

November 2018 Newsletter

Dear Investor,

The Global Volatility Summit (“GVS”) brings together volatility and tail hedge managers, institutional investors, thought-provoking speakers, and other industry experts to discuss the volatility markets and the roles volatility strategies can play in institutional investment portfolios. The GVS aims to keep investors updated on the volatility markets throughout the year, and educated on innovations within the space.

Societe Generale has provided the latest piece in the GVS newsletter series.

Cheers,
Global Volatility Summit

Event

The tenth annual Global Volatility Summit (“GVS”) is scheduled for Wednesday, March 13th, 2019 at Chelsea Piers in New York City. This year’s event will feature fresh panel topics, manager discussions, keynote speakers, and a new US Politics panel. Space is limited, so we encourage you to register as soon as possible.

2018 Event Recap

The 9th Annual Global Volatility Summit was held on March 14, 2018 at Chelsea Piers in New York City. 14 hedge fund managers were joined by senior professionals from hedge fund consultants, the institutional investor community, and leaders in the industry to discuss volatility, tail hedging, macro and quant strategies within the investment context. Three keynote speakers, Lance Armstrong, David Gallo, and Ryan Holiday temporarily drove the conversation away from the central content to speak to volatility across other contexts including athletic competition and underwater astonishments. The event hosted the first-ever GVS Think Tank Panel, which featured three industry experts across East Asia policy studies, macro quantitative and derivatives strategies, and US politics. Among these panelists included Ryan Hass, Marko Kolanovic, and Demetri Sevastopulo.

2018 Manager Participants

36 South Capital Advisors
Argentièrè Capital
Artemis Capital Management
BlueMountain Capital
Capstone Investment Advisors
Capula Investment Management
Dominicé & Co

III Capital Management
Ionic Capital Management
JD Capital
Man AHL
Parallax Investment Advisors
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GLOBAL MARKETS

ASIAN RETAIL STRUCTURED PRODUCT OVERVIEW

UPDATE FOR THE MONTH OF SEPTEMBER 2018

FLOW STRATEGY & SOLUTIONS

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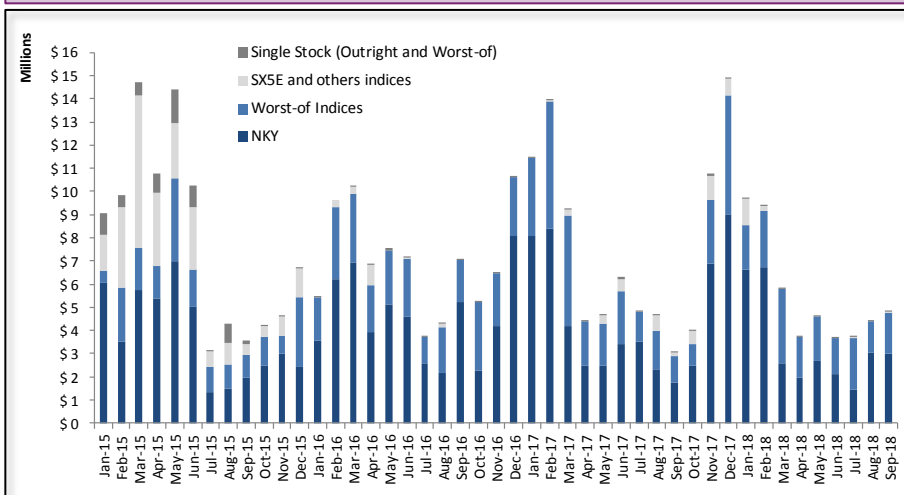
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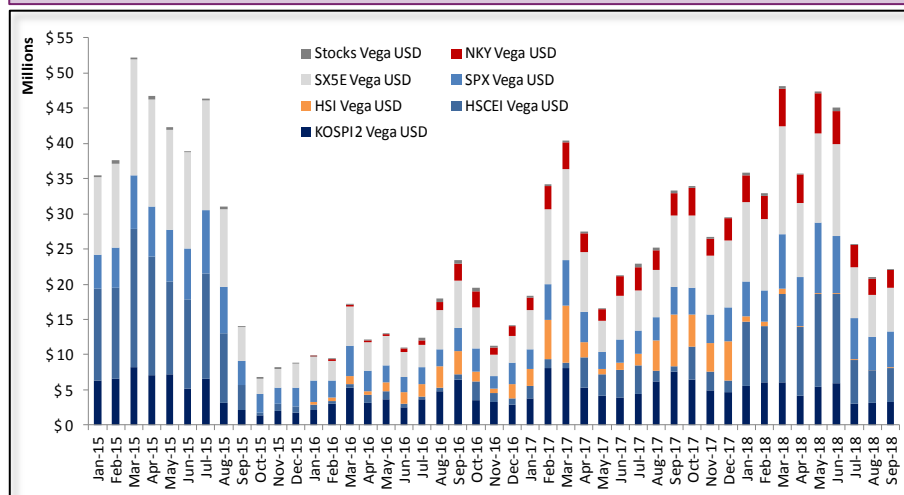
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ASIAN STRUCTURED PRODUCT – HISTORICAL JAPAN AND KOREA ISSUANCES

