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Sent: Tuesday, August 11, 2015 6:09 PM
To: Brad Wechsler
Cc: Jeffrey Epstein (jeevacation@gmail.com); Barrett Team; Rich Joslin ([REDACTED])
Subject: FW: Long USD / Short KRW

Hi Brad

Not sure if you saw but CNH weakened 3% overnight. KRW down almost 2%. We think this kicks off a currency war in Asia with a race to the bottom. We are still targeting 1250 (6= down from here).

Paul<=p>

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From: Barrett, Paul S
Sent: Thursday, July 23, 2015 5:36 PM
To: 'Brad Wechsler'
Cc: Barrett Team
Subject: Long USD / Short KRW

Brad

Here is our latest piece on KRW. Calling for more KRW weakness.

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Since mid-2012, JPY has weakened over 35% vs the USD, yet KRW has only depreciated slightly due in large part to a positive current account. (Chart 1)

- As a result, KRW has strengthened by approximately 35% vs the JPY over the last three years – significantly impairing the affordability of Korean exports (YoY exports fell for a 6th consecutive month in June).
- As an example, ~33% of Korea's GDP is represented by Samsung and Hyundai – both heavy export oriented companies (Source: Business Korea)
- In addition to an uncompetitive currency, Korea is suffering from low inflation, high levels of debt and near zero interest rates (sound like Japan?)
- To combat these conditions, the BOK has been cutting rates (now at 1.5%), but with rates already low, it's hard for that to have much of an impact
- Recently, South Korea's National Pension Fund announced that it would diversify ~1% of its holdings in to foreign assets (i.e. QE labeled as asset diversification) (Source: FT)
- So what does an export driven economy do when its competitors have devalued their currencies, rate cut impact is limited, and debt levels are already high – they have to weaken their currency, and arguably, KRW has far more to correct against JPY than the Euro does against USD.
- Trade: Long USD/ Short KRW

- Additionally— getting short KRW also satisfies several other goals
 - o Owning EM downside protection/exposure
 - o Owning a position benefitting from USD strength
 - o Owning a position that potentially benefits from China rolling over on its currency post the IMF review of the SDR basket October 9-11
- How does the trade go wrong
 - o South Korea's current account balance is +7% of GDP representing one key element against KRW depreciation. However, the Won is a controlled currency (trades through NDFs) and appreciation from trade flow is managed and arguably can be reversed in the event of the government's desire to weaken the currency.
 - o Significant reversal in USD strength, and or JPY weakness (ameliorating the need for the South Korean government to step-in)

Chart 1

Sources: Bloomberg as of July 2015, JP Morgan, Financial Times, Business Korea

The views and strategies described herein may not be suitable for all investors. Certain strategies may expose investors to potential risk and losses.

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