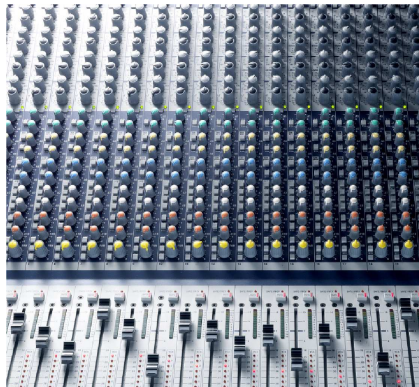


6 Month Bullish EUR/CHF Structure

Elimination of downside exposure if EUR/USD < 1.25 at expiry

Trade Idea – 18th January, 2012



Since its policy meeting last December in which the SNB disappointed the market by keeping the 1.20 floor in place, EUR/CHF has been inching lower on a steady downward trend. With EUR/CHF now approaching attractive levels to buy (on a risk-reward basis), clients looking for a **zero-cost** structure to position for the SNB raising the floor to 1.25 may find this product of interest.

One of the main scenarios that might lead the SNB to abandon the floor in EUR/CHF is if the turmoil in the Eurozone were to worsen drastically, with **EUR/USD** trading much lower as a result. This product has been structured specifically to eliminate any downside exposure should **EUR/USD** trade below **1.25** at expiry, while also keeping any potential upside should this eventuality arise.

Bullish EUR/CHF Structure

Trade	- Buy 2x EUR Notional of: 6M EUR/CHF 1.2500 RKO call (Knock out = 1.3000) - Sell 1x EUR Notional of: 6M EUR/CHF 1.2050 put, which ceases to exist if EUR/USD trades at or below 1.2500 at expiry
Expiration	6 months
Spot reference:	EUR/CHF: 1.2100 EUR/USD: 1.2800
Package Offer:	Zero Upfront Premium (EUR)

Positioning

Spot :	Bullish EUR/CHF
Volatility:	Moderately short EUR/CHF vega Moderately long EUR/USD vega Moderately short USD/CHF vega

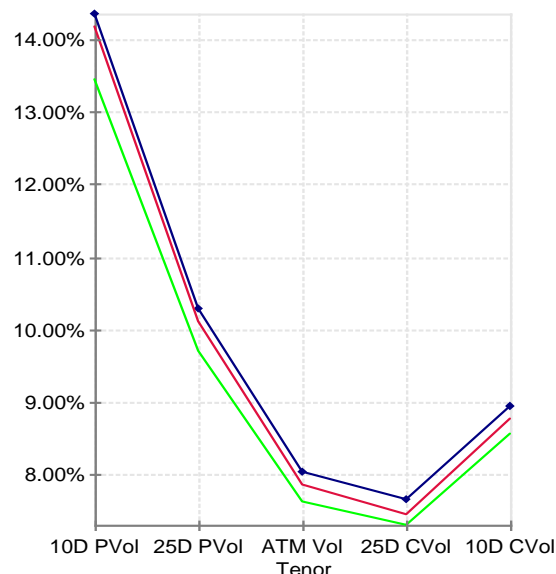
Profitability Analysis

Downside:	If EUR/USD trades at or above 1.25 at expiry, the potential maximum loss occurs when EUR/CHF approaches 0.00.
Upside:	If EUR/CHF trades at or above 1.25 at expiry, subject to the knock-out condition, the trade will have a positive payout. The maximum payout is 7.7% of smaller Notional .

