

**From:** Tazia Smith <[REDACTED]>  
**To:** jeevacation@gmail.com  
**Cc:** Paul Morris <[REDACTED]>, [REDACTED], Vahe Stepanian <[REDACTED]>, Joseph Cothron <[REDACTED]>  
**Subject:** Turkey and EURUSD [C]  
**Date:** Fri, 27 Dec 2013 19:52:33 +0000  
**Attachments:** GEM\_Strategy\_12.11.13.pdf  
**Inline-Images:** unnamed; unnamed(1); unnamed(2)

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Classification: Confidential

Jeffrey:

Called to get your views on Turkey. Depending your views, consider simple implementations on weakness, including short-term sovereign debt (TRY denominated) ex: TURKGB 8.3% 10/7/15 offered ~9.7% and TUR (iShares ETF tracking MSCI Turkey Investable Market Index, off ~22% since 10/25). Our KCP desk has seen a pick-up in interest this week on the back of news flow that I'm sure you know better than most (existing political unrest compounded upon by accusations against of bribery, gold smuggling, and money laundering against government officials, the replacement of half the cabinet, upcoming elections in 2015, and debate around FX intervention going forward to fight TRY depreciation). DB Global Emerging Market (GEM) Research highlights that, at present levels, the major risks for Turkish equities are priced in (full report attached, Bloomberg article below).

If you agree with the asymmetric upside risk to Turkish equities (broadly) consider: \$250k position in TUR (to start) in Southern Financial.

If you agree with a reversion in credit spreads and a mean reversion from the latest leg in TRY sell-off, consider: 2mm (~\$1mm usd worth) of short term sovereign notes in Southern Trust (be aware, they trade thin).

Happy to show FX structures around TRY and/or other debt/equity solutions as well.

Separately, the EURUSD bounced back up to 1.38 this morning. Curious if you remain bullish and, if so, you had an opportunity to review the deposit plus strategy (works best if EURUSD bounces within a range - not as good of entry point here, but worth watching for entry point if you decide you it matches your view).

Speak with you soon,  
Tazia

----- Forwarded by Tazia Smith/db/dbcom on 12/27/2013 02:25 PM -----

**From:** "Tazia Smith (DEUTSCHE ASSET MANAG)" <tsmith170@bloomberg.net>  
**To:** undisclosed-recipients:;  
**Date:** 12/27/2013 02:24 PM  
**Subject:** (BN) Foreigners Unload Turkey Bonds as Probe Tarnishes Erdogan G

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(BN) Foreigners Unload Turkey Bonds as Probe Tarnishes Erdogan G  
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Foreigners Unload Turkey Bonds as Probe Tarnishes Erdogan Growth  
2013-12-27 15:16:34.235 GMT

By Selcuk Gokoluk and Ksenia Galouchko

Dec. 27 (Bloomberg) -- Foreigners are dumping Turkish bonds at the fastest pace in two years, deepening a selloff that's putting a blot on Prime Minister Recep Tayyip Erdogan's image as the architect of the country's economic turnaround.

International investors pared their holdings of Turkish debt by \$532 million to a three-month low of \$53.8 billion in the week through Dec. 20 after selling a net \$1.38 billion the week before, the central bank said yesterday. They've cut their holdings from a record \$72 billion in May.

The outflows are a reversal of the investment that helped finance Turkey's growth during Erdogan's 10-year stint, a period in which nominal gross domestic product more than tripled and the country's dollar bonds posted an average 9.7 percent annual gain. A corruption probe that has ensnared his cabinet and led to three ministerial resignations is damaging his reputation and adding to a three-month rout in the lira that was triggered in part by the country's widening current-account deficit.

"It significantly undermines the facade of economic

competence that the administration has so carefully constructed in recent years," Michael Shaoul, the chief executive officer of Marketfield Asset Management LLC in New York, which oversees about \$17 billion, said in e-mailed comments.

The lira weakened as much as 2.3 percent to a record 2.1764 against the dollar today, before trading at 2.1581 as of 5:06 p.m. in Istanbul. A 3.1 percent retreat in the currency this week has taken its 2013 drop to 17 percent, the most among peers in emerging Europe, the Middle East and Africa after South Africa's rand.

#### Bonds, Stocks

The lira also plunged as much as 3.5 percent to a record 3.0151 per euro today, while yields on the government's two-year notes jumped 44 basis points, or 0.44 percentage point, to 10.17 percent. The rate is up 402 basis points this year, the most among 20 emerging-market peers monitored by Bloomberg after Brazil. The Borsa Istanbul main index fell 1.3 percent today, set for the lowest level since July 2012.

