

Classification: **Confidential**

The reason why one would do the trade below is for its embedded leverage. While it requires upfront premium, there is no IA required besides it. A premium neutral risk reversal utilizes your capital as it requires Initial Amount under your Credit Support Annex terms.

We will send risk reversals quotes when market reopens. Could you please clarify what expiries you would like to look at?

From: jeffrey E. [mailto:jeevacation@gmail.com]

Sent: Friday, May 01, 2015 4:02 PM

To: Daniel Sabba; Paul Morris

Subject: Re: DB James Malcolm: Are the BoJ shifting stance? Own some cheap optionality.....

send me put and calls at different strikes and duration, why in the world would i put up any money if i can short puts ? buyu calls .risk reversal. sorry

On Fri, May 1, 2015 at 10:15 AM, Daniel Sabba <[REDACTED]> wrote:

Jeffrey – we wanted to share this note with you as it relates to what we perceive to be your macro views.

James Malcolm is updating his view on the BoJ - he thinks there is now material event risk for the July meeting which warrants some 3-month vol premium on Yen assets and a close following of domestic data and news in the interim. Is the BoJ stance shifting from “no-ease-unless-things-worsen” to “ease-unless-things improve” mode ?

I think it makes a lot of sense to own some low delta, low premium \$JPY upside at the moment

We are axed to sell 50m\$ payout of a 5th August expiry 133.15 One Touch at just 8% (mid 5%)

So invest 4m\$ upfront to make 50m\$ if the level trades at any point during the lifetime of the trade

Spot 119.95

Full piece attached below

From James Malcolm :

Minor tweaks or comments in recent BoJ reports suggest the central bank is becoming more nervous about missing its inflation target a little over two years after it was lifted and a radical new QE program to achieve it was implemented. They suggest that if the economy does not pick up substantial momentum over the next ten weeks additional easing may be warranted. The July 15 monetary policy meeting is key as it provides for an interim assessment of policy board member's price and growth forecasts, and comes just after the Bank's quarterly Tankan and public opinion survey. Beyond the hard data, these will show whether spending intentions and inflation expectations are lifting in response to higher profits and wages absent the consumption-tax drag.

What has changed? This week's semiannual Outlook for Economic Activity and Prices report ('The Bank's View') replaced its assessment that "there are downside risks" for prices with the starker phrase that "risks are skewed to the downside." A research study on the impact of QE thus far, published today, concluded that "in order to achieve the price stability target of 2% in a stable manner, a further increase in inflation expectations is necessary." It also said that while