

---

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

Richard Kahn  
HBRK Associates Inc.  
575 Lexington Avenue 4th Floor  
New York, NY 10022  
[REDACTED]

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]

Andrew S. Atlas  
First Vice President  
Equity Sales/Middle Markets =roup  
Financial =dvisor

Morgan Stanley Wealth Management  
1290 Avenue of the Americas, 12th Floor | New York, =Y 10104  
[REDACTED]  
[REDACTED]

## Theme=1: USD Extends Drop - Aug 1st

### Products

- The week started with 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)      2-month EURUSD 1.2000 / 1.2200 call spread =0.40% of EUR notional

4.1x pay-out ratio

(ii)      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%

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 flipping to favor EURCHF calls for the first time since 2014.

- 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)      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)      3-month EURCHF 1.1550 / 1.1850 / 1.2150 1x2x1 call fly à/ 0.37% of EUR notional

6.8x =ax 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 =ontinued the rally as core government bond yields remain soft. MS =esearch 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](mailto:fxstructuring@morganstanley.com) for more information

Important Information & Qualifications

For access to relevant disclosures, please visit:

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

THIS IS SALES AND TRADING COMMENTARY PREPARED FOR INSTITUTIONAL INVESTORS; it is NOT a research report; tax, legal, financial, or accounting advice; or an official confirm. The views of the author may differ from others at MS (including MS Research). MS may engage in conflicting activities -- including principal trading before or after sending these views -- market making, lending, and the provision of investment banking or other services related to instruments/issuers mentioned. No investment decision should be made in reliance on this material, which is condensed and incomplete; does not include all risk factors or other matters that may be material; does not take into account your investment objectives, financial conditions, or needs; and IS NOT A PERSONAL RECOMMENDATION OR INVESTMENT ADVICE or a basis to consider MS to be a fiduciary or municipal or other type of advisor. It constitutes an invitation to consider entering into derivatives transactions under CTFC Rules 1.71 and 23.605 (where applicable) but is not a binding offer to buy or sell any instrument or enter into any transaction. It is based upon sources believed to be reliable (but no representation of accuracy or completeness is made) and is likely to change without notice. Any price levels are indicative only and not intended for use by third parties. Subject to additional terms at <http://www.morganstanley.com/disclaimers/productspecific.html>. By communicating with MS, you acknowledge understanding of, and consent to, the foregoing and to the voice recording of telephone conversations with personnel of Morgan Stanley.

The information in this material was prepared by sales, trading, or other non-research personnel of Morgan Stanley for institutional investors. This is not a research report, and unless otherwise indicated, the views herein (if any) are the author's and may differ from those of our Research Department or others in the Firm. This material is not independent of the interests of our trading and other activities, which may conflict with your interests. We may deal in any of the markets, issuers, or instruments mentioned herein before or after providing this information, as principal, market maker, or liquidity provider and may also seek to advise issuers or other market participants.

Where you provide us with information relating to an order, inquiry, or potential transaction, we may use that information to facilitate execution and in managing our market making and hedging activities.

This material does not provide investment advice or offer tax, regulatory, accounting, or legal advice. By submitting this document to you, Morgan Stanley is not your fiduciary, municipal, or any other type of advisor.

This material is not based on a consideration of any individual client circumstances and thus should not be considered a recommendation to any recipient or group of recipients. This material is an invitation to consider entering into derivatives transactions under U.S. Commodity Exchange Act §§1.71 and 23.605 (where applicable) but is not a binding offer to buy or sell any instrument or enter into any transaction.

Unless otherwise specifically indicated, all information in these materials with respect to any third party entity not affiliated with Morgan Stanley has been provided by, and is the sole responsibility of, such third party and has not been independently verified by Morgan Stanley, our affiliates or any other independent third party. We make no express or implied representation or warranty with respect to the accuracy or completeness of this material, nor will we undertake to provide updated information or notify recipients when information contained herein becomes stale.

Any prices contained herein are indicative only and should not be relied upon for valuation or for any use with third parties.

All financial information is taken from company disclosures and presentations (including 10Q, 10K and 8K filings and other public announcements), unless otherwise noted. Any securities referred to in this material may not have been

registered under the U.S. Securities Act of 1933, as amended and, if not, may not be offered or sold absent an exemption therefrom. In relation to any member state of the European Economic Area, a prospectus may not have been published pursuant to measures implementing the Prospectus Directive (2003/71/EC) and any securities referred to herein may not be offered in circumstances that would require such publication. Recipients are required to comply with any legal or contractual restrictions on their purchase, holding, sale, exercise of rights, or performance of obligations under any instrument or otherwise applicable to any transaction. In addition, a secondary market may not exist for certain of the instruments referenced herein.

