevacation@gmail.com <mailto:jeevacation@gmail.com>]
Sent: Wednesday, June 03, 2015 10:02 AM Eastern Standard Time
To: Daniel Sabba
Subject: Re: Idea for US equity hedging... [C]

too complex for me

On Wed, Jun 3, 2015 at 9:42 AM, Daniel Sabba [REDACTED] > wrote:

Classification: Confidential

Jeffrey,

We wanted to share this US equity hedging idea with you. We think it is relevant since US equity indices are near historic highs, implied volatility in US equities is close to historical lows and there is potential for Fed liftoff in September.

David Bianco published the following on 5/22 (full report attached) about the possibility of a 5%+ pullback in the summer months:

"We believe the probability of a 5%+ dip is high this summer and our tactical call remains Down given the S&P now at an even higher PE than a year ago, heightened uncertainty in 10yr yields, weak earnings growth and continued soft economic data. We haven't had a 5%+ dip this year. Historically 5%+ dips are common and happen at least once a year since 1960, except 1964, 1993 & 1995. It has been 916 trading days (3.6 years) since a 10% correction. Selloff triggers could be a further rise in 10yr yields especially if UE keeps falling amidst slow economic growth and Fed remains unclear on first hike timing, or a jump in the dollar upon the Fed expressing firm intentions to hike in Sept."

With that said, we looked at OTC equity put spreads contingent on higher rates. We priced in-the-money versions which would obtain its maximum payout (over 5x premium) with a 5% sell-off in SPX and higher 10y US swap rates (CMS, 25bps over its forward level).

Indicative transaction terms (as of 06/03/2015):

Client buys: OTC SPX 105%/95% Put Spread contingent on 10y USD CMS > atmf+25bps at expiry

Notional: USD50mm

Expiry: 18 Dec 2015

Offer (mid): 2.00% (1.60%)

Ref vanilla: 4.30%

Ref SPX future: 2115

Ref 10y fwd: 2.54%

SPX Implied volatility levels close to historical lows

Please let us know if you would like to discuss. Best regards,

Daniel

Daniel Sabba

Key Client Partners

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