Trade Rationale

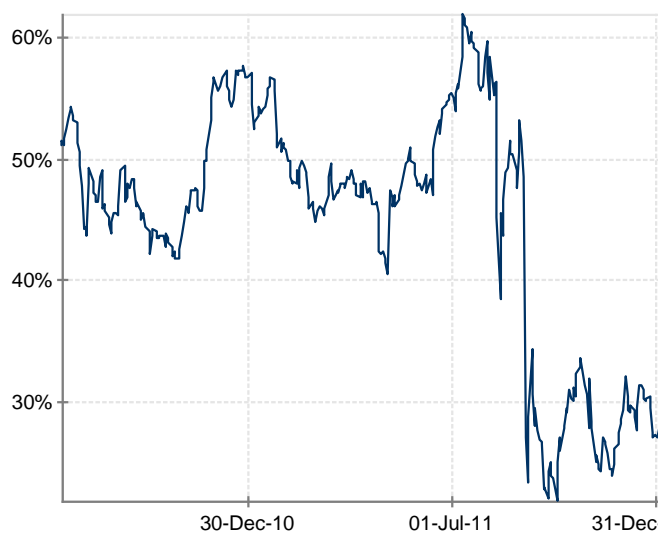
- Since the 1.20 floor was announced in early September, there have been no material surprises to the medium-term outlook for inflation. Unless this changes, we believe the SNB will not add risk to its balance sheet by changing its intervention policy. With inflation likely to remain at depressed levels, and the SNB having staked their credibility on their ability to defend the floor, we expect the floor to hold well into 2012 at least.
- One of the main scenarios that might lead the SNB to abandon the floor in EUR/CHF is if the turmoil in the Eurozone were to worsen drastically, with **EUR/USD** trading much lower as a result. This product has been structured specifically to eliminate any downside exposure should **EUR/USD** trade below **1.25** at expiry, while also keeping any potential upside.
- With the EUR/CHF implied vol smile still skewed to the downside (see *Exhibit 1*), there are skew savings to be had from selling out-of-the-money put options.
- For EUR/CHF calls, the 25 delta point is 1.2459 and the 10 delta point is 1.2926. By using a strike of 1.2500 (close to the 25 delta point), with a knock-out at 1.3000 (close to the 10 delta point), further skew savings can be achieved (as shown by the vol smile in *Exhibit 1*).
- The current level of EUR/CHF vs. EUR/USD implied correlation at 31% is at an attractive entry level to buy (historically speaking) – with the structure being long implied correlation (see *Exhibit 2*).

Exhibits 1 – Implied Vol Smile



Source: Credit Suisse Locus

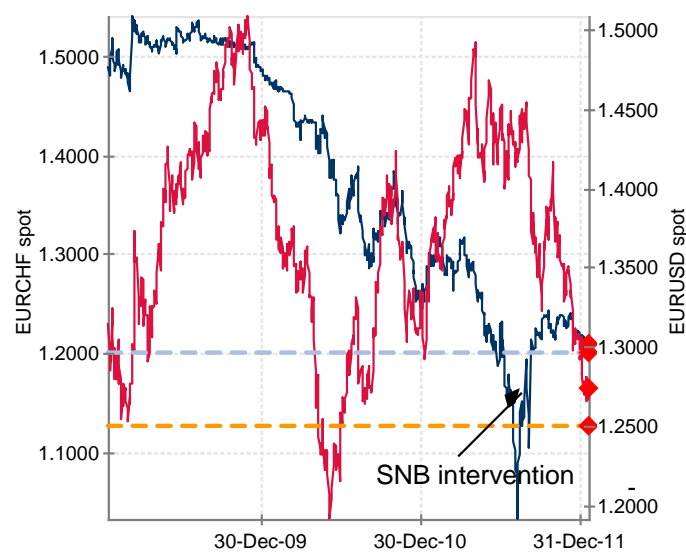
Exhibit 2 – Implied Correlation



— Implied Correlation of (EUR/CHF - EUR/USD), Tenor 6M

Source: Credit Suisse Locus

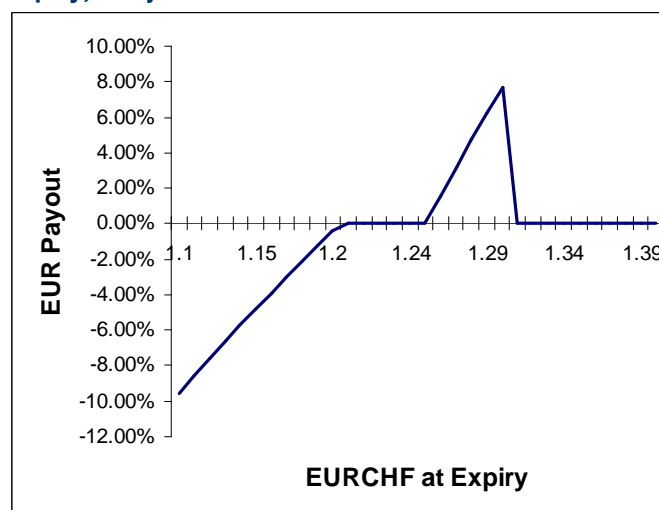
Exhibit 3 – EUR/CHF vs. EUR/USD spot



— EURCHF spot — EURUSD spot
--- Current floor in EUR/CJF: 1.20 --- EUR/USD Strike: 1.2500

Source: Credit Suisse Locus

Exhibit 4 – EUR Payout if EUR/USD > 1.25 at expiry, subject to EUR/CHF knock-out condition



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