Issuance of Japanese Uridashi's



Issuance of Korean Autocall



JAPAN

- ✓ September recorded a combined print of approximately USD 4.8 mln Vega on Japanese Uridashis, a slight but immaterial bump against the USD 4.4 mln observed last month.
- ✓ While the recent rally may have placed NKY beyond the 23k handle, issuance has remained largely muted for the month under limited Knocked-Outs (since Feb18) and unattractive coupon levels.
- ✓ *Consistent* NKY performance remains vital to facilitating re-issuance flows going forward. Current estimates reveal a high concentration of KO triggers at the vicinity of 23.5k – it is crucial that Spot maintains above this key level before stronger issuance can be observed in the months ahead.

KOREA

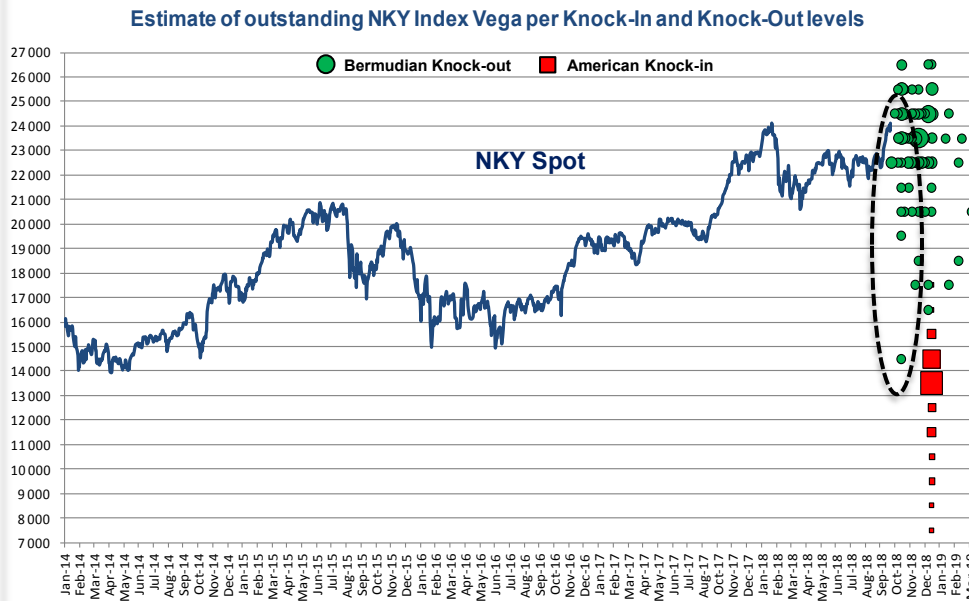
- ✓ Issuances from Korea came in at approximately USD 22 mln Vega, largely flat against the USD 21 mln Vega last month.
- ✓ The marked slowdown since July is a direct consequence of reduced Knock-Outs, with recent trade-tension-induced selloffs placing Spot (particularly on HSCEI) firmly below KO levels for many of the popular 'Worst-of' products. Meanwhile, the deterioration of onshore sentiment has also likely stemmed new fund inflow into the market.
- ✓ Under the absence of a material rebound, the scope for Knock-Outs and re-issuance going forward is limited.

