

Deutsche Bank FX Strategists are calling for USDJPY of 115 by year-end 2014, and 120 by year-end 2015. See DB FX Blueprint published 1/9/14, and note that #2 of the top 10 themes of 2014 (p. 5-6) revolves around extended weakness in the Japanese Yen vs. USD.

Consider a 10year expiry \$Y call option struck at 85 (spot fx 105, forward fx 77.70). Price 4.7% of USD notional

This option has four notable characteristics

If \$Y stays at these levels the option decays positively by approx 15-20% per year  
If \$Y trades 90.00 at any time (arguably a scenario in which the option is no longer wanted) the option "knocks-out" and becomes worthless. While \$Y might decline to 90, our quantitative analysis indicates the probability of such a decline is significantly (double?) overpriced by the options market  
The premium of the option is quite sensitive to moves in \$Y spot - which is atypical for a 10year option. This also results from the knockout feature.  
This means if \$Y moves quickly by 5% the option increases / decreases in value by almost half, so If \$Y rises to 110 or 115 the option can easily be unwound to monetize the profit  
The option costs roughly 1/3rd compared to the vanilla 85 strike call  
Maximum loss is premium paid

(See attached file: DB FX Blueprint - Outlook 2014.pdf)

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