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Security

JY3 COMB Currency –
Japanese Yen – USD
Currency Future – June 2025

View

Bullish on Yen
Bearish on USD

Investment

JY3 COMB Currency –
Japanese Yen – USD
Currency Future – June 2025

Thesis
Points and
Risks



Macro
Indicators



Carry Trade



Technical
Analysis



Position
Overview

Thesis

- US Fed cutting rates 50 bps likely to increase inflation
- Japanese macroeconomic indicators indicate a stabilizing economy
- US macro indicators signal a possible weakening of the dollar
- Carry traders still have high interest in yen loans, possibility for margin calls

Thesis Risks

- Inaction from the Japanese Central Bank could possibility cause an issue with the timing of the play
- Volatility drag can affect the overall return of the play
- Low open interest for date of expiration
- Low trader volume for the expiration of the play

US Macro Indicators

Macro News

- The Fed plans to lower interest rates again in early November by 25 basis points
- Heightened tensions between the U.S and China over trade policies could drive investors to seek relative safety in the yen
- If the U.S imposes new tariffs on imports, it could weaken the dollar and strengthen the yen
- Expectations of loosening U.S monetary policy have recently affected the yen

2024 Election

Donald Trump

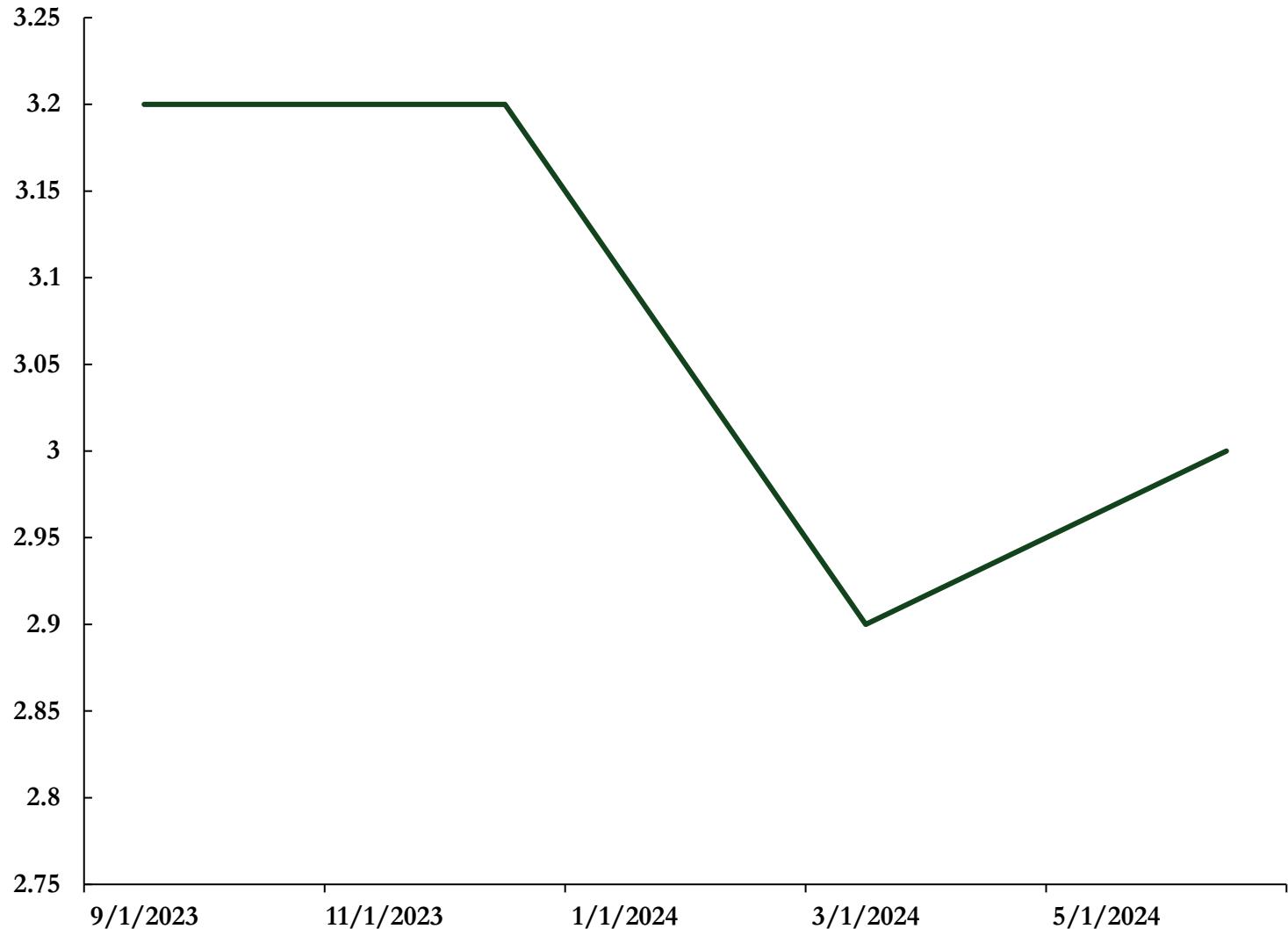
- Proposed many different trade policies and most of them have potential to cause global trade tensions
- Lower corporate taxes and eliminate income taxes on social security benefits
- The combination of tariffs and tax cuts could lead to increased market volatility

Kamala Harris

- Plans to expand the Child Tax Credit to \$3,600 per child under 5 and \$3,000 per child over 5 which could lead to higher fiscal deficits
- Raise the corporate tax rate from 21% to 28% potentially slowing economic growth
- Likely to maintain a cautious approach to new trade deals

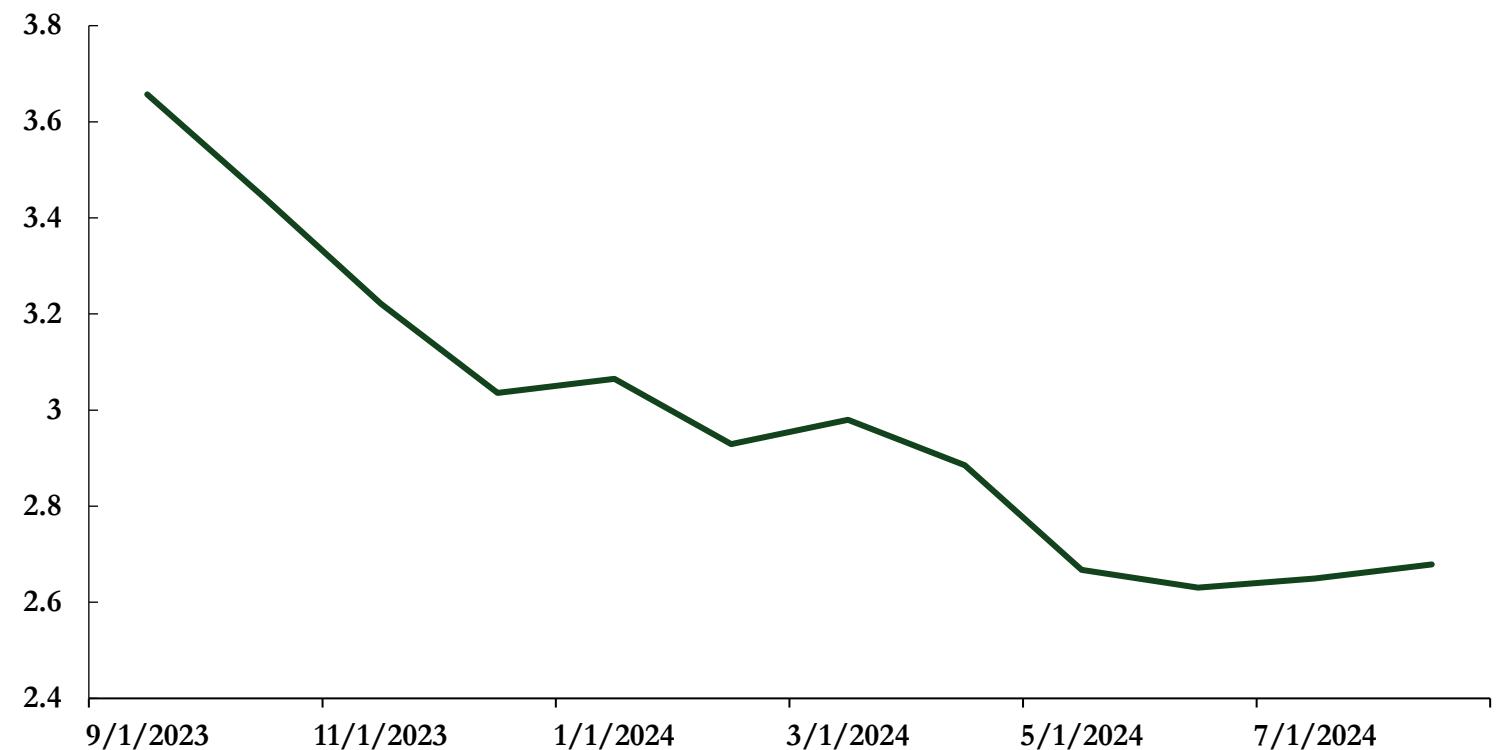
GDP

- Manufacturing activity has been slowing down
- The GDP grew at an annualized rate of 3.0% in the second quarter of 2024
- A higher GDP typically correlates to a stronger U.S dollar



