

# Currency Solutions

Adapting to your needs

Fresh from the lab  
Top trades September 2014



# Featured in this edition

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- Trade & Investment ideas at a glance
- Review of currency solutions performance
- Scottish independence ? An event to watch
- Best of both worlds – equity and currency «cashed in»

## Trade & investment ideas at a glance

### 1) Review of currency solutions performance – thumbs up!

- Out of 24 recommendations 79% returned a positive performance (closed or mark-to-market)
- The OTC derivative portfolio recommendations generated
  - a positive return of 74% on investment (long options, based on spent option premiums)
  - a positive return of 22% on collateral (short / zero cost options structures)
- Annualised positive performance of 5.60% on bond-type, securitised trades

### 2) Scottish independence ? An event to watch – Go long a 1 month Volatility Swap (OTC or Note)

- Scottish referendum taking place on September 18 posing an event risk for the Pound – recent polls suggest a closer race for a “Yes” vote and therefore more uncertainty
- Go long GBPUSD volatility into this event through a 1 month Volatility Swap (OTC or Note) with partial capital protection and a Strike at 6.30%
- Level of capital protection at 68.50% of investment

### 3) Best of both worlds – equity and currency “cashed in” – 11% annual coupon in CHF

- Benefit from your multi-asset environment – exposure to Novartis & UBS stocks, and USDCHF currency
- 11% annual coupon in CHF ; 6 months maturity
- Daily barrier observation – 80% barrier level on the two stocks, 97% on the currency
- Payoff at maturity similar to a multi-barrier reverse convertible

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# Currency solutions performance

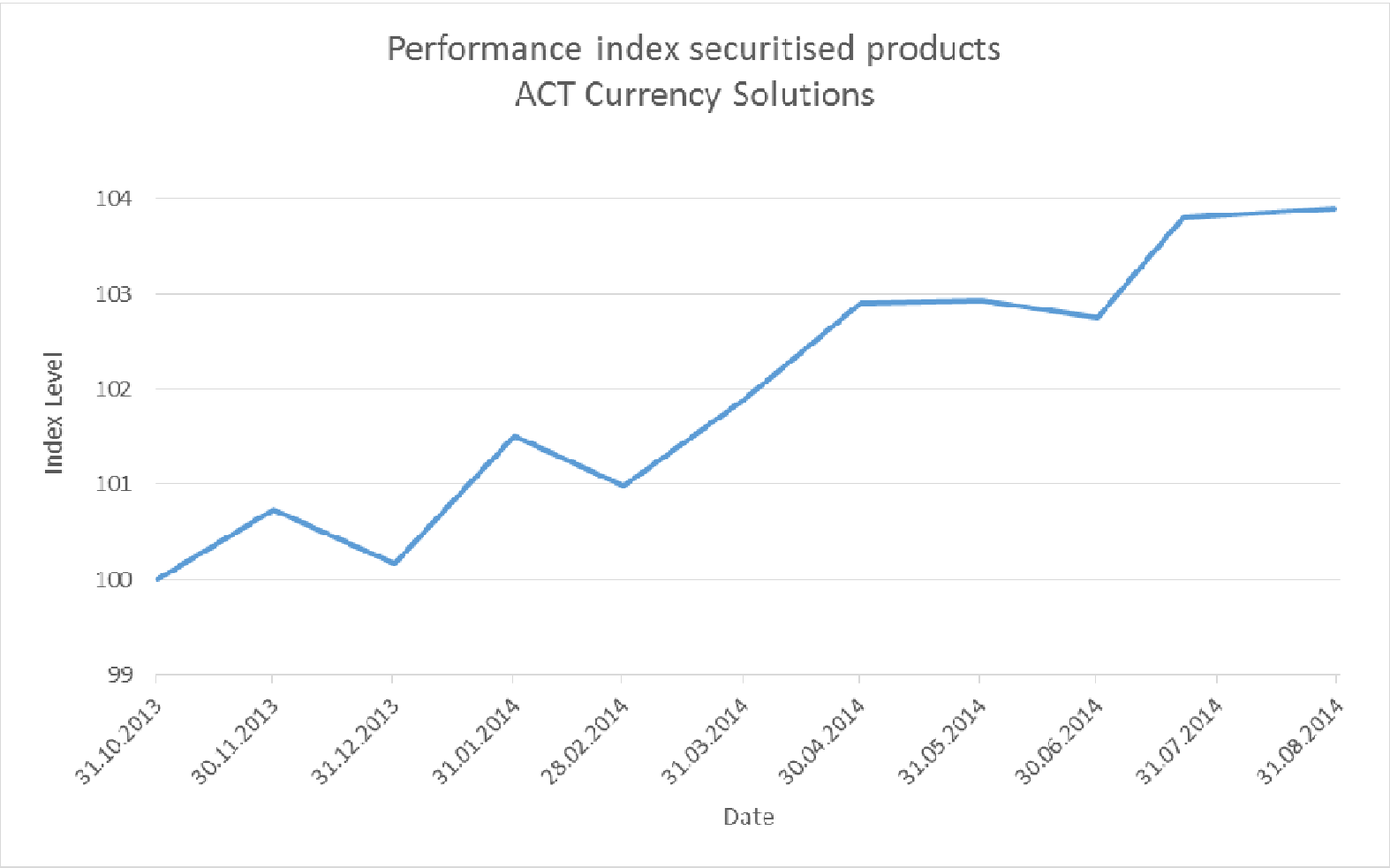
Trade ideas achieved overall positive performance, adding value to your portfolio

