
From: Richard Kahn [REDACTED]
Sent: Tuesday, August 1, 2017 4:27 PM
To: Jeffrey E. [REDACTED]
Cc: Paul Barrett [REDACTED]
Subject: Fwd: FX Option Themes One-Pager

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Begin forwarded message:

From: =/b>"Atlas, Andrew S" [REDACTED]
Subject: =/b>FX Option Themes =ne-Pager
Date: =/b>August 1, 2017 at 12:22:58 PM =DT
To: =/b>"Richard Kahn" [REDACTED]

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Theme=1: USD Extends Drop - Aug 1st

Products

- The week started with a mild risk-off tone on North Korea headlines, but market quickly shrugged off the concerns with risk rallied across the board. Political uncertainty in Washington continues to drive the USD weakness with the EUR benefiting most, decoupling from rates and yields differentials
- Sentiment on EUR is still positive with narratives focused on good EMU economic prints, deeper reform momentum and fiscal integration
- It is worth noting that position for USD short remains crowded (see latest SFX Position Tracker) and there is still potential risk of position driven adjustment

(i) &nb;p; 2-month EURUSD 1.2000 / 1.2200 call spread =0.40% of EUR notional

4.1x pay-out ratio

(ii) &nb;p; 2-month EURUSD 1.2000 call with RKO at 1.24 à/0.21% of EUR notional

Vanilla offered at 0.78%

(iii) 2-month USDJPY 109.00 put with RKO at =05.50 à/0.17% of USD notional

Vanilla offered at =.00%

&nb;p; = Ref: EURUSD 1.1800, USDJPY =10.52

Theme 2: CHF Under spotlight – Aug 1st

Products

- CHF has been under spotlight after Jordan's comments on plan of balance sheet expansion. EURCHF went 3.5% higher and option pricing gets very bid with 1-month implied vol moved from 4.5 to 7.5 in short order and risk reversals slipping to favor EURCHF calls for the first time since =014.
- The liquidity in CHF options has been extremely limited in recent years as market makers have less capability to warehouse risk and investors tend to avoid selling optionality in EURCHF. Given the wide spread, structures with limited/neutral vega exposure looks appealing

(i) &nb;p; 3-month EURCHF 1.1550 / 1.1900 1x2 ratio call =spread / 0.33% of EUR notional

8.9x max pay-out ratio when spot expires at 1.1900

(ii) &nb;p; 3-month EURCHF 1.1550 / 1.1850 / 1.2150 1x2x1 call fly à/ 0.37% of EUR notional

6.8x max pay-out ratio when spot expires at 1.1850

&nb=p; = Ref: EURCHF 1.1405

Theme=3: EM FX Holds Well - Aug 1st

Products

· EM assets =continued the rally as core government bond yields remain soft. MS =research believes the rally could extend further (link), noting that Inflows into EM fixed income =unds remain strong registering the 26th consecutive week of =nflows

(i) &nb=p; Long 3-month USDMXN 17.50 put, short 18.81 =all à/ Zero cost

(ii) &nb=p; 1-year USDTRY 3.50 put, RKO at 3.30 à/0.13% USD notional

Vanilla offered at =.06%

&nb=p; = Ref: USDMXN 17.77, =SDTRY 3.5225

Other Option =deas*

(i) &nb=p; Long CNH vs. SGD

Idea from our Asian HF =ales: SGD has outperformed most Asian currencies over the past month on =he broad-based USD selloff, but with S\$NEER getting to elevated levels =n its trading band, the time to fade could be nigh. RMB on the other =and remains ~2% weaker against the CFETS basket compared to the start =f the year, while policy makers would likely welcome more strength. To =xpress the idea, investor could short SGD / long CNH 6mth forward or =uy USDCNH put spread vs. selling USDSGD put spread to play the China =atch-up story while SGD gains will likely be stifled by policy =onstraint

(ii) &nb=p; EUR Tail Risk Hedge

With short USD position =ecoming crowded and ECB tapering getting priced in, probably it is time =ooking at Euro zone tail risk hedge ideas to prepare for the upcoming =he Italian election. Current low vol low skew environment is in favor =f outright optionality. Long forward volatility via FVA is also a good =lternative to take advantage of the flat curve

*Please contact fxstructuring@morganstanley.com for more information

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<https://ln.matrix.ms.com/f16/i3/webapp/shared/export/disclosure=/correlationid/baffa032-331a-40af-a1db-15028aafb3fc.html>

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