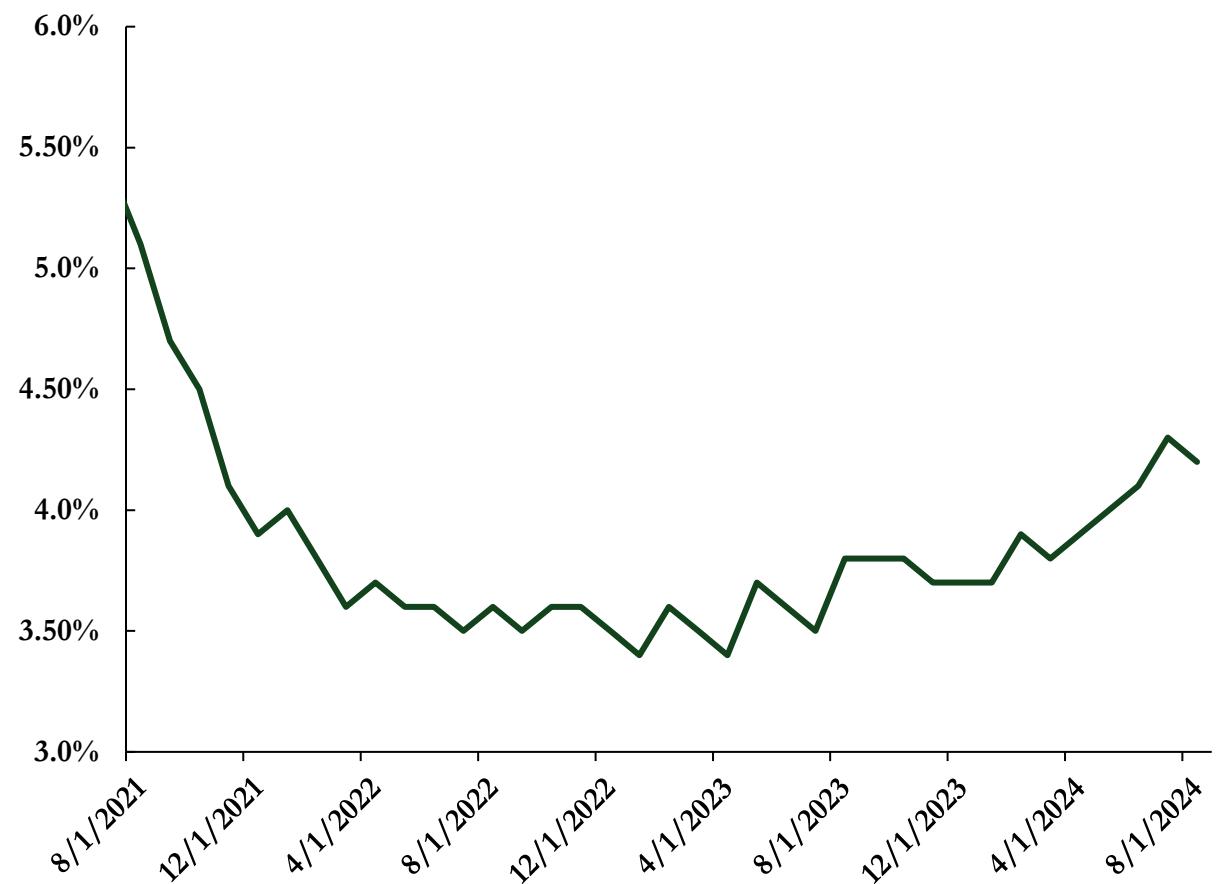
Personal Consumption Expenditure

- The decline in the PCE shows the overall spending of consumers on goods and services has decreased
- The PCE data shows that inflation has dropped
- Lower PCE leads to rate cuts which historically increases inflation