- **Bond-type** recommendations returned an annualised return of 5.60% so far
- **OTC derivative** recommendations generated also **substantial positive returns**
  - **+74% on investment** (long options, based on spent option premiums)
  - **+22% on collateral used** (short / zero cost option structures, based on needed collateral)
- **Hit ratio 79%** (out of 24 recommendations 19 returned a positive performance)
  
- All currency solutions split into two product types due to different performance tracking
  - **Securitised trades** (fully funded certificates, notes)
    - Expressed in percentage terms like a bond/index underlying
    - Performance measured in an index, based at 100 at end of October 2013
  - **OTC derivative trades** (option premiums, collateral based)
    - Expressed in option premiums
    - Performance measured in cash profit/loss per trade, then aggregated over all recommendations and split into long option trades where premium was spent, and short / zero cost option strategies that require collateral to be posted

# Currency solutions performance



Bond Type investments – index chart\*



\* Past performance is not an indicator of future returns

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# Scottish independence?

## Top trade 1 – Volatility Swap Note on GBPUSD – long volatility

|                     |                                    |
|---------------------|------------------------------------|
| Underlying Index:   | 1 month GBPUSD Realised Volatility |
| Tenor/Denomination: | 1 month / 1 Mio. GBP               |
| Strike:             | 6.30                               |
| Vega Notional:      | GBP 50'000                         |
| Capital Protection: | 68.50% at maturity                 |
| Issue Price:        | 100%                               |
| Issuer:             | HSBC                               |

This solution has the following payoff characteristics:

At maturity the investor will receive a redemption to the greater of

- Denomination x (100% + Return) or
- Denomination x Capital Protection

Where as Return is calculated as follows:

$$(Vega\ Notional / Denomination) \times (GBPUSD\ Realised\ Volatility - Strike) \times 100$$

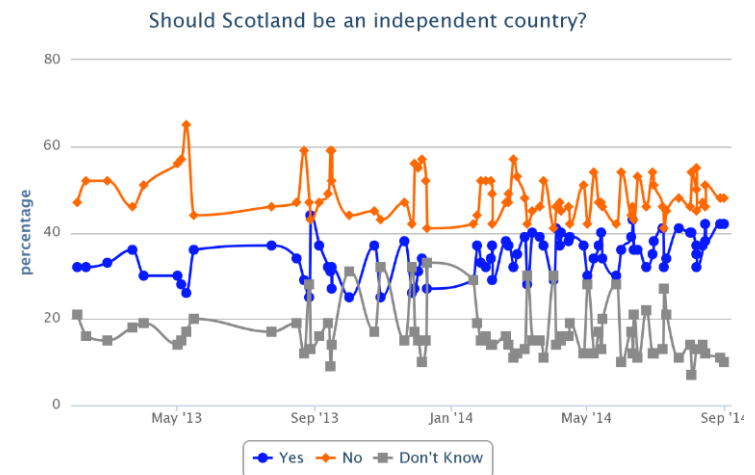
| Realised volatility | Redemption in % of investment |
|---------------------|-------------------------------|
| 14.3                | 140                           |
| 13.3                | 135                           |
| 12.3                | 130                           |
| 11.3                | 125                           |
| 10.3                | 120                           |
| 9.3                 | 115                           |
| 8.3                 | 110                           |
| 7.3                 | 105                           |
| 6.3                 | 100                           |
| 5.3                 | 95                            |
| 4.3                 | 90                            |
| 3.3                 | 85                            |
| 2.3                 | 80                            |
| 1.3                 | 75                            |
| 0.3                 | 70                            |
| 0                   | 68.5                          |



