Premium Date: Fri 27-Dec-2013

Leg 2: Knockout Option Call
<Client> buys European EUR Call on EUR/USD with American Knock-Out

Strike: 1.37
Notional: EUR 1,000,000
American Knock-Out: 1.35
Expiry: Wed 25-Jun-2014
Settlement: Fri 27-Jun-2014
ZoneCut: NY
Premium: USD 15,930
Premium Date: Fri 27-Dec-2013

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----- Forwarded by Tazia Smith/db/dbcom on 12/23/2013 10:46 AM -----

From: Vanshree Verma/db/[redacted]

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Date: 12/19/2013 12:25 PM

Subject: Inflation Material [I]

Classification: For internal use only

Hi All,
Here is some material on inflation and the product:

RATIONALE

1) Policy bias remains loose across central banks. 'Real' fed funds rate at historical lows, while continuation of QE implies massive expansion of the monetary base. We see upside risks to inflation in the long term given Fed's tolerance for inflation in the short term, and the sheer magnitude of liquidity in the system.
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2)Historically period of fiscal strain have been followed by rising inflation as monetary policy has "monetised" public debt. Ken Rogoff: "Inflation needed to combat crisis"… "a sudden burst of moderate inflation would be helpful in unwinding today's epic debt morass"

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Central banks have no experience with unconventional policy measures. In particular, the effect on inflation expectations remains unclear. There is a practical limit to quick unwinding of measures and consensus opinion points towards a lag in exit and some overshoot of inflation target as a distinct possibility.

3) Equities, commodities and property have proved to be unstable or unreliable hedges against inflation in the past. The only way to achieve pure inflation hedge or take a view on inflation is via an inflation-linked product where cash flows are based on CPI.

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PRODUCT

4) An inflation linked product such as the following appears interesting because it takes advantage of any upside risks to inflation in the future,