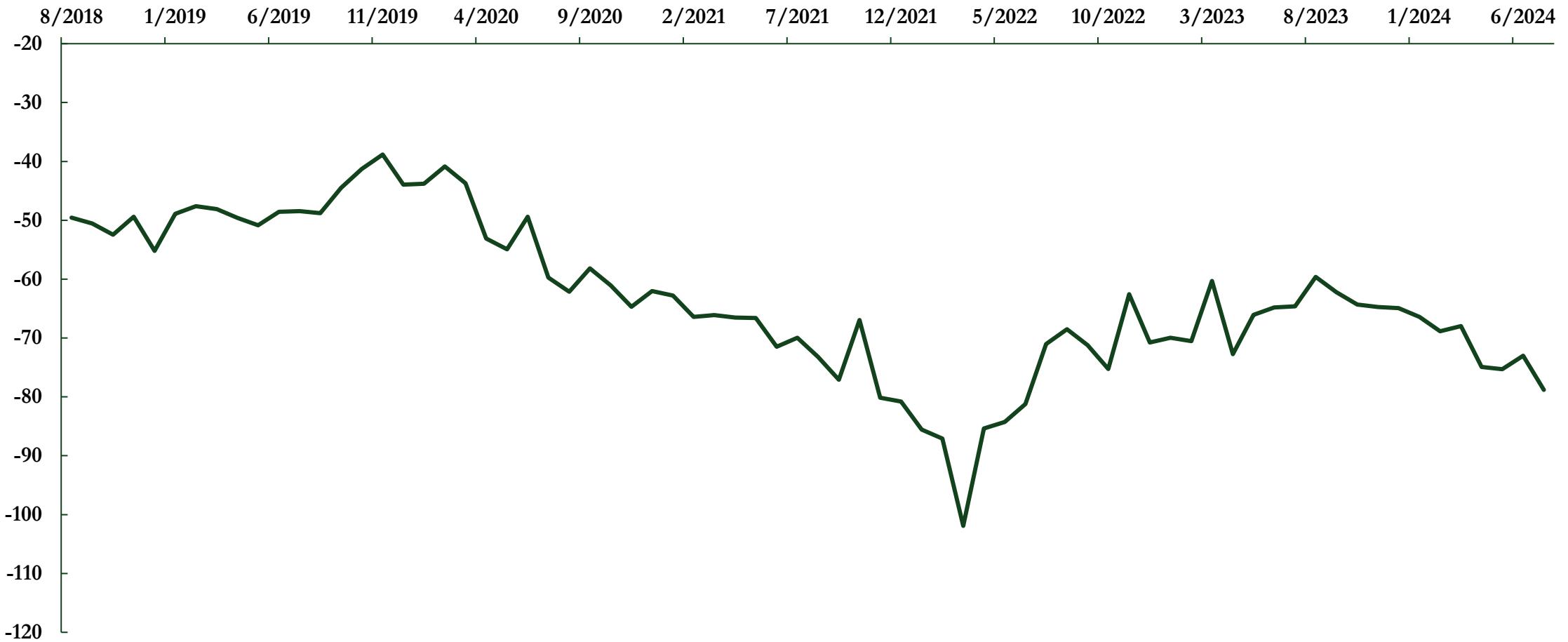


Unemployment Rate

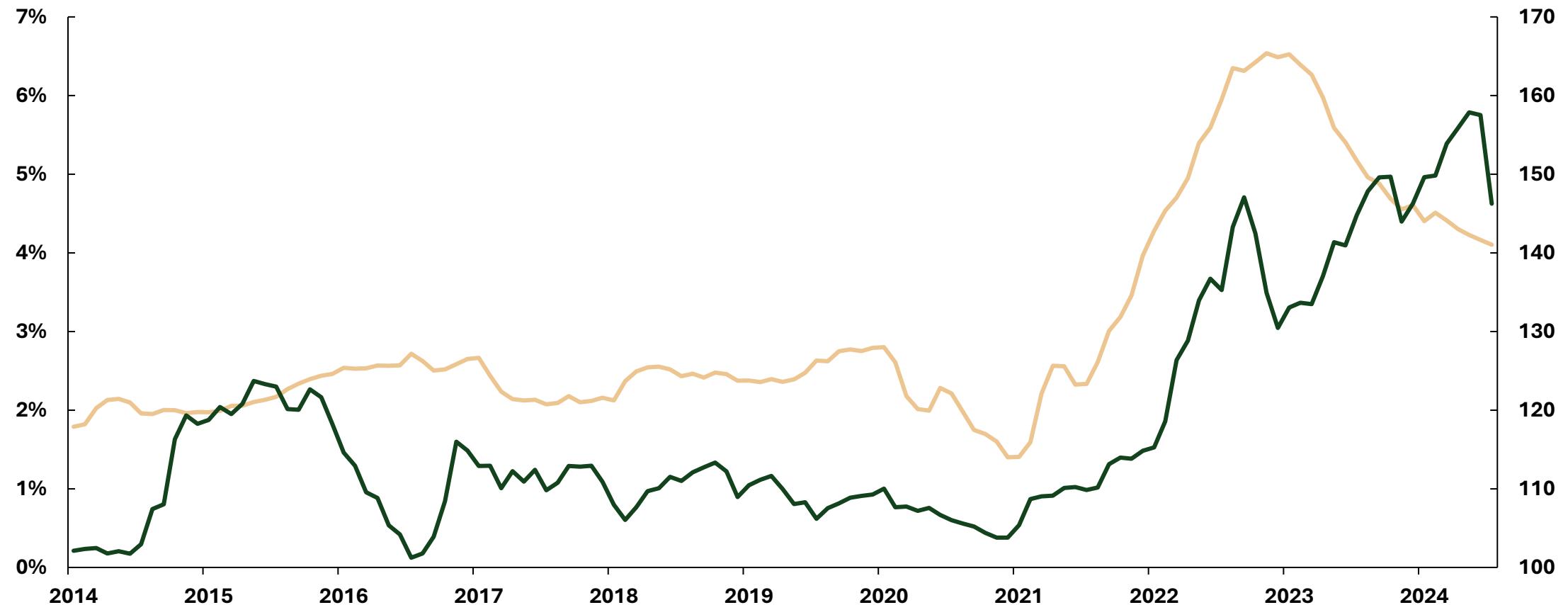
- The ADP employment report revealed that there was only 90,000 jobs added in august
- Layoffs rose to 1.8 million in March 2024, the highest level since December 2020
- The unemployment rate rose to 4.3% in July 2024



US Trade Balance (\$Billions)



