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**From:** Barrett, Paul S [REDACTED]  
**Sent:** Tuesday, July 28, 2015 1:13 PM  
**To:** 'Brad Wechsler'; 'Jeffrey Epstein (jeevacation@gmail.com)'  
**Cc:** Barrett Team; 'Richard Joslin'  
**Subject:** RE: Short EUR / Long GBP

Brad<=p>

Given that we don't yet have an ISDA on file we should consider using a structured note to implement the EURGBP trade. Nicole had sent through pricing yesterday. I would recommend \$500K-\$1MM.

Paul<=p>

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From: Wolf, Nicole  
Sent: Monday, July 27, 2015 3:05 PM  
To: Brad Wechsler  
Cc: Barrett Team  
Subject: Short EUR / Long GBP

Hi Brad,

Here is our latest piece on short EUR vs. long GBP. I will follow-up with some structure pricing that we like.

Nicole

Trade Idea: Short Euro / Sterling (i.e. Long GBP vs Short Euro)

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\* Recent comments from several Bank of England (BoE) members suggest the time for rate hikes in the UK is approaching. As a result, the market is repricing the timing of the first rate hike from mid-2016 to Q1 2016.

o "In the current circumstances there is no need to wait to raise rates because of a risk management approach and run the risk of inflation overshooting target.... In my view, the decision as to when to start such a process of adjustment will likely come into sharper relief around the turn of this year." - Mark Carney (BoE Governor), 16 July 2015

\* Additionally the U.K. economy is improving rapidly (see charts below).

o Retail sales are growing at of 4.8%yoy, 3mma – the strongest run rate since 2004.

o Wage growth has finally started to pick up with private sector wages up 3.8%yoy, 3mma, up from sub-2% in late 2014 and the strongest pace since 2008.</=p>

o Inflation is low at 0.0%yoy, largely due to the oil price drag, but is expected to pick up significantly into year-end as the base effect fades out and growth drag= prices higher. Consensus forecasts are for a 1.6% rate by end 2016 and 1.9% by end 2017.

\* At the same time, the ECB is in the beginning of a mandated period of suppressed interest rates and quantitative easing which is on plan to last through September=2016, if not extended thereafter.

\* Given the monetary policy divergence between the ECB (extremely loose) and the BoE (preparing for tightening), GIO expects GBP to appreciate against the Euro over the next 6 months by up to 5%.

#### Risks to the Trade

\* Although the BoE is approaching rate hikes, strong data over the next few months is needed to corroborate their move. Notably, if CPI prints surprise to the downside on August 18th and September 15th, the argument for BoE rate hikes and GBP strength will weaken.

\* Some very influential BoE members such as Andrew Haldane remain dovish and continue to highlight the risks of moving too soon. To the extent that they can persuade other members to refrain for a few months, the market may price out rate expectations back to mid-2016.

\* A substantial GBP trade-weighted appreciation could depress imported prices and push out rate hikes. The trade-weighted GBP appreciated 8% in Q1 2015 leading some BoE doves to express concerns.

Source: JP Morgan and Bloomberg, July 2015

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The material on this page was prepared by an Associated Person with responsibilities for the marketing and sale of swaps and OTC financial derivatives. All questions related to swaps and OTC financial derivatives referenced in these materials must be directed to Nicole Wolf

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