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Sent: Thursday, November 5, 2015 3:52 PM
To: Jabor Y.
Subject: Fwd: Saudi rates and CDS

S&P cut Saudi Arabia from A+ to AA- earlier this week as they expect the fiscal deficit will increase to 16% of GDP in 2015, from 1.5% in 2014, primarily reflecting the sharp drop in oil prices. As a follow-up to the below, it is also interesting to look at playing the idea through FX.

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USD/SAR is currently pegged. While our base case is that the government will defend the peg, if headlines get worse, revenues collapse from depressed oil prices and the government has to address fiscal spending, we believe forward points and volatility will continue to increase. Although it may be a low probability event that the government breaks the peg, if we look at Kazakhstan's actions in August (see chart below), we see buying USD call/ SAR put options as an interesting risk reward.

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USD/KZT 1yr</=>

Source: Bloomberg 11/05/2015

Chart 2 below shows Saudi CDS

Syr Saudi CDS