US Core CPI vs. USD/Yen Exchange Rate

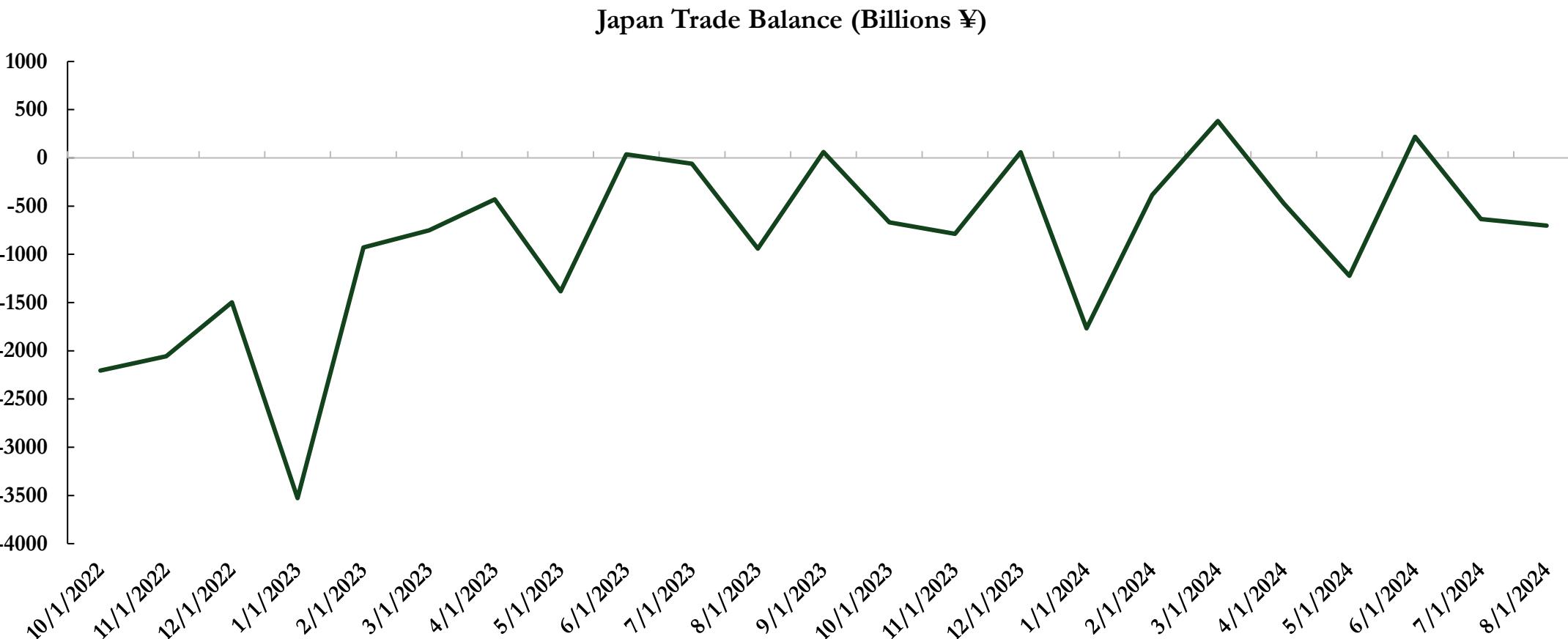


Japan Macro Indicators

Japan Economy Overview

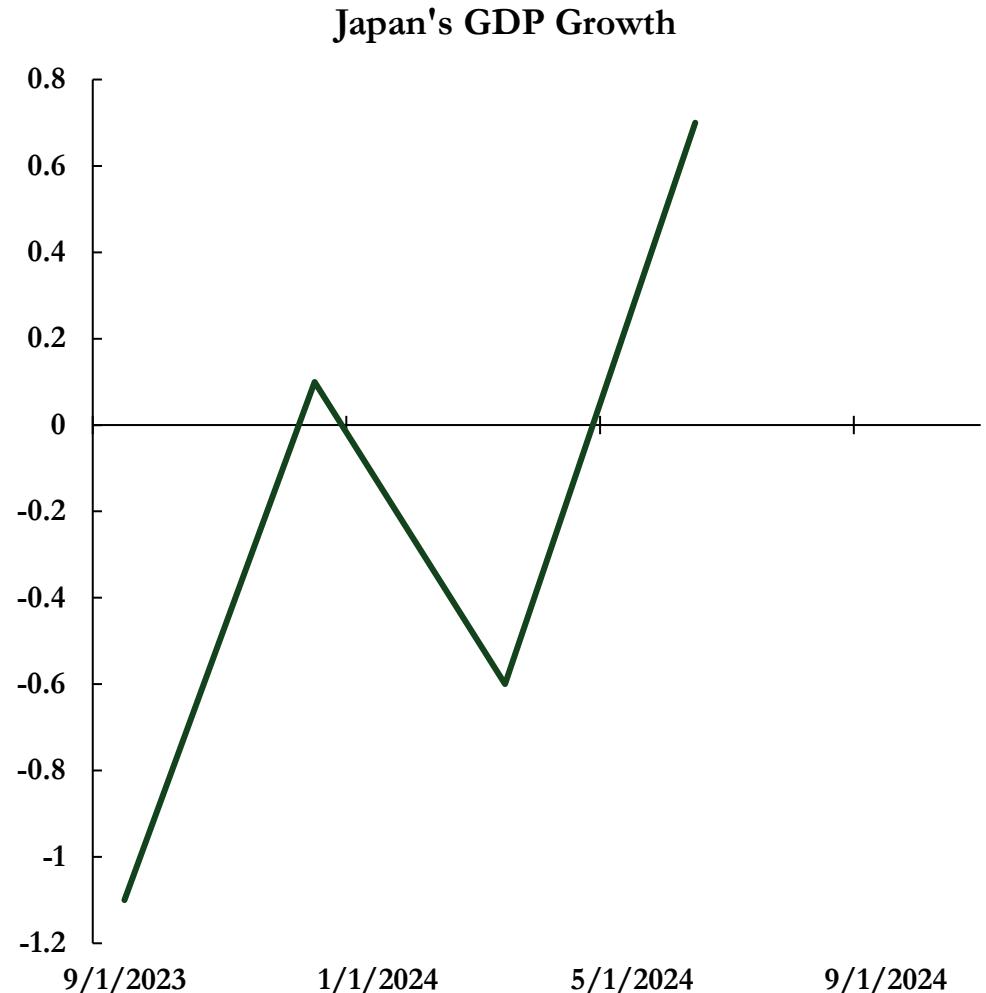
- The BOJ is like the FED and the next meeting is Dec 18th
- Big manufacturers' business confidence was +13 which is unchanged from June
- Big companies are expected to increase capex by 10.6%
- BOJ has a target rate of 2% inflation but is currently at 3%
- BOJ ended negative interest rates in March and raised its short-term policy rate to 0.25%

Japan Trade Balance



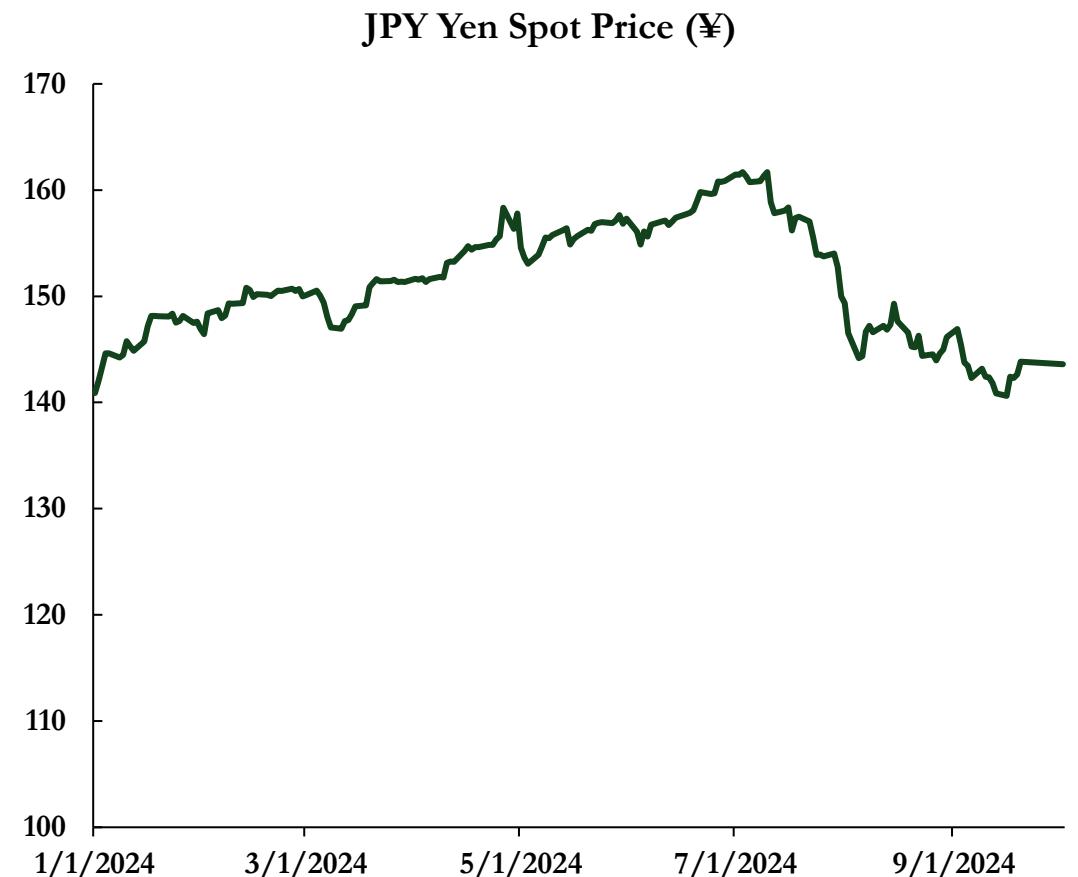
GDP

- The service sector makes up almost 70% of Japan's GDP
- Growth will be difficult with central bank tightening monetary policy and yen will continue to depreciate
- Japan's public debt is equal to approximately 9.2 trillion USD

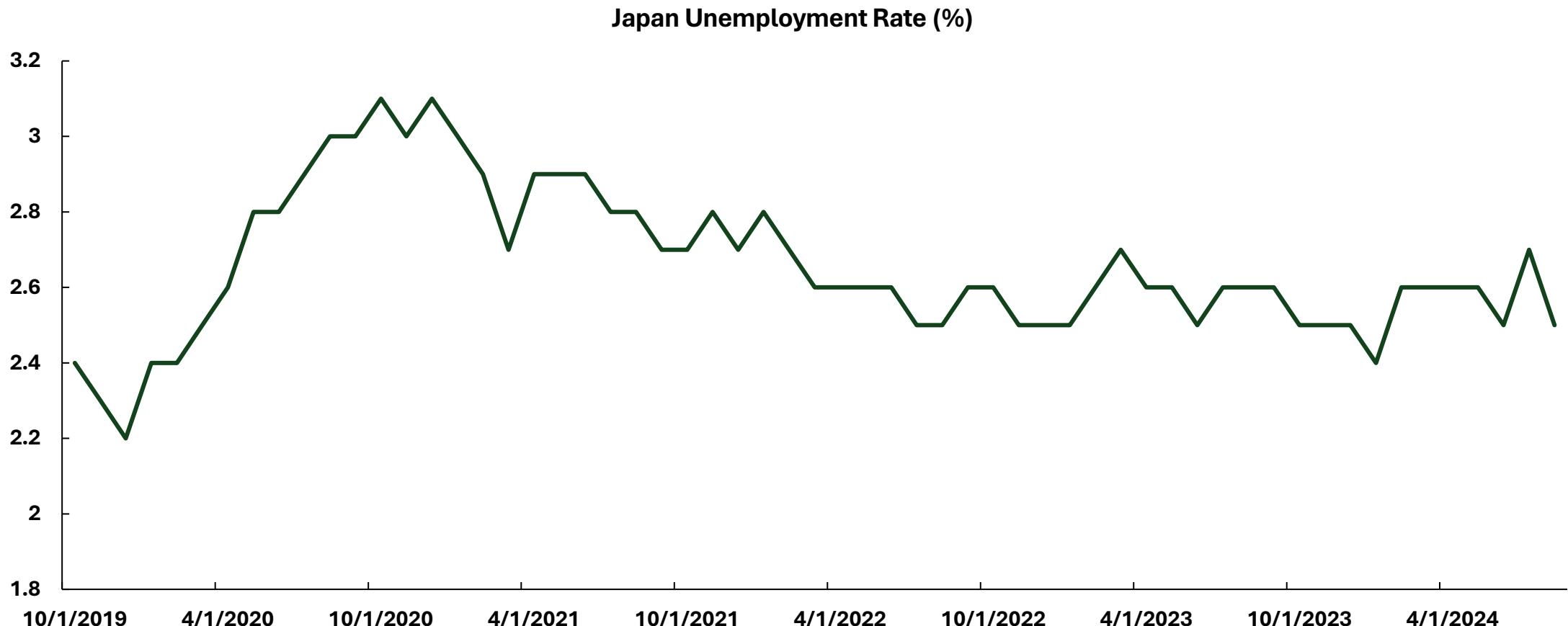


JPY Yen Spot Price

- Currently sitting at 146.09 USD Yen
- The Yen found some support as escalating conflict in the Middle East prompted investors to rush into safe assets



