

Trade Write-Up

US Swap 1
Long 2 Month Receiver on 1 Year US Swaps w/ Knock Out

January 23, 2014
Majors Fixed Income

Fundamental Rationale: Perhaps the highest consensus view in global macro these days is that the front end of the US rate curve is likely to remain unchanged for at least the next couple of months. I see no reason to disagree with this view. This trade is designed to benefit if the range that has held in the 1 year US swaps for the past 15 months, continues. During that period, this trade would have been profitable 100% of the time. In fact, even going all the way back to October 2010 (826 data points), this trade would have been profitable 90% of the time, with the worst result being a loss of half the premium paid (see Supporting Charts below).

Since Oct 1, 2010	% Return
Highest	0.82%
Median	0.43%
Average	0.37%
Lowest	-0.64%
Percentage of Time Profitable	90.00%
Average Win	0.44%
Average Loss	-0.21%
Maximum Capital at Risk	-1.27%
Rtn if Swap Rate Unchanged at Expiry	0.73%

Risk Factors: Something catastrophic in global markets could potentially push the 1 year rate down through the lows and trigger the lower barrier. On the opposite side, divergence from my expectations could also occur if inflation begins to print higher, thereby pushing rates higher. That's why we've built in the buffer all the way to 55bps on the topside breakeven.

Trade Details

Trade Date	Expiration		Instrument	Option Type
January 23, 2014	March 24, 2014		1 Year US Swaps	RKO
R/P	Strike		Lower Barrier	Upper Barrier
Receiver	1.00%		0.25%	N/A
Spot	Forward	Implied Vol	Price	CaR as % AuM
0.2975			0.45%	1.27%%

Reassessment Triggers	Expectations
<ol style="list-style-type: none"> 1. Expiration 2. 0.25 Barrier is Triggered 	Spot - Unchanged

Options 101

What is a Reverse Knock-Out (RKO)? A Knock-Out option is a plain vanilla option with the addition of a Knock-Out Barrier, either above or below the original spot level. The option is considered to be a “Reverse” Knock-Out if the barrier is located at a point where the option is In-the-Money. If spot trades at the barrier level prior to expiration, the option immediately ceases to exist and all premium paid is lost. If the barrier is not triggered prior to expiration, the option is treated exactly as the plain vanilla option would be on the expiration date.

Post Mortem Analysis

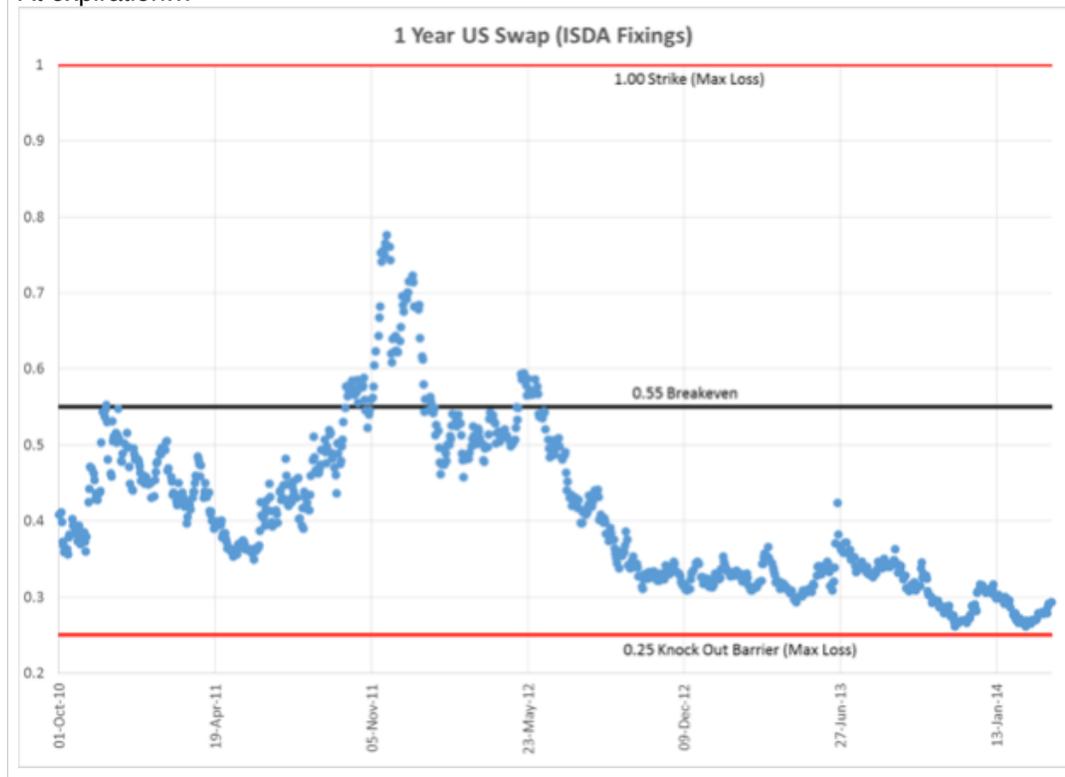
Reason for Position Adjustment

The Swaption expired March 24, 2014. With the 1 year swap fixing at .2930, or .0045 lower than when the trade was initiated, the result was a +72 basis point gross return to the Bija Global Macro Fund after 2 months in the trade.

Spot	Points	Forward	Implied Vol	Price
0.2930			0.70%	0.72%

Supporting Charts

At expiration...



Bija Advisors LLCWeb: BijaAdvisorsLLC.comEmail: info@bijaadvisorsllc.comTwitter: [@BijaSeeds](https://twitter.com/BijaSeeds)

Phone: 805 452 9429

In publishing research, Bija Advisors LLC is not soliciting any action based upon it. Bija Advisors LLC's publications contain material based upon publicly available information, obtained from sources that we consider reliable. However, Bija Advisors LLC does not represent that it is accurate and it should not be relied on as such. Opinions expressed are current opinions as of the date appearing on Bija Advisors LLC's publications only. All forecasts and statements about the future, even if presented as fact, should be treated as judgments, and neither Bija Advisors LLC nor its partners can be held responsible for any failure of those judgments to prove accurate. It should be assumed that, from time to time, Bija Advisors LLC and its partners will hold investments in securities and other positions, in equity, bond, currency and commodities markets, from which they will benefit if the forecasts and judgments about the future presented in this document do prove to be accurate. Bija Advisors LLC is not liable for any loss or damage resulting from the use of its product.