# Scottish independence?

An event to watch mid September – referendum taking place on the 18th

- What is it about ?
  - A referendum will take place on September 18 as to whether Scotland should be an independent country or not
  - A potential «yes» vote would pose a few unknowns that lead to uncertainty, ie what currency would be used in an independent Scotland, amongst various other open questions
- Recent polls show an increase in «yes» votes to 42%, with 8% saying they're undecided and 48% would vote «no»
- UK government reiterated there is no contingency plan in case of a «yes» vote
- Based on the above, we expect more uncertainty over the next few weeks, leading to higher volatility



Sources: ACT, whatscotlandthinks.org, HSBC, Barclays, MS

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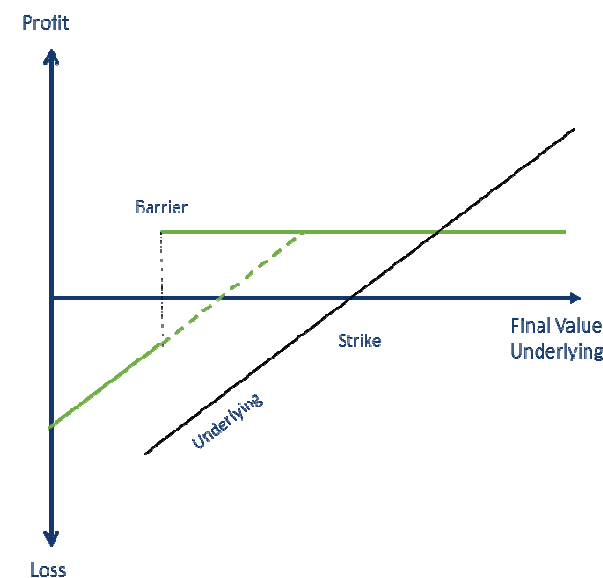
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# Best of both worlds - Equity & Currency

Top trade 2 – Yield enhancement on your CHF cash holdings, Coupon 11% p.a.

|               |   |
|---------------|---|
| Underlyings:  | Novartis, UBS, USDCHF   |
| Tenor:        | 6 months  |
| Denomination: | CHF   |
| Fix Coupon:   | 11.00% p.a. (paid to the investor in any case)                          |
| Barriers:     | 80% for stocks, 97% for the currency (barriers observed at daily close) |
| Strikes:      | At-the-money-spot   |
| Issue Price:  | 99.00%  |
| Issuer:       | SocGen (or similar)   |

- The investor will receive a redemption at maturity according to the following formula:
  - If no Barrier has been touched, the investor will receive back his initial CHF investment plus the Coupon
  - If at least one of the Underlyings touched the Barrier the investor will get repaid as follows:
    - If all Underlyings close above the relevant Strike at maturity the initial CHF investment plus the Coupon
    - If at least one Underlying closes below the relevant Strike at maturity delivery of the Underlying with the lowest performance, the Coupon is paid in any case in CHF



# Best of both worlds - Equity & Currency

Few words on the Underlyings

- Novartis
  - Novartis presented very strong data for its chronic heart failure drug LCZ696
  - LZC696 sales are forecasted between 5 and 7.3bn USD
  
- UBS
  - Restructuring and dividend payout potential intact
  
- USDCHF
  - Recent ECB action puts pressure on EURCHF and the SNB to take further policy steps
  - This will lift the USD vs CHF

# Best of both worlds - Equity & Currency

Price history of the underlyings over the past two years



Sources: ACT, Bloomberg

# Currency Solutions Team

Our goal is your performance

## Andre Meyer Partner



- **UBS**  
Managing Director, Head FX Structured Solutions EMEA
- **UBS, London**  
Director, Head FX Structured Solutions UK/ Scandinavia
- **UBS, Zurich**  
Senior FX Structurer
- **UBS, Zurich**  
Junior Trader FX/ PM

## Felix Adam CEO



- **J. P. Morgan, Zurich**  
Head of Proprietary Trading
- **Chemical Bank, Zurich**  
FX Trader
- **Handelsfinanz Midland Bank, Geneva**  
FX Trader
- **Bank Vontobel & Co., Zurich**  
Apprenticeship, Junior Trader & Cash Manager

## Team Members

Felipe Pillar, Roger Sieber, Mark Schibli and Andre Chamoun.

Our six team members are FX professionals having joined from leading banks such as Citi Bank, Commerzbank and UBS. Together they offer you more than 60 years of accumulated FX experience.

# Contact & Location

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Please contact us!

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# About ACT Currency Partner

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Your Currency Specialist

## Who we are

- Currency and precious metals specialist based in Zurich, founded in 1992

## What we offer

- Absolute Return Strategies
- FX Prime Execution
- Currency Solutions
- Hedge Fund Incubation

## What we aim for

- Customized currency solutions
- Superior return enhancement & risk reduction
- Best Price Execution



# Disclaimer

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## Please note

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