Police detained sons of the economy, interior and environment ministers, as well as the chief executive officer of Turkiye Halk Bankasi AS on Dec. 17 in probes into bribery, money laundering, gold smuggling and corruption in government tenders. All three ministers resigned, with Environment and Urban Works Minister Erdogan Bayraktar urging Erdogan to step down as he approved the projects he carried out.

#### 'Go Downhill'

Erdogan said the probe amounted to an attempted coup. He told reporters on a return flight from Pakistan on Dec. 24 that his son may be targeted to tighten the political noose around him. Kemal Kilicdaroglu, leader of the opposition Republican People's Party, told CNN-Turk television that Erdogan has formed a "war cabinet" with the appointment of his undersecretary Ekan Ala as Interior Minister.

"Things are only going to go downhill from here," Aleksei Belkin, who helps manage about \$4.5 billion in assets as chief investment officer at Kapital Asset Management LLC in Moscow, said by phone. "The Turkish market now combines investors' worst fears: political uncertainty and the current-account deficit."

The government projects the current-account deficit will widen to 7.1 percent of gross domestic product for 2013 from 6.1 percent a year earlier. When the gap jumped to a record 10 percent in 2011, the lira tumbled 18 percent.

#### Greater Volatility

Erdogan said the probe is backed by international forces uncomfortable with the speed of Turkey's economic development. He replaced 10 ministers in his 26-member cabinet earlier this week, parting ways with those implicated in the probe. He appointed his deputy minister Bekir Bozdag as justice minister to lead the legal battle as tension increases between the government and followers of a U.S.-based imam, Fethullah Gulen, who fell out with Erdogan lately and who are influential in the judiciary and police forces.

"People like to have stability and they have to like predictability in what's going to happen," Pablo Cisilino, a money manager at Stone Harbor Investment Partners LP which oversees \$55 billion in emerging-market debt including Turkey bonds, said in a telephone interview from New York. "So all of this volatility, accusations and stuff like that going on are obviously not a very helpful environment."

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--With assistance from Ben Bain in Mexico City and Ye Xie in New York. Editors: David Papadopoulos, Daliah Merzaban

#### To contact the reporters on this story:

Selcuk Gokoluk in Istanbul at +90-212-317-3907 or  
sgokoluk@bloomberg.net;  
Ksenia Galouchko in New York at +7-499-271-3359 or  
kgalouchko@bloomberg.net

#### To contact the editors responsible for this story:

Claudia Maedler at +971-4-364-1025 or  
cmaedler@bloomberg.net;  
Wojciech Moskwa at +48-22-433-4475 or  
wmoskwa@bloomberg.net

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From: Tazia Smith/db/dbcom  
To: jeevacation@gmail.com,  
Cc: Paul Morris, [REDACTED], Vahe Stepanian/db/dbcom@DBAmericas  
Date: 12/24/2013 10:59 AM  
Subject: EURUSD Deposit Plus, 4.5% annualized yield [C]

Jeffrey:

Monetize your bullish view on the euro to pick up yield with short duration via a EURUSD DepositPlus (sell USDcEURp and collect premium), if assigned, flip to EUR on deposit.

spot ref: 1.36705

EURUSD Deposit Plus (USD on deposit)

Tenor: 1month

Strike: ~1.3573

Yield: 4.5% annualized (paid in USD)

Note the uptick to longer-dated sovereign periphery credit: ex: Portugal 3.35% 10/15/15 ~2.92%

Consider \$5-10mm USD in Southern Financial

<b>Updated at</b>	<b>10:55:01</b>										
<b>CCY pair</b>	<b>EURUSD</b>										
<b>Deposit CCY</b>	<b>USD</b>										
<b>Spot rate</b>	<b>1.36705</b>										
<b>Zone cut</b>	<b>NY (New York)</b>										
		<b>Yield</b>									
<b>Tenor(Exp)</b>	<b>Depo</b>	<b>2.00%</b>	<b>2.50%</b>	<b>3.00%</b>	<b>3.50%</b>	<b>4.00%</b>	<b>4.50%</b>	<b>5.00%</b>	<b>5.50%</b>	<b>6.00%</b>	<b>6.50%</b>
07-Jan-14 (2W)	0.1586	1.3549	1.3560	1.3570	1.3579	1.3587	1.3595	1.3602	1.3609	1.3615	1.3621
28-Jan-14 (1M)	0.1729	1.3463	1.3490	1.3513	1.3535	1.3555	1.3573	1.3590	1.3606	1.3622	1.3636

Source: DB Autobahn, 12/24/13



Tazia Smith  
Director | Key Client Partners - US

Deutsche Bank Securities Inc  
Deutsche Asset & Wealth Management

Tel. [REDACTED]  
Fax [REDACTED]  
Mobile [REDACTED]  
Email [REDACTED]

*Passion to Perform*

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