Unemployment



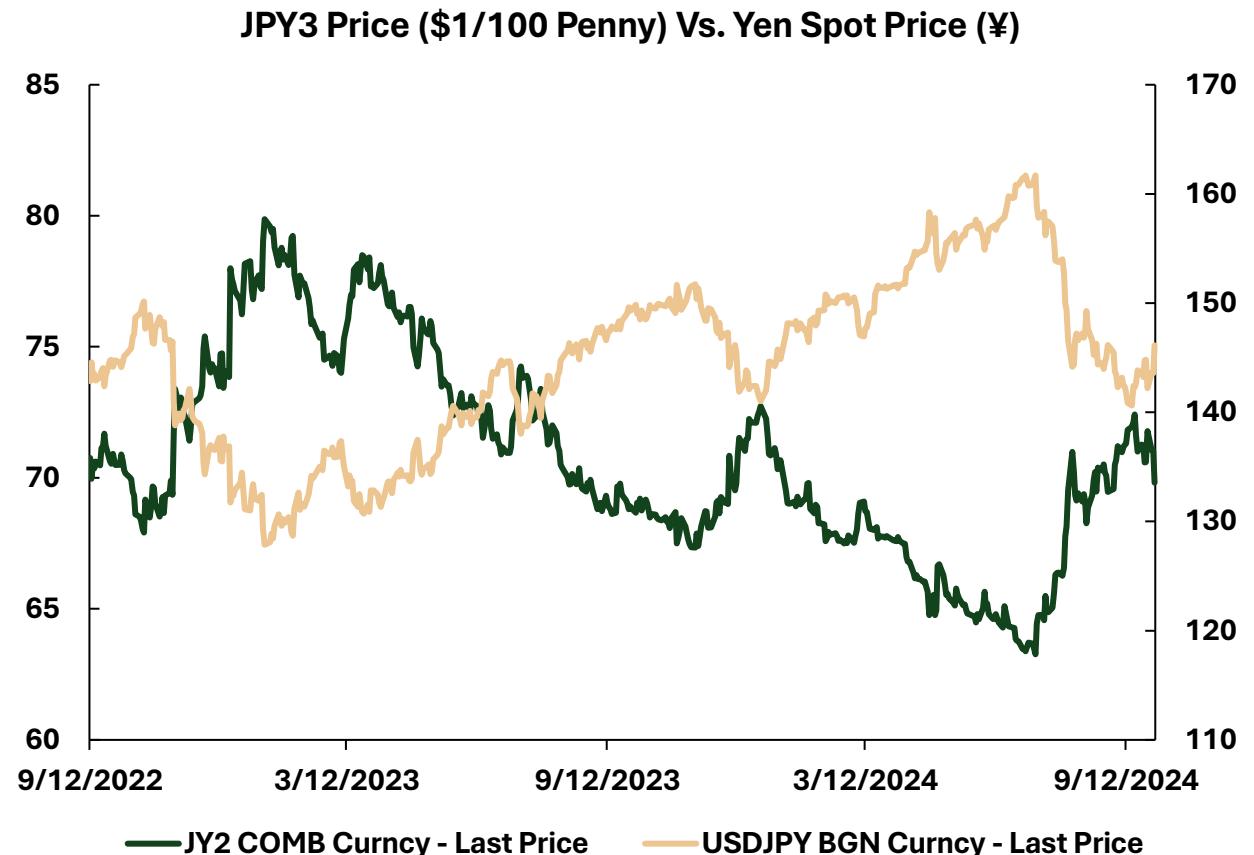
Carry Trade Arbitrage

Carry Trade Arbitrage

- Takes advantage of the interest rate difference between two currencies
- Borrow in low interest rate currency and convert the funds into a currency with a higher interest rate and invest in high-yield assets
- Arbitrage trader needs two different brokers who have slightly different bid/ask prices for the trade to be profitable
 - The current Fed funds rate is 4.75%-5.00%
 - Another 50bps cut is predicted to happen by the end of the year
 - BOJ rates are at 0.25%
 - Predicted to be around 0.5% in 2025

Role of Carry Trades in the Play

- \$350 billion invested in assets under the strictest definition of carry trade
- Currency futures and forwards can be for leverage
- Sensitive to central bank news
 - Fed rate cut of 50 bps
 - BOJ increase of 25 bps
 - Yen drove up 13% MoM July – August 2024