Index	Avg. Maturity	Current Outstanding Nominal	Outstanding Vega	Outstanding Vega at Peak	Vanna at spot	Peak Range	Peak Vega Distance to Current Spot (%)
KOSPI2	2.96	16,239 (-96)	38 (-1.2)	94.13	-2.0	[210 ; 225]	-28%
HSCEI	3.01	35,805 (677)	151 (-4.8)	197.23	-3.7	[8260 ; 8810]	-23%
HSI	3.01	2,567 (-296)	9 (-1.1)	14.89	-0.3	[20840 ; 22230]	-23%
SPX	2.91	24,012 (376)	58 (2.4)	129.37	-2.3	[1900 ; 2050]	-32%
SX5E	2.97	39,022 (-209)	77 (-5.8)	218.86	-3.9	[2390 ; 2560]	-28%
NKY	2.99	15,170 (291)	28 (-2.8)	80.66	-1.3	[15760 ; 16970]	-33%

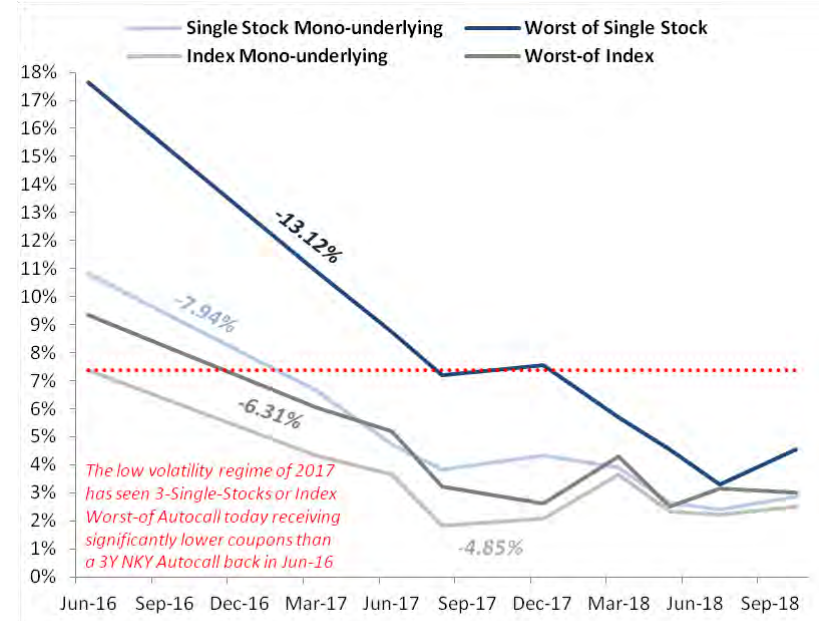
*Figures in USD Mln **Figures from Korea issuance

ASIAN STRUCTURED PRODUCT – JAPANESE AUTOCALL DYNAMICS

Nikkei Autocall Knock-In and Knock-Out levels for Public Offerings



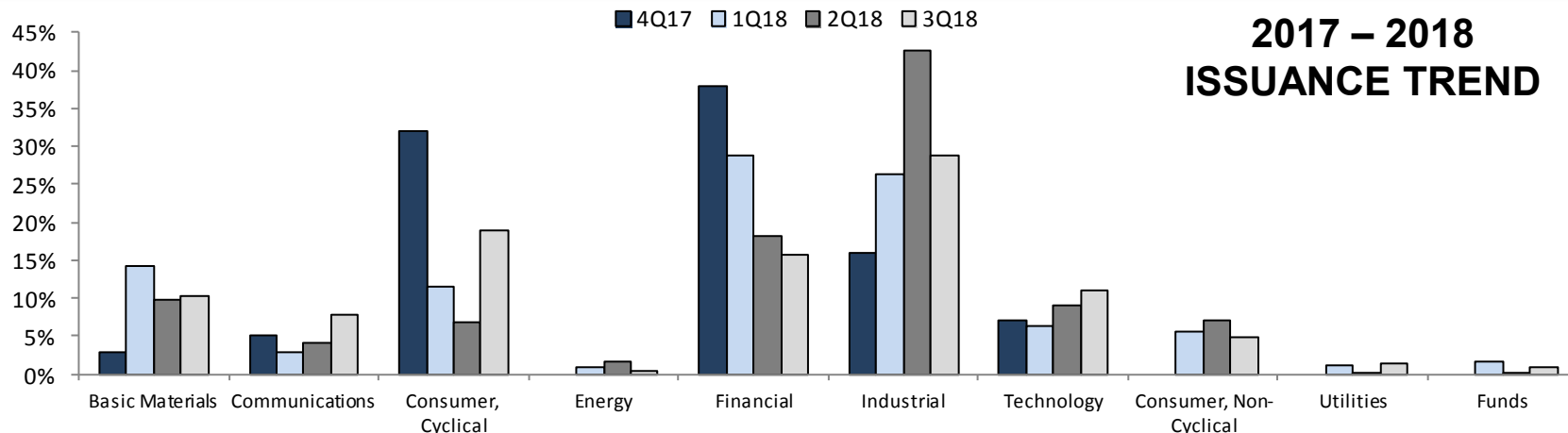
Coupon Levels for Different Autocalls Issued in Japan