Options are not for everyone. Before purchasing or writing options, investors should understand the nature and extent of their rights and obligations and be aware of the risks involved, including the risks pertaining to the business and financial condition of the issuer and the underlying instrument. A secondary market may not exist for certain of these instruments. For Morgan Stanley customers who are purchasing or writing exchange-traded options, please review the publication 'Characteristics and Risks of Standardized Options,' which is available from your account representative.

The value of and income from investments may vary because of, among other things, changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities, prices of instruments or securities, market indexes, operational, or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in instruments (or related derivatives) transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed, and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect any projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation or calculation of any projections or estimates, and Morgan Stanley does not represent that any such assumptions will reflect actual future events or that all assumptions have been considered or stated. Accordingly, there can be no assurance that any hypothetical estimated returns or projections will be realized or that actual returns or performance results will not materially differ. Some of the information contained in this document may be aggregated data of transactions executed by Morgan Stanley that has been compiled so as not to identify the underlying transactions of any particular customer.

This information is not intended to be provided to and may not be used by any person or entity in any jurisdiction where the provision or use thereof would be contrary to applicable laws, rules, or regulations.

This communication is directed to and meant for sophisticated investors. Specifically, institutional investors in the U.S. and those persons who are eligible counterparties or professional clients in EMEA. It must not be re-distributed to or relied upon by retail clients.

This information is being disseminated in Hong Kong by Morgan Stanley Asia Limited and is intended for professional investors (as defined in the Securities and Futures Ordinance) and is not directed at the public of Hong Kong. This information is being disseminated in Singapore by Morgan Stanley Asia (Singapore) Pte. This information has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this information and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of this security may not be circulated or distributed, nor may this security be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Any offering of this security in Singapore would be through Morgan Stanley Asia (Singapore) Pte, an entity regulated by the Monetary Authority of Singapore.

This information is being disseminated in Japan by Morgan Stanley MUFG Securities Co., Ltd. Any securities referred to herein may not have been and/or will not be registered under the Financial Instruments Exchange Law of Japan (Law No. 25 of 1948, as amended, hereinafter referred to as the "Financial Instruments Exchange Law of Japan"). Such securities may not be offered, sold, or transferred, directly or indirectly, to or for the benefit of any resident of Japan

unless pursuant to an exemption from the registration requirements of and otherwise in compliance with the Financial Instruments Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organized or engaged in business under the laws of Japan. If you reside in Japan, please contact Morgan Stanley MUFG Securities for further details at +613-5424-5000. In respect of any notes, please note that the solicitation for newly-issued or secondary securities each as described in Paragraph 2, Article 4 of the Financial Instruments and Exchange Law of Japan (Law No.25 of 1948, as amended, the "FIEL")) in relation to such notes constitutes either a "Qualified Institutional Investor ("QII") only private placement" or a "QII only secondary distribution" each as described in Paragraph 1, Article 23-13 of the FIEL). Disclosure regarding any such solicitation, as is otherwise prescribed in Paragraph 1, Article 4 of the FIEL, has not been made in relation to such notes. Such notes may only be transferred to QIIs.

This information is distributed in Australia by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents, and arranges for it to be provided to potential clients. In Australia, this report, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. For additional information, research reports, and important disclosures see <https://secure.ms.com/servlet/cis>. The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This material may not be redistributed without the prior written consent of Morgan Stanley.

Hao Wang  
Morgan Stanley | Fixed Income Division  
20 Bank Street | Canary Wharf | Floor 02  
London, E14 5AD  
Phone: +44 20 425-5848  
[Hao.Wang@morganstanley.com](mailto:Hao.Wang@morganstanley.com)

Be carbon conscious. Please consider our environment before printing this email.

---

NOTICE: Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. If you have received this communication in error, please destroy all electronic and paper copies and notify the sender immediately. Mistransmission is not intended to waive confidentiality or privilege. Morgan Stanley reserves the right, to the extent permitted under applicable law, to monitor electronic communications. This message is subject to terms available at the following link: <http://www.morganstanley.com/disclaimers>. If you cannot access these links, please notify us by reply message and we will send the contents to you. By communicating with Morgan Stanley you consent to the foregoing and to the voice recording of conversations with personnel of Morgan Stanley.

=