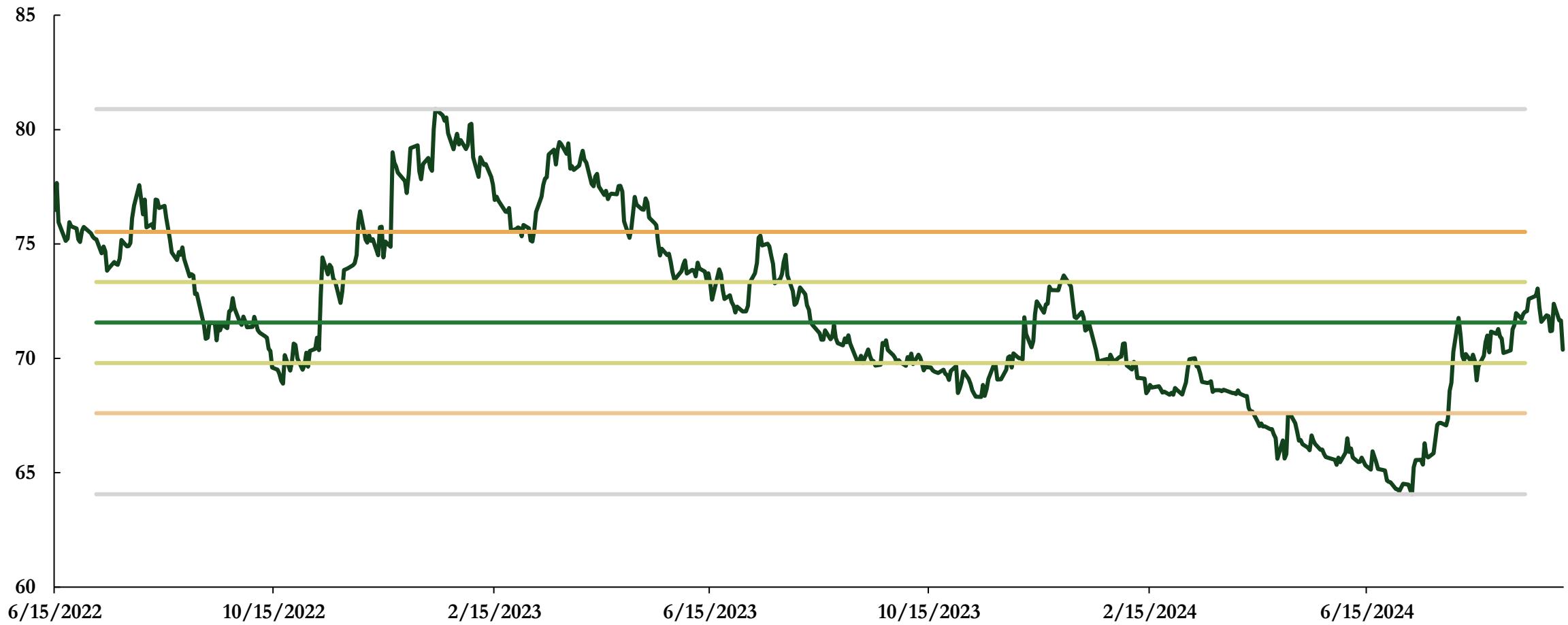


Volatility Drag

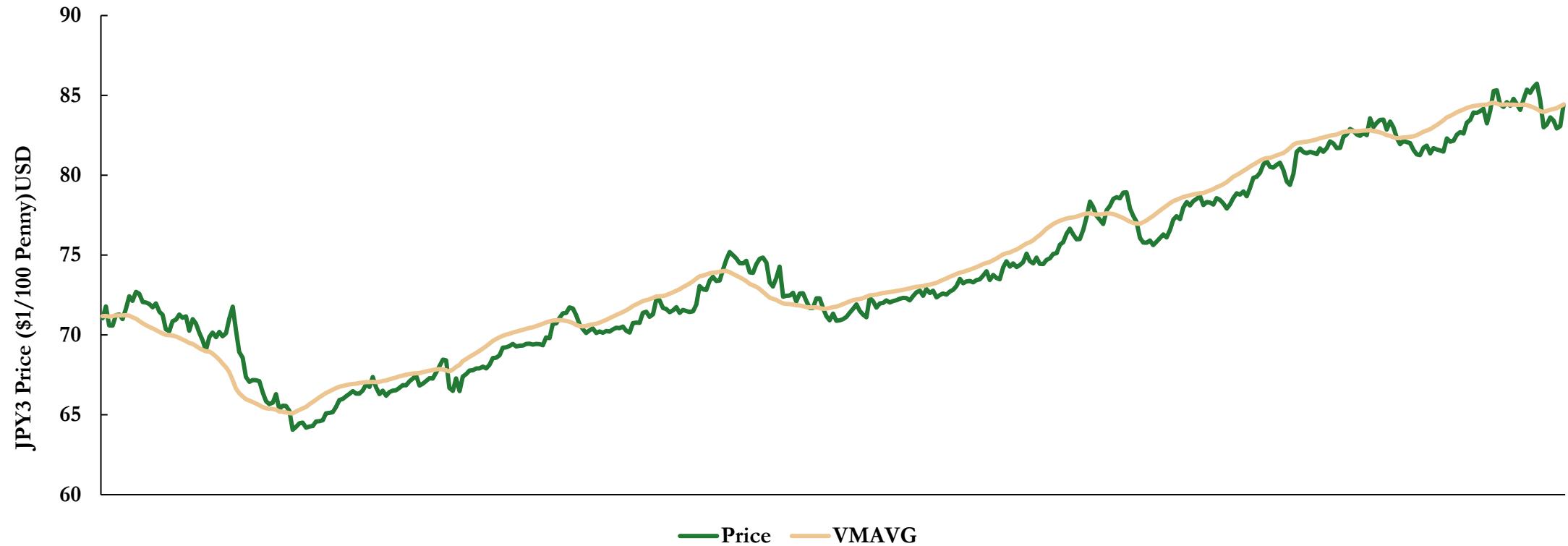
- The difference between an asset's average return and its compound growth rate
- Investment returns are reduced due to the fluctuations in asset prices
- Factors Contributing
 - Market Fluctuations
 - Asset Class Variability
 - Investor Behavior
 - Tracking error
- Example: If a stock drops 20% from \$100 to \$80 per share, and then increases 20% to \$96, the stock would need to increase by 25% to break even

Technical Indicators

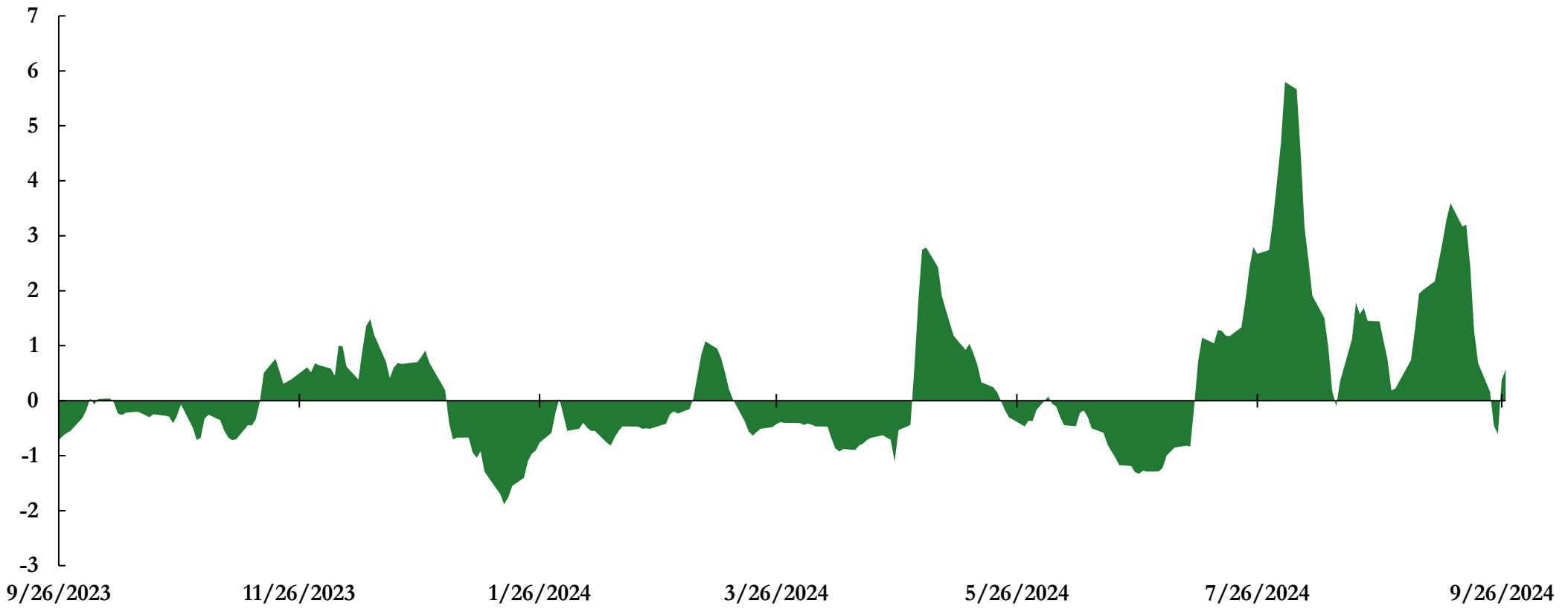
Fibonacci Retracements JPY3 Price (\$1/100 Penny)



Variable Moving Average



Fear & Greed Index



Position Overview

Future Contracts and Their Uses

- Futures contracts are exchange-traded agreements between parties to have a sale of an underlying asset at an agreed-upon price and date
- Futures are used for hedging and speculation of commodities, currencies, interest rates, energy, precious metals, and stock indices
- The buyer of a futures contract is taking on the obligation to buy the underlying asset when the futures contract expires
- The seller of the futures contract is taking on the obligation to provide the underlying asset at the expiration date

Currency Futures

- Futures where the underlying asset is a given currency
- Seller receives currency of their choice and must provide the underlying currency at expiration
- Buyer pays currency of seller's choice and will receive underlying currency at expiration
- The margin to keep the future open is in the underlying currency
- Currency futures are leveraged positions in underlying currency and move a great deal as exchange rates change
- Currency exchange rates are affected by interest rates, inflation rates, debt, import-export balances, and deficits

Interest Rate Parity

- Fundamental equation that governs the relationship between interest rates and currency exchange rates
- Used to predict future exchange rates, though criticized
- Covered – Takes arbitrage into account and will be slightly higher than uncovered. If you borrow from a bank or currency exchange, they will use this rate when using interest
- Uncovered – Does not take arbitrage into account, just interest rate, this is used to predict future spot prices
- Example: $F = S \left(1 + I_j / 1 + I_{US}\right)$, $F = .00706(1.0025 / 1.0475)$ $F = .00676$ Y/1 USD.

