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Subject: Re: Fw: Key themes & trades

Date: Fri, 26 Sep 2014 19:22:30 +0000

Inline-Images: unnamed; unnamed(1); unnamed(2); unnamed(3); unnamed(4); unnamed(5)

Jeffrey, let us know if you can jump on the phone Monday to discuss ideas? thx

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Date: 09/25/2014 02:18 PM
Subject: Fw: Key themes & trades

Happy New Year Jeffrey -

Below please find key themes and trade ideas from Vinit and Nav's DB KCP Global Capital Markets team. In short:

- Continue to press euro short
- Long Indian rupee vs. euro
- Sell S&P puts to buy 4x S&P calls
- Long Nikkei via risk reversals [could do rr on your DXJ]

Please see below and we will refresh any trades that resonate with live levels.

Regards,
Tazia

----- Forwarded by Tazia Smith/db/dbcom on 09/25/2014 01:32 PM -----

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)



Source: Bloomberg 25-Sep-2014

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

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

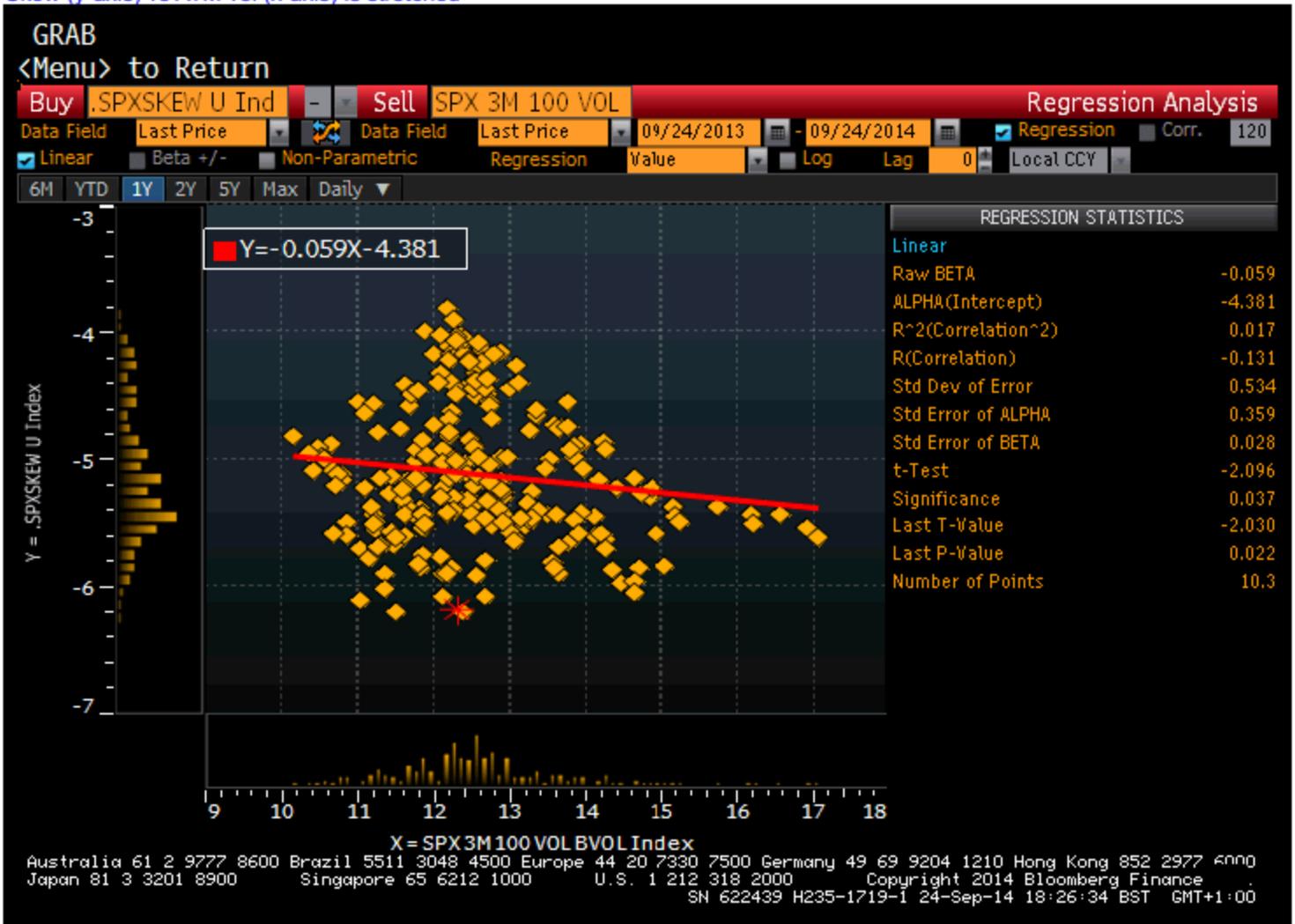


Source: Bloomberg 25-Sep-2014

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



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



Source: Bloomberg 25-Sep-2014

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Passion to Perform

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