- ✓ At current Spot levels, outstanding Vega stands at approximately USD 33 mln, a marked reduction from USD 52 mln Vega in September. The fall is primarily a function of Vanna and Vomma impacts following the rally, alongside a higher amount of product KOs.
- ✓ Should Spot maintain around the 23.5k range, we expect to see a figure of approximately USD 6 mln Vega worth of products Knocking-Out in October. Below the 23k handle however, that figure drastically falls to USD 1.8 mln Vega.
- ✓ Despite the more attractive coupons offered through Single Stocks, issuance in the Private market remained weak in Q3 as weak market sentiment and minimal KOs hindered issuance. US Tech names still remain popular (in proportion) from the continued shift in preference for foreign stocks.

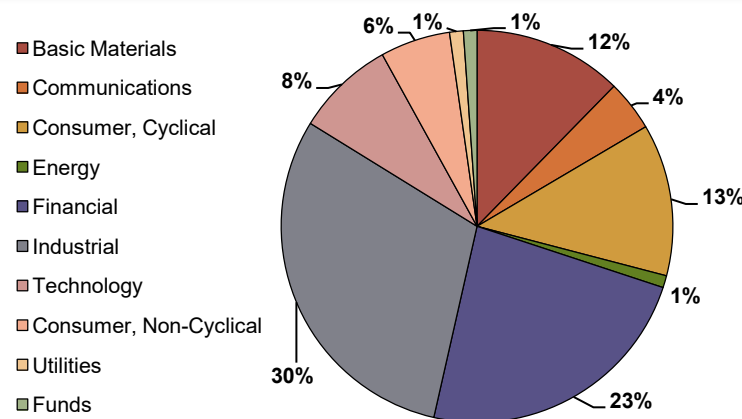
