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Subject: JPY Swaption Trade + European-property-backed structure [I]

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Attachments: Reviewed_Les_Bordes_Teaser_Final.pdf

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

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Good Morning Jeffrey - Hope this finds you well.

1- Below is a highlight trade idea from Nav's team on JPY payers.

2- Attached is a summary of the French property that Paul shot you a note about - would like to get your feedback on a prospective structure (premium collected by client) backed by this property. Please give Paul or me a call for an overview to see if you'd like to discuss further; as Paul mentioned, this will be a discussion for a very limited number of qualified investors.

Many Thanks,
Tazia

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We are increasingly fielding questions from clients who want to know how to efficiently bet against the super-low level of yields in Japan.

Without opining on where yields might go, the outlook for inflation, whether the BoJ increases QQE in October or debt sustainability

We suggest investors who want to position short to look into buying swaption payer spreads

The first chart is the 10y swap rate (JYSW10)

The 2nd chart is the 1y implied volatility into 10y swaps (1y10y swaption vol, Bloomberg ticker JYSN0110 index)

As yields declined the cost of buying payers swaptions to position for higher yields has also fallen dramatically.

Payer swaption skew however hasn't fallen so payers spreads rather than outright payers stand out to me

Example Trade 1

Buy 1y10y 1.00% / 1.50% OTC payer spread for 45cents ie 4.8bp running. b/even approx. 1.05%

Example Trade 2

Buy 1.5y/10y 1.25% / 1.75% OTC payer spread for 45cents ie 4.9bp running. b/even approx 1.30%

Max loss in each case is premium paid.

Japan 10y swap rate is 0.665% (10y history)



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1y Implied Volatility into 10y Yen Swaps (5yr history)



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1y fwd 10y swap rate 0.82% mid

18mth fwd 10y swap rate approx 91% mid

Please call with any questions, or for live pricing

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