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Sent: Wednesday, March 14, 2018 4:52 PM
To: jeffrey E.
Subject: Fwd: MEGA Trade --> Long Saudi...

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Begin forwarded message:

From: =/b>"Ens, Amanda" <[REDACTED]>
Subject: =/b>MEGA Trade --> Long Saudi...
Date: March 14, 2018 at 12:45:33 PM EDT
To: =/b>"rkahn" <[REDACTED]>
Reply-To: =/b>"Ens, Amanda" <[REDACTED]>

Global Equities
MEGA – Europe

Opening New MEGA Trade:

Long Saudi Equities (Buy M1SAP on Swap / Liquidity \$100mm a day)

- Potentially the EM Flow Story of 2018... if FTSE addition is announced on March 28th we expect an inflow of \$5bn in a basket which trades 100mm USD a day (50X ADV)... this is even before MSCI announcement in June where inflows could be substantially higher
- The Most Powerful Macro Trades are when Macro fundamentals + Flow Meet... This is Saudi in 2018

Key Points:

1. Saudi has significantly underperformed Oil by 14% last 6 months. With the recent introduction of the citizens account programme, subsidy cuts, pushing out the budget balance to 2023, and the news of increased handouts, Saudi should re correlate with oil and move higher from here.
2. Saudi equities remain under-owned globally à foreign ownership of Saudi equities is at 1.3% vs Russia 70%, Turkey 55%, South Africa 50%, Brazil 45%, UAE 20%, Qatar 10%
3. Good liquidity vs other EMs but volume trading at lows relative to history à Tadawul ADV close to all-time lows at \$1bn (10yr range is \$1-8bn)
4. Major index events in 2018/19 with FTSE announcement on 28th March next à catalyst FTSE announcement could trigger inflows of up to \$5bn. Combined with the MSCI announcement later this year, potential active and passive inflows can total \$15-\$40bn. So the potential of at least \$20bn inflows on a basket which trades 100mm USD a day (200 Days Volume) ?
5. In comparison, during the MSCI UAE and Qatar inclusions, UAE was trading 10% below historic avg @14x PE and rerated to 22x into MSCI EM inclusion with Dubai up +110% (vs +47% prev year). Qatar was trading inline with historic avg @11x PE and rerated to 18x into MSCI EM inclusion with Qatar up +60% (vs +9% prev year)
6. Saudi risk indicators at 2015 pre-crisis levels à Saudi 5yr CDS is trading at 76 vs 40-210 3yr range; SAR 2yr fwd suggests market is less worried about depeg fears and forward points can be used as a macro hedge
7. Valuations & dividend yields remain attractive à Market trades at a 10% discount (13.5x) to its historic PE (Saudi PE range is 10-26x). Avg dividend yield is 3.6% with 5 stocks yield more than 4%.

Our Middle East Team ready for Calls - Hamdy Hamoudi in London next week 9th-23rd March. Talal marketing in US 23rd-27th April. Marwan in Trading

MAR disclosure

Saudi has underperformed both Oil and EM in the last 6 months

Saudi equities remain under-owned globally

Risk indicators are back to 2015 pre-crisis levels. Saudi 5yr CDS down from 210 to 76 (note 40 was all time low)

Valuations remain attractive – Saudi trading at 10% below historic PE; Saudi ERR now at 1.22 vs 0.4 in 2016

MEGA Open trades

Theme/Trade
Trade Expression
Entry Date
Expiry
Entry Level
Current Level
Hit Ratio

We think Fed rates expectations for 2019 remain on the low side with just marginally more than 1 hike priced.

Buy Dec18 Eurodollar Futures (EDZ8) vs Sell Dec19 Eurodollar Futures (EDZ9)

07/02/2018

-
97.63/97.31

97.455/97.125

✓

We do not think the BoE will hike as much as the Fed next year when markets are pricing marginally more from the BoE.

Buy Dec19 Short Sterling futures (LZ9) vs Sell Dec18 Short Sterling Futures (LZ8)

07/02/2018

-
98.76/99.09

98.67/98.98

✓

The risk for equities is a further rise in yields led by higher real rates. Last time 0y real rates were here S&P was closer to 2720.

Long SPX Mar18 =640/2600 put spread

28/02/2018

16/03/2018

10

0.00

✗

We see asymmetry in EURGBP. We expect EUR to react positively if Italy/Germany is neutral/ positive this weekend and ECB pricing to become firmer. On GBP leg, UK political risk remain underpriced with odds of early election in 2018 increasing Long EURGBP 3m =.91/0.94 call spread

02/03/2018

-

0.62%

0.45%

✗

MEGA Closed trades (Hit=Ratio Closed Trades = 77%)

Theme/Trade
Trade Expression
Entry Date
Close Date
Entry Level

Close Level

Hit Ratio

Equities set up for hawkish BoE hike. Significant unwinds of FTSE longs into meeting. Dovish hike delivered means Long FTSE remains a catch up trade.

Long FTSE Feb18 =550/7700 call spread for 42 offer (7476 ref) (rolled from Dec, 7460 =ef)

02/11/2017

11/01/2018

42

100

✓

Dovish ECB priced in. With a 9x30bn tapering priced, risks skewed to higher core rates and/or tighter spreads both of which benefit SX7E

Long SX7E Feb18 =40 calls (rolled from Jan, 134 fut ref)

24/10/2017

25/01/2018

0.9

3.3

✓

We think Fed rates expectations for 2019 remain on the low side with just marginally more than 1 hike priced.

Buy Mar18 Eurodollar Futures (EDH8) vs Sell Dec19 Eurodollar Futures (EDZ9)

11/01/2018

07/02/2018

98.18/ 97.535

98.12/97.31

✓

Positioning short/underweight. Positive news flow for Italy and Spain causing a squeeze in peripheral bonds and equities

Long equal weighted basket of Telefonica; Iberdrola; Enel; Unicredit & Santander

26/10/2017

15/02/2018

97.8

92.9

✗

Rates market continues to re-price ECB. 1y1y Eonia is almost back at recent highs pointing to more upside for SX7E.

Long SX7E Mar18 145 calls (40d, 142 ref)

25/01/2018

22/02/2018

2.85

0.2

✗

Russia is one of the worst performing markets in 2017. Under-positioning and fundamentals setting better

Long equal weighted basket of Russian Oil names: Gazprom, Lukoil, Rosneft

07/11/2017

22/02/2018

98.95

113.04

✓

We think we are entering a period of increasing volatility into the Italian Elections (4th March) and reduce our Long Equity exposure

Long SXSE Mar18 =350 puts (35d vs 3406 ref)

22/02/2018

02/03/2018

39

58.40

✓

We see Political risk underpriced in Europe into 4 March (Italian elections and German PD member vote)

Short FTSEMIB Index via Mar18 futures (STH8 Index)

22/02/2018

02/03/2018

22505

22005

✓

FTSE is the worst performing major market ytd. Moreover, we see asymmetry in GBP with UK political risk underpriced and BoE hikes overpriced. We do not agree that the BoE can hike more than the Fed next year.

Long UKX Mar18 =375 calls

07/02/2018

02/03/2018

55

1.50

✗

The risk for equities is a further rise in yields led by higher real rates. Last time 10y real rates were here =P was closer to 2720.

Long SPX Mar18 =750/2700 put spread

28/02/2018

02/03/2018

15

30.40

✓

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