ASIAN STRUCTURED PRODUCT – JAPANESE AUTOCALL DYNAMICS

Breakdown of Issuance in Japanese Single Stocks

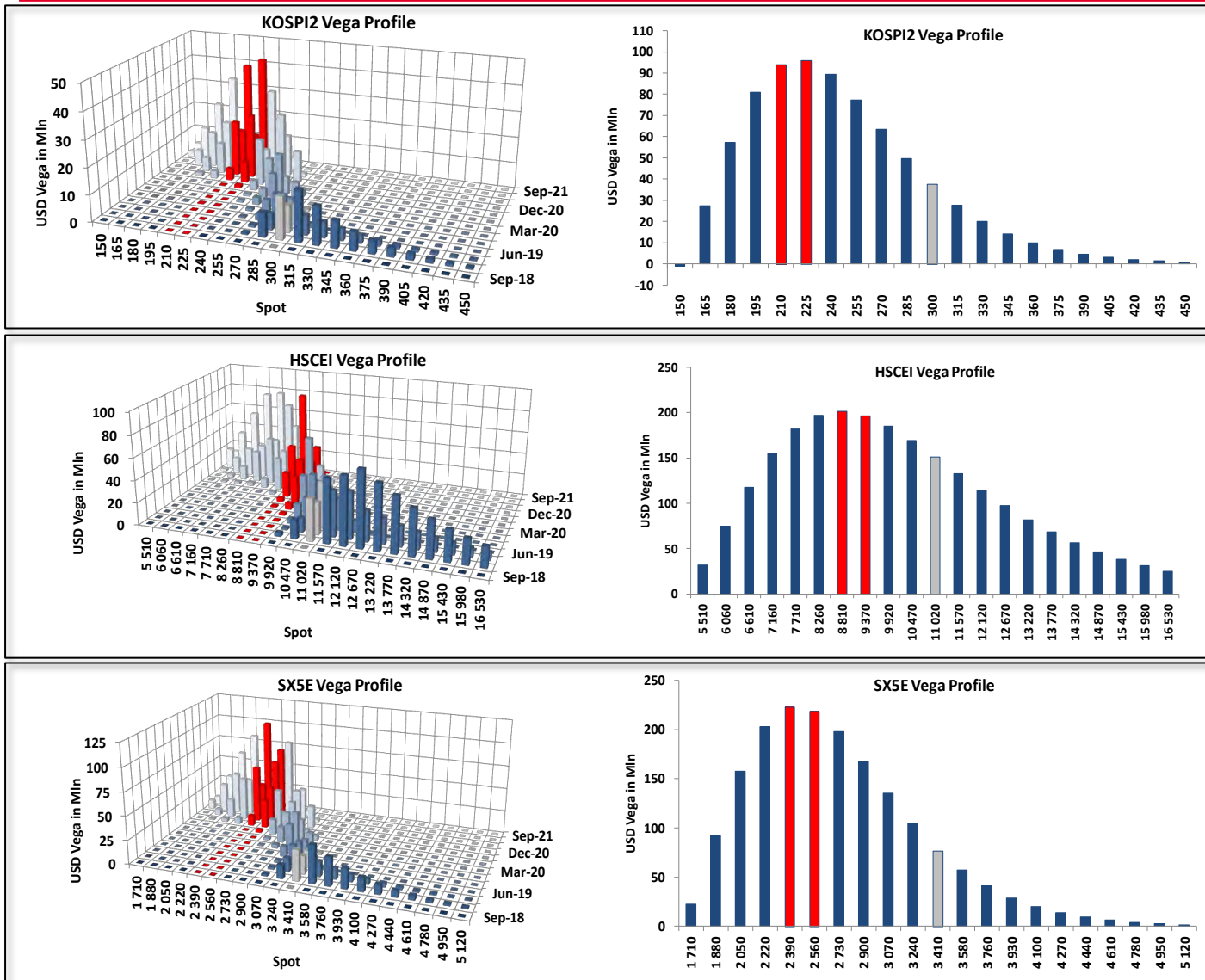


- ✓ Overall issuance in 3Q18 remains muted under poor Spot performance (i.e. low redemptions) and unappealing coupon levels.
- ✓ **Minimal sector rotation** – Issuance trends across all sectors were generally stable. An exception was Industrials which recorded the largest fall in market share as investor preference shifted away to Consumer Cyclical.
- ✓ YTD, Industrials and Financials combined represent approximately half of all issuances, followed by Consumer Cyclical, Basic Materials and Technology accounting for ~10% each, with the remaining share evenly spread across other sectors.

2018 YTD Total



ASIAN STRUCTURED PRODUCT – KOREAN ISSUANCE PRESENTED IN 2D & 3D...

