

Structured Product Overview - 19th October 2009

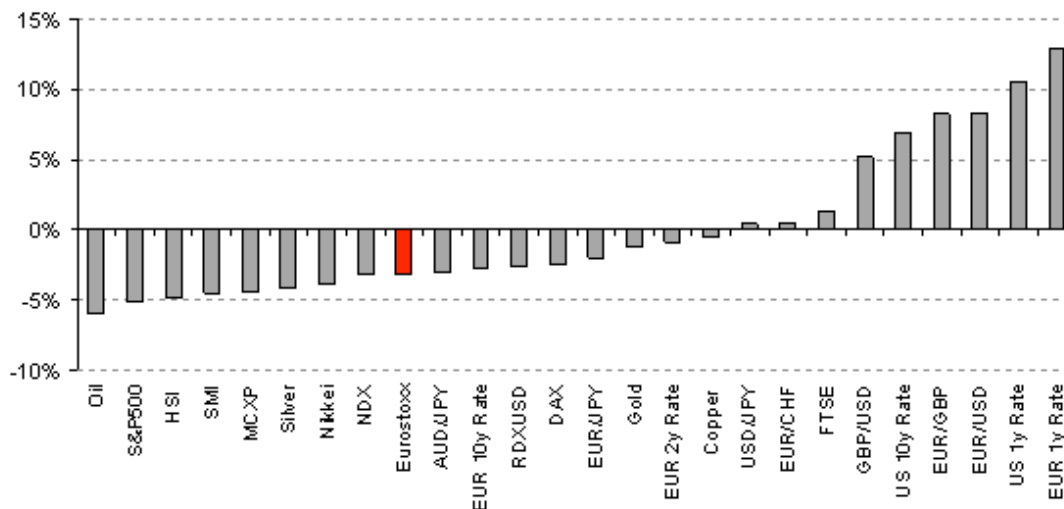
Summary

This week we cover: market colour, recent trade / price highlights, Currencies (EM/Asia vs. USD), inflation, the commodity interest revival and pricing summary

Selected Market Movements

Indicator	Market	Level 9 Oct 09	Level 16 Oct 09	% Weekly Change
Price	FTSE	5161.87	5190.24	0.55%
Price	EuroStoxx 50	2882.18	2893.53	0.39%
Price	S&P 500	1071.49	1087.68	1.51%
3 Year Implied Vol	FTSE	23.82%	23.72%	-0.10%
3 Year Implied Vol	EuroStoxx 50	25.29%	24.72%	-0.57%
3 Year Implied Vol	S&P 500	25.79%	24.86%	-0.93%
3 Year Swap Rates	GBP	2.46%	2.55%	0.09%
3 Year Swap Rates	EUR	2.19%	2.27%	0.08%
3 Year Swap Rates	USD	1.92%	1.95%	0.03%
Inv Grade Credit	iTraxx Europe	0.91%	0.86%	-0.05%

Change on week for 3m ATM implieds (% change from initial level, not vol point change)



Recent Trades / Pricing Highlights

- **JPM Defensive FTSE Auto-Call (8%)** - 6yr max term, 60% KI (European), and auto-call barrier at 100% years 1-4 then fall to 67% of the strike in year 5 and then 60% in year 6. Potentially trading this week
- **Income** - the Citi "short notice" trade went in 30 minutes so thanks for the great response and for those of you who missed out, you could consider either buying this exact trade at 99p (that slug sold at 95p as it was hedged in May), or a new income product with: 5 year maturity, 60% KI (European) and an unconditional coupon of 8% (Nomura) and 7% (Citi) paid annual, semi or quarterly
- **Synthetic ZDP's** - all as above though rolled up and taxed to capital. To increase the returns you could consider using a reservoir put at 70% would get you -150p at maturity

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Currencies - EM and Asia v USD

After speaking to clients about Asian equity baskets it became clear many clients believe EM/Asia currencies will appreciate against the USD and GBP, among others. I guess the current weakness of both, along with talk of them becoming the new funding currencies for the carry trade, has made this view feel very real. This coincided with a recent feature in the economist, which concluded Asian currencies, in particular, appear to be undervalued, according to the Big Mac Index. With this in mind, we approached HSBC for some pricing:

HSBC Bank plc-issued note
Term: 3 years
GBP Quanto

- A) 95% Capital Protected Note - 95% protected via ZCB and long ATM call on basket vs. USD
- B) 70% Capital Protected Note - short 1 x 100/70% put spread and long ATM call on basket vs. USD

Underlying

Equally weighted basket of BRIC currencies vs. USD - A) Participation = 270%, B) Participation = 450%

Equally weighted basket of HKD, KRW, MYR* vs. USD - A) Participation = 273%, B) Participation = 288%

* KRW was included as view appears to be that's is most probable to raise rates soon and is already one of the best yield Asian currencies. HKD was for diversification and Malaysian Ringgit for risk/return profile.

We're very happy to discuss iterations so please call for more information.

Commodity Interest Revival

We're in the process of pricing a number of diversified commodity baskets though oil and gold continue to generate most specific interest, so here are two examples:

- **Capital Protected Gold Call Spread (Nomura)** - GBP, 100% protected, 300% participation in a 100/117 call spread so maximum return of 151p per note
- **Oil Auto-Call (JPM)** - JPCXCLER Index (invests in contract with most open interest), GBP, 55% KI (European), auto-call from yr 3 at 90% of strike with annual coupon of 9.8% p.a

Inflation

We had a number of requests about this in GBP which we'll have shortly.

Inflation Linked Note (Nomura) - EUR, 100% protection, 5yrs and each year a coupon that is the greater of 4% or YoY inflation



Pricing Summary

We hope to make this slighter broader and slicker as the weeks progress, but for this week here goes:

All FTSE, 5 year, in GBP with 100% issue price:

100% Capital Protected, Participation = 85%

50% Soft Protection (European), Participation = 155%

Standard Auto-Call with 50% Soft Protection = 10-10.5%

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