From: Richard Kahn [redacted]
Sent: Tuesday, July 26, 2016 5:20 PM
To: jeffrey E.
Subject: Fwd: Buy VIX options for vol replacement trades

i reviewed trade idea as BAC and others on the street are =reparing for a choppy August general big picture thought =s that pain trade for short and mid term is higher - per amanda =nstitutional cash at 5.8% is highest since Nov 2001 long term there are concerns about 2017 projected =arnings

Spot Vix today per Amanda was 13.00
amanda=said that you can adjust Aug 15/21 call spread to Sep 15/21 for =.00

if you =ike trade idea we can fine tune spread numbers and even do for $0 cost =s proposed below: buy Aug 17 call sell Sep 24 call

please advise
thank you

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[redacted]

Begin forwarded message:

From: =/b>"Ens, Amanda"[redacted]

Subject: =/b>Buy VIX options =or vol replacement trades

Date: =/b>July 26, 2016 at 12:13:18 PM =DT

To: =/b>Richard Kahn [redacted]

We view buying VIX =all spreads as an attractive alternative to buying SPX or SPY put =preads. Would love to discuss in more detail if you have a few =inutes.

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TRADE => buy VIX Aug 15 / 21 call spread for $1.10 or buy VIX Aug 17 call, sell Sep 24 call for $0 cost (ref =5.30 and 17.50)

The catalysts are =bundant enough to make the case to be long vol (Fed, BOJ, EU bank =tress test, ...) but the question is how to be long vol with the =heapest amount of premium spent.

1. Current positioning in the VIX =TPs (chart below) suggest that almost all of the $100m vega that =as sold post-Brexit has been bought back. The total amount of vega now =tands at long $180m, a very large number by any standard. Given =IX has its lowest expiry level since July 2014 last week at 11.62 and =hat the market has rallied 180pts (+9%) in a month, it does make sense =o buy some protection and be long some hedges.

2. However, the somewhat =rowded positioning in outright long VIX products is making owning vol a =ery expensive proposition over time. Last week July VIX futures had a =oll down of 1pt in just the last 24h of trading before it expired. The estimated roll down over a month is around 2.20 vol point right now, i.e. 14% of the value of the =urrent 1m VIX future. So while the direction is probably correct (long =ol), the vehicle being used might not be the most efficient. A very steep term structure should be utilized in a way =hat benefits a long vol position, not goes against it. VIX calendar =all spreads are one possible answer.

3. In addition, VVIX (implied VIX vol) has risen =0pts in 10 days, reflecting increased demand for outright VIX upside =alls (mostly strikes from 20 to 25, thus making VIX skew higher as =ell). At 91, VVIX is somewhat expensive for this level if VIX =utures and it advocates in favor of low premium trades in VIX (hence =preads rather than outright options).

Given the overall picture in the VIX market =urrently (ETPs long $180m vega, steep VIX term structure, high VVIX), =e favor being long through August call spreads or Aug/Sep calendar call =preads:

- buy Aug 15 / 21 call spread for $1.10, ref 15.30 (that is =alf the expected roll down of $2.20 for being long 1m VIX future over 1 =onth);

- buy Aug 17 call, sell Sep 24 call for $0 cost, ref 15.30 =nd 17.50 (the expected cost to buy back the Sep 24 call when Aug =xpires should be around $0.45 if VIX is at the same level as today and =he actual cost will depend on market conditions at the time).

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