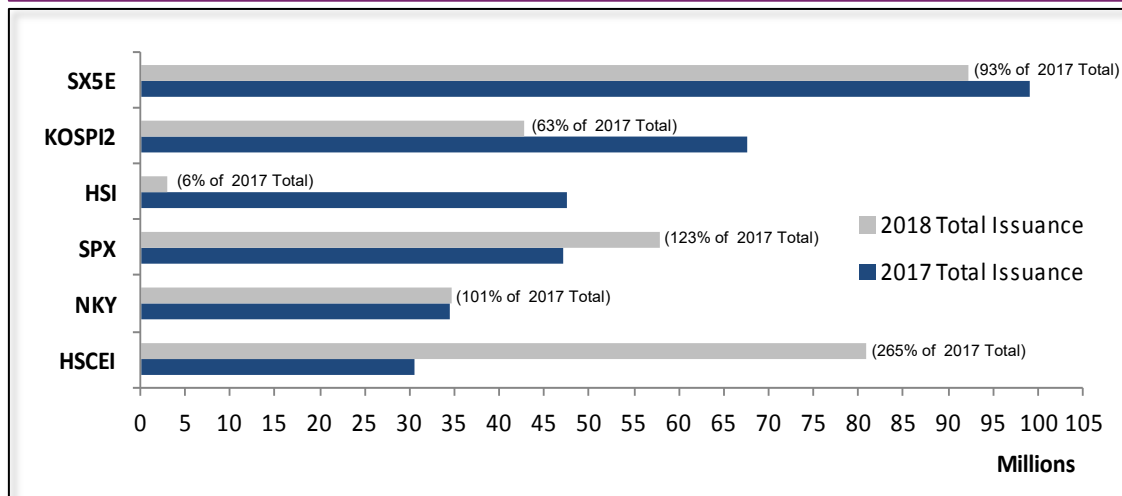


Key Takeaways:

- ✓ Peak Vega is approximately 20% away from current levels on HSCEI & HSI, and more than 30% away for all other indices.
- ✓ The largest indices by outstanding Vega are HSCEI, SX5E, SPX, KOSPI2, NKY and then HSI.
- ✓ Vanna (Vega change per 1% move in Spot) at current levels is roughly USD 4.0mIn for SX5E & HSCEI, 2.3mIn for SPX, 2.0mIn for KOSPI2, 1.3mIn NKY, and 0.3mIn for HSI.

ASIAN STRUCTURED PRODUCT – ROBUST 1H18 KOREAN ISSUANCE FACES STRUCTURAL AND REGULATORY CHALLENGES AHEAD

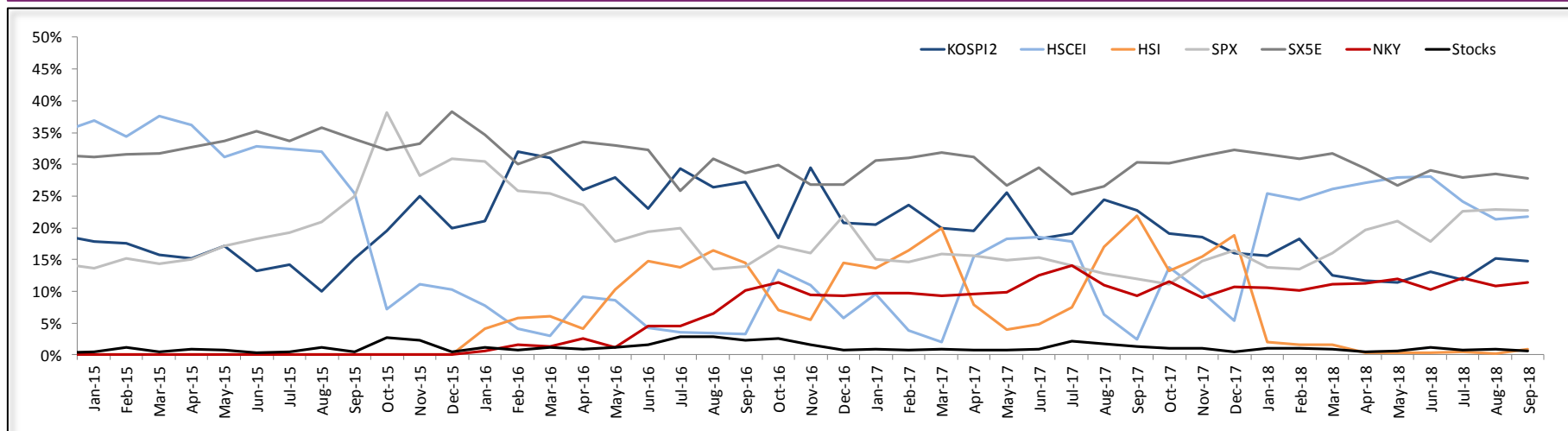
Korean Autocall Total issuance in Vega per underlying since Jan-18



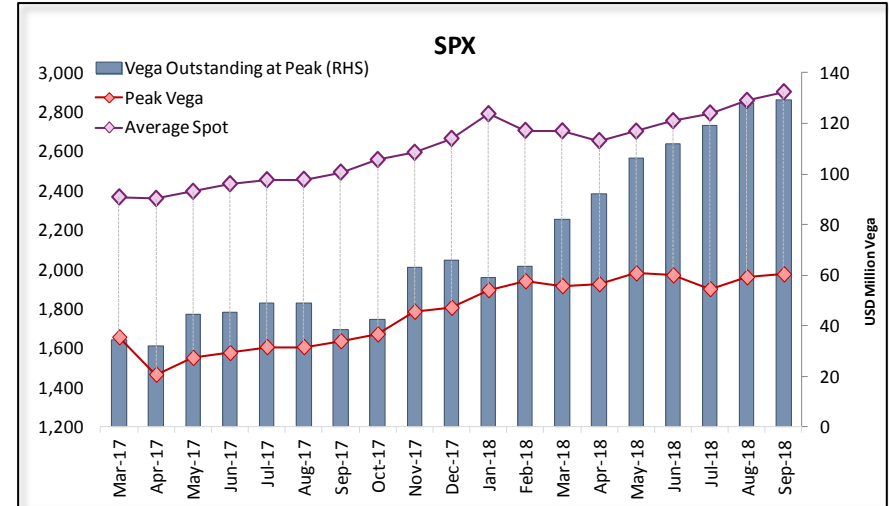
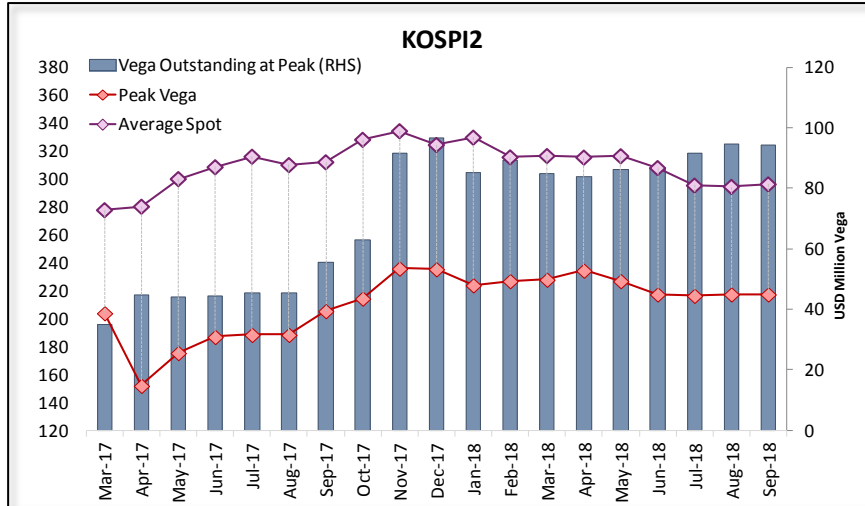
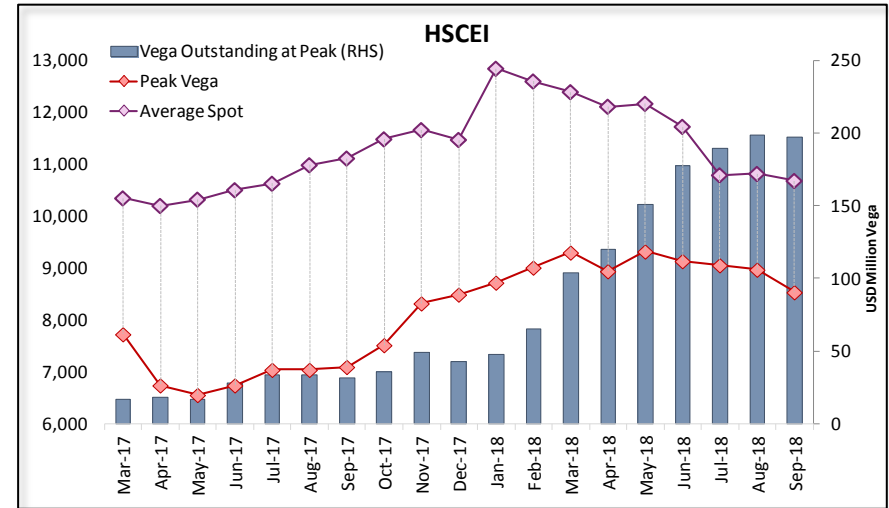
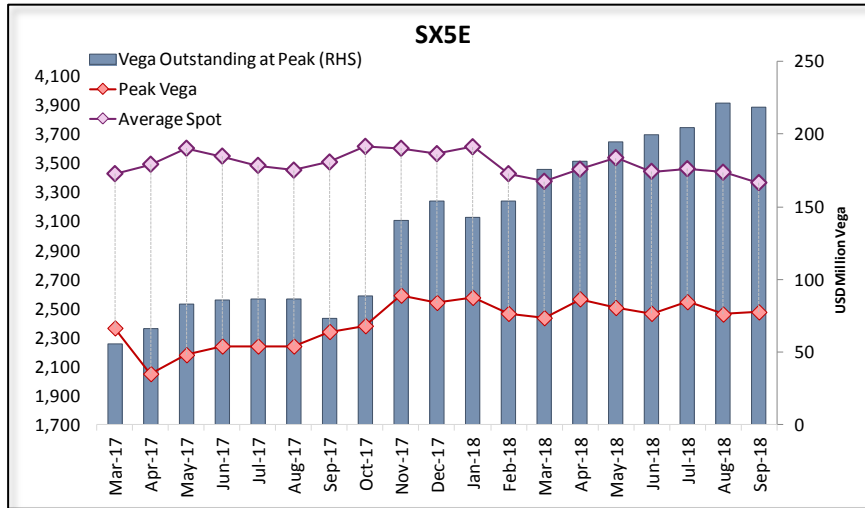
KOREAN Issuance Trend