Yen Future Specs

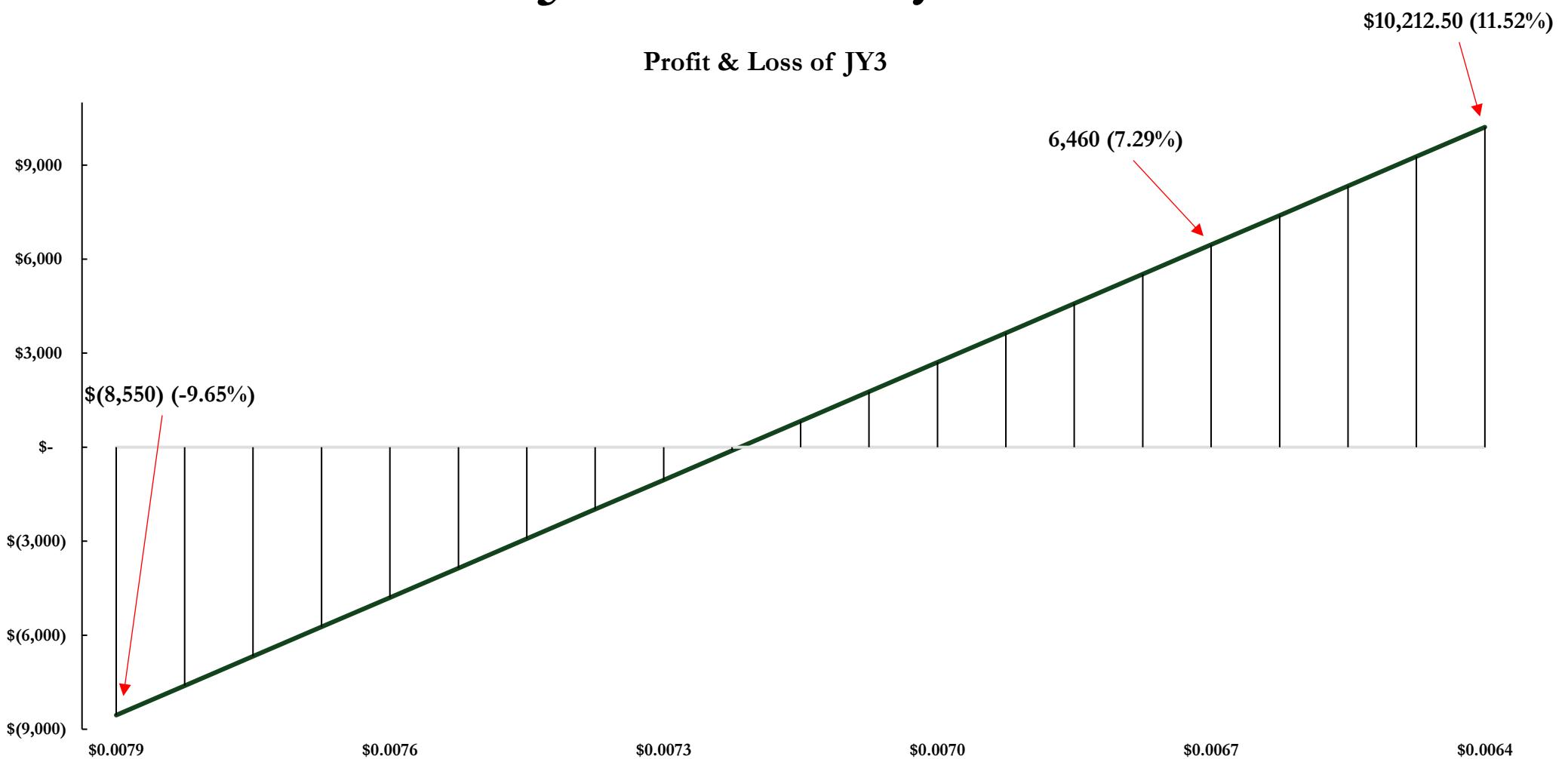
JY3 COMB Currency – Japanese Yen

- Contract Unit – 12,500,000 Yen
 - Priced in cents per Yen
- Price Per Yen – \$0.00709 or 0.709 cents
- Total Contract Value - \$88,625
- Minimum Margin: \$2,450
- The price per Yen would have to fall to 30% collectively from start

Market Contact Information

- Spot Yen Price – 145.39 Yen/USD or \$0.00688/Yen
- Open Interest – 696
- Total Volume – 8
- YTD Price: 1.21%
- Cash Settled

Profit & Loss of JY3 Curncy



Margin Model – Margin Call Scenario

JY3 COMB Curncy					
Day	Price per (Yen/USD)	Futures Price	Gain/Loss	Margin Account Balance	Margin Call
October	0.00709	\$ 88,625.00		\$26,587.50	
November	0.0065	\$ 81,250.00	\$ (7,375.00)	\$19,212.50	
December	0.0057	\$ 71,250.00	\$ (10,000.00)	\$9,212.50	\$ -
January	0.006	\$ 75,000.00	\$ 3,750.00	\$12,962.50	\$ -
February	0.005	\$ 62,500.00	\$ (12,500.00)	\$462.50	\$1,988.00
March	0.0057	\$ 71,250.00	\$ 8,750.00	\$11,200.50	\$ -
April	0.0063	\$ 78,750.00	\$ 7,500.00	\$18,700.50	\$ -
May	0.007	\$ 87,500.00	\$ 8,750.00	\$27,450.50	\$ -
June	0.0071	\$ 88,750.00	\$ 1,250.00	\$28,700.50	\$ -
Contracts	1	Contract Size	\$ 12,500,000		
Maintenance	\$2,450	Orginal Price	\$0.00709		
Gain	\$ 125.00	Initial %	30%		

