

## 2015 Outlook Recommendations

	Trade Detail	Rationale	Risks	Opened	Entry	Current	P/L
<b>Option</b>	Sell FVH5 puts versus buy like structured swaption for zero premium	Overly aggressive Fed could produce a "tightening tantrum" which is negative for risk asset valuations, likely producing hedging flows in swap spreads that push spreads wider.	Spreads tighten in a sell-off beyond the strikes	12/19/14	FVH5 +10.bp Swaption +9bp		
<b>Option</b>	Buy 1x1, 1y1y receiver spreads with strikes ATMF and ATMS	The post-Fed sell-off has left the spot/forward spread near multi-year post-crisis highs.	Maximum total loss is the premium outlay	12/19/14	29c		
<b>Swaps RV</b>	Pay 3y1y versus 2y1y	This curve segment might be expected to steepen if, for example, higher inflation produces greater pricing power, or if the long-absent cyclical increase in productivity finally materializes.	Curve flattens	12/19/14	40		
<b>Option</b>	1X2 receiver spreads: Buy \$100mn 3M10Y ATMF vs sell \$200mn 3M10Y 19bp OTM receivers at zero net cost	This a positive carry trade that captures the central path for the 10Y sector during Q1.	Vulnerable to rally below the breakevens with potentially unlimited downside.	12/19/14			
<b>Option</b>	Sell 1X2 payer spreads at the short end: Sell \$100mn 6M3Y ATMF vs. buy \$200mn 34.5bp OTM payers at zero net cost	The repricing of Fed hikes could begin in Q2 with the short end rebounding sharply after initial rally.	Vulnerable to rally below the breakevens, with potentially unlimited downside.	12/19/14			
<b>Option</b>	Sell \$100mn 6M10Y straddles vs. buy \$300mn 6M3Y straddles for a net premium of 175K	With expectations of Fed hikes, volatility should move to the front end of the curve, while the back end movements remains	Unilateral spike in backend vol.	12/19/14			
<b>Option</b>	Quiet flatteners: sell \$1bn 6M 5s/10s 9.5bp OTM curve cap vs. buy \$1bn 6M 5s/10s atmf/9.5 curve floor spread at zero cost	Potential for considerable bear flattening should the market reprice the Fed hikes.	Curve steepens.	12/19/14			
<b>Option</b>	Quiet bulls: Sell \$100mn 1Y10Y 50bp OTM payers vs. buy \$100mn 1Y10Y ATMF/33 receiver spreads costless	This captures the risk of bullish flattening of the curve where growth is unable to take off either due to fundamental weakness or in response to a policy mistake of premature hikes.	Sell-off beyond 3.10%.	12/19/14			
<b>Option</b>	Buy \$100mn 1Y30Y receivers, struck at spot, at 1270c	Bull/flatteners at the back end.	Loss equal to the options premium	12/19/14			
<b>Option</b>	6M dual digital: 2s > F+10bp & 10s < F-10bp offer 11.5%	This is a leveraged expression of a policy-mistake trade where premature hikes cause a rally at the back end.	Loss equal to the options premium	12/19/14			
<b>Option</b>	Equity/rates hybrids: Buy 19-Jan-2015 SPX 100/90 put spreads subject to 5s > Fwd+25bp, offer	Given the impressive run equities have had on the back of both normalization of the markets as well as the accommodation. Fed exit is likely to be disruptive for their short-term performance.	Limited downside with maximum loss equal to the options premium.	12/19/14			

Source: Deutsche Bank