- ✓ The abrupt halt on the stellar 1H18 Korean Structured Product issuance since July remains firmly in place. With HSCEI spot firmly below KO levels for most 'Worst-of' products and a likely deterioration of onshore sentiment, KOs and re-issuance is expected to slowdown in 2H18, barring a material rally in Equities.
- ✓ Further, whilst the abolishing of issuance caps in late Dec17 catalyzed a revival of HSCEI products (USD 81 mln Vega issued YTD vs USD 30 mln Vega for 2017), that trend could very well come to an end – Korean regulators have recently expressed concerns on the issuance concentration of HSCEI, highlighting market risks (Knock-ins) post the recent sell-off. The possibility of a **REINSTATEMENT** in HSCEI Issuance cap is now very real.

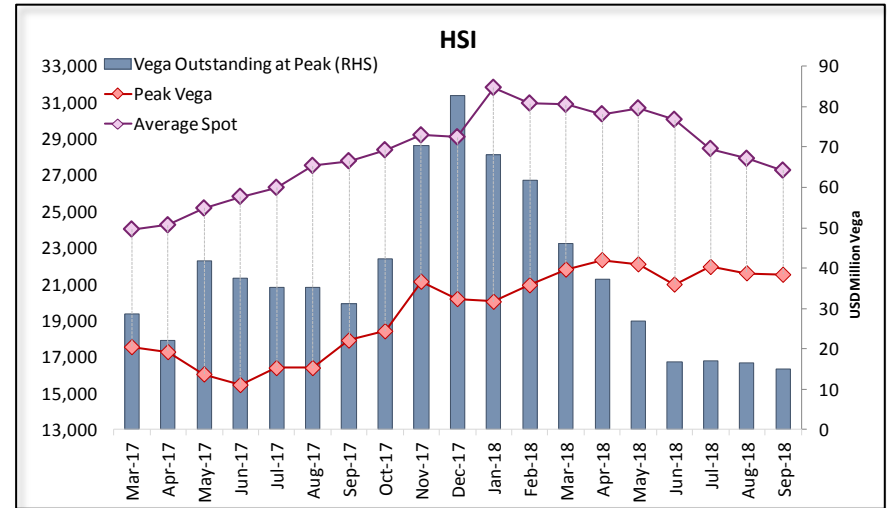