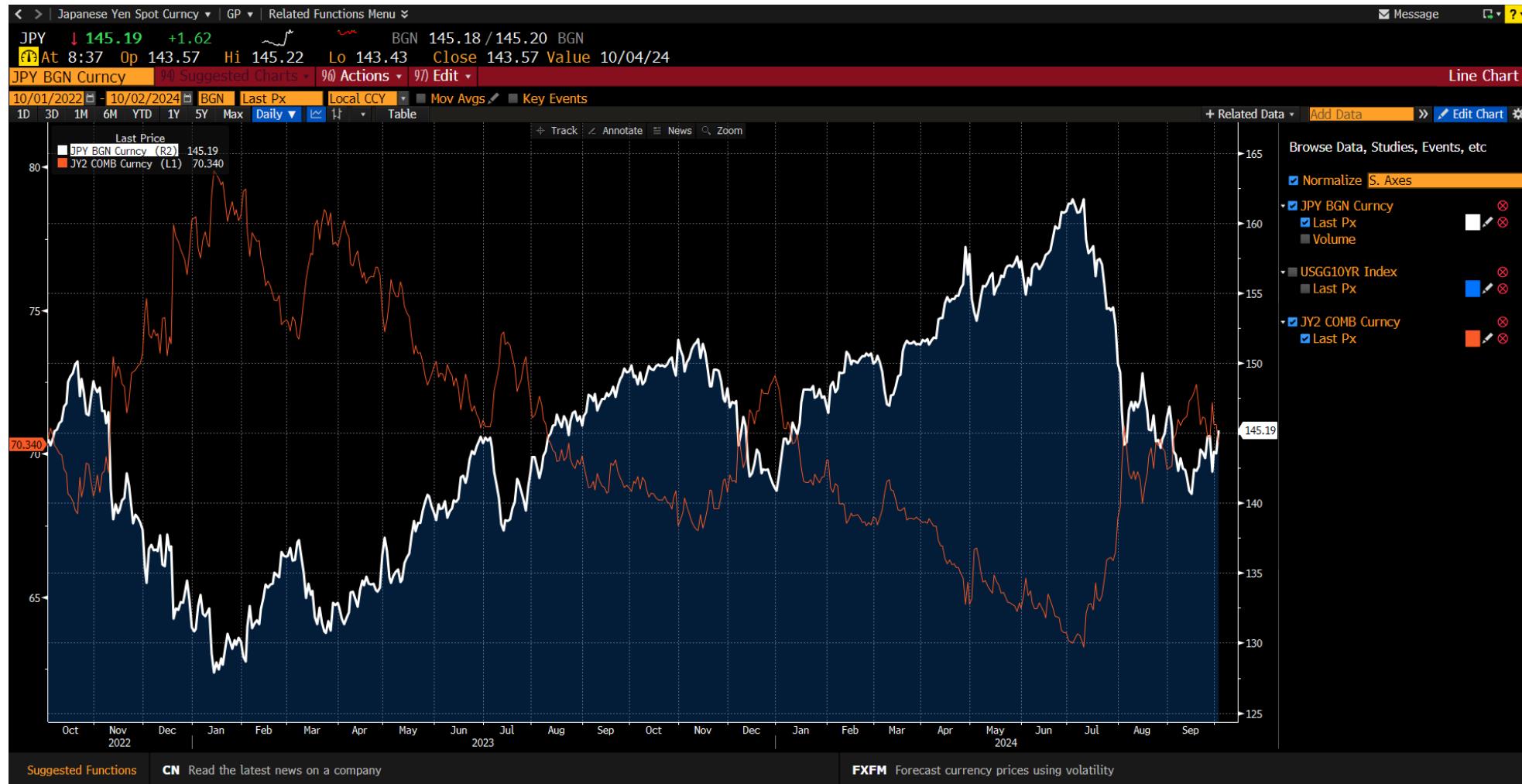
Margin Model – Expected Scenario

Appendix

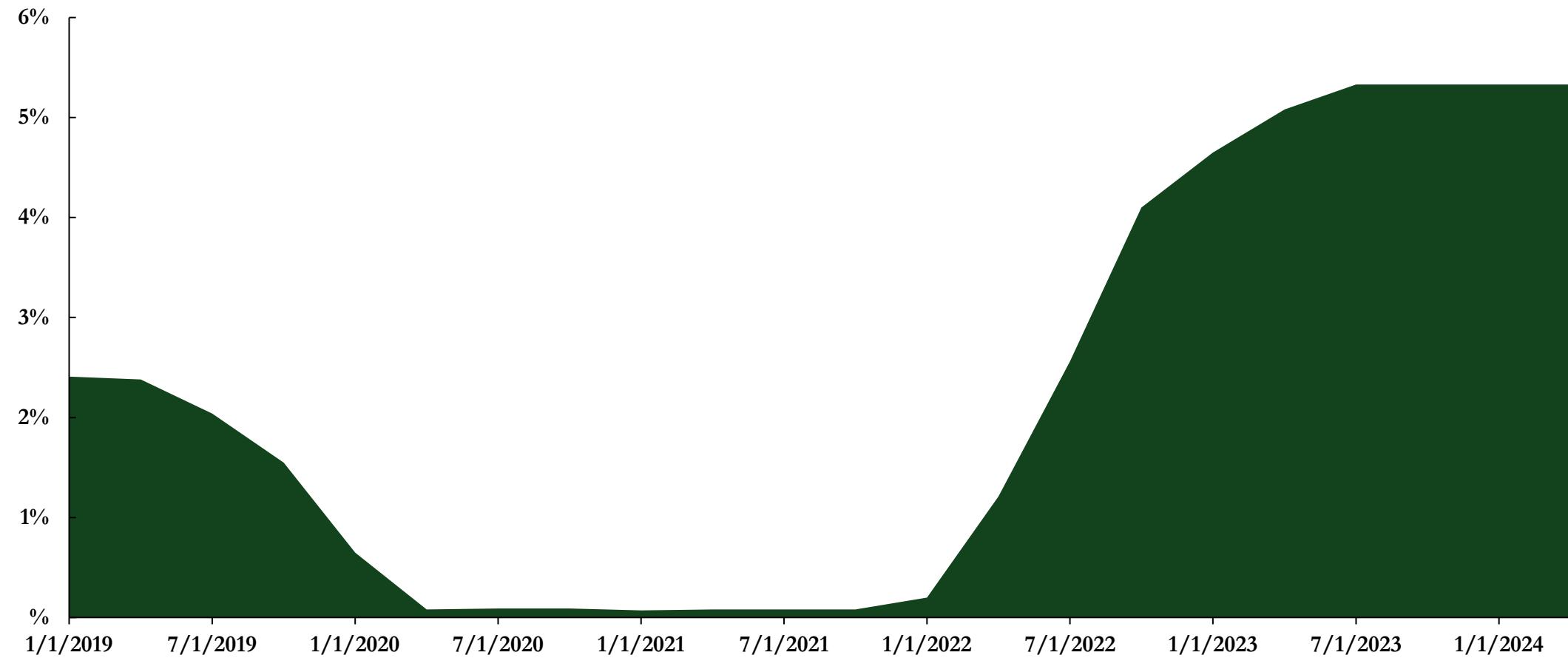
USD/Yen Spot



USD/Yen Spot vs. JY3 Futures



Interest Rates and Price Indexes



USD/Yen Spot – JY3 Futures Correlation

The screenshot shows a financial software interface with a dark theme. At the top, there's a navigation bar with tabs like 'Japanese Yen Spot Curncy', 'CORR', and 'Related Functions Menu'. Below the navigation bar is a toolbar with buttons for 'Edit', 'Actions', 'Add Matrix Shortcut', and 'Settings'. The main area displays a 'Correlation Matrix (2 Rows x 2 Columns)' for 'Security' pairs. The matrix shows the following values:

	JY2	JPY
1) JY2	1.000	-0.934
2) JPY	-0.934	1.000

At the bottom of the interface, there's a note about color bands for statistical significance and links to 'Suggested Functions', 'WCRS', 'FXFA', and 'DMG'.

(Color Bands Based on Statistical Significance: Most Significant, Significant, Less Significant, Least Significant)
Click on a security to view more options, or on a matrix value to view correlation and scatter charts.

Suggested Functions WCRS Rank current & historical FX rates FXFA Get implied yields from FX forwards DMG

JY3 Futures Volume

Generic 3rd 'JY' Future Curncy | VWAP | Related Functions Menu | Message | ?

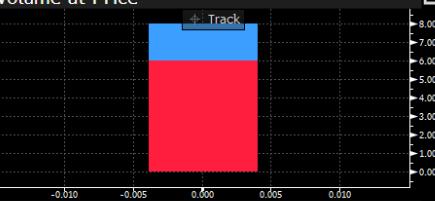
JY3 COMB Curncy Actions Export Settings | Price and Volume Dashboard

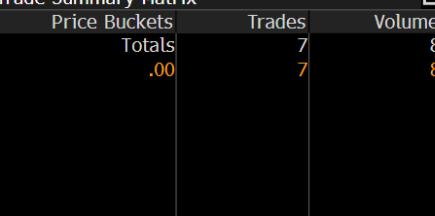
21:15 10/01/24 - Price Filter Calculation Bloomberg (Combined) □
17:29 10/02/24 - Vol Filter Amount @ Part% □

Calculation VWAP Volume Value Traded Trades Avg Size Std Dev

Bloomberg (Combined) d 71.1787 8 569.43 7 1 0.287476
Custom d 71.1787 8 569.43 7 1 0.287476

1) Summary 2) Top Trades (AQR) 3) Volume at Price (VAP) 4) Trade Summary Matrix (TSM)
10) Market Overview 11) By Trade Side

Volume at Price  Transaction Cost Analysis
Avg Exec Px 70.900 Amount Buy □
Benchmark Price CPS BPS
Arrival 71.6725 0.77 107.8
VWAP 71.1787 0.28 39.2
PWP 20% .0000 -70.90 0.0
TWAP 1 sec 71.4100 0.51 71.4
Day VWAP 71.1787 0.28 39.2
Prev Close 71.6550 0.75 105.4

Top Trades 
Trade Summary Matrix 

Date	Time	Volume	Price	Exch
10/02	08:16:50	2	71.000	↓
10/01	21:15:28	1	71.655	
10/02	03:10:04	1	71.520	↑
10/01	23:42:06	1	71.450	↓
10/02	08:32:24	1	70.965	↓
	08:33:22	1	70.940	↓
	08:40:54	1	70.900	↓

Price Buckets	Trades	Volume
Totals	7	8
.00	7	8

Suggested Functions GP Chart securities & technical studies HP Analyze a security's historical prices

Japan loan rates

- Uncollateralized Overnight Call Rate: As of September 30, 2024, the average is **0.225%**
- Interest Rate Applied to the Complementary Deposit Facility: As of August 1, 2024, this rate is **0.25%**
- Basic Loan Rate: As of August 1, 2024, this rate is **0.5%**
- Deposit Interest Rate: As of August 2024, this rate is **0.03%**, which is an all-time high
- Japan 10 Year Government Bond Interest Rate: As of September 30, 2024, this rate is **0.89%**
- Japan 5 Year Government Bond Interest Rate: As of September 30, 2024, this rate is **0.47%**
- Japan Bank Lending Rate: As of August 2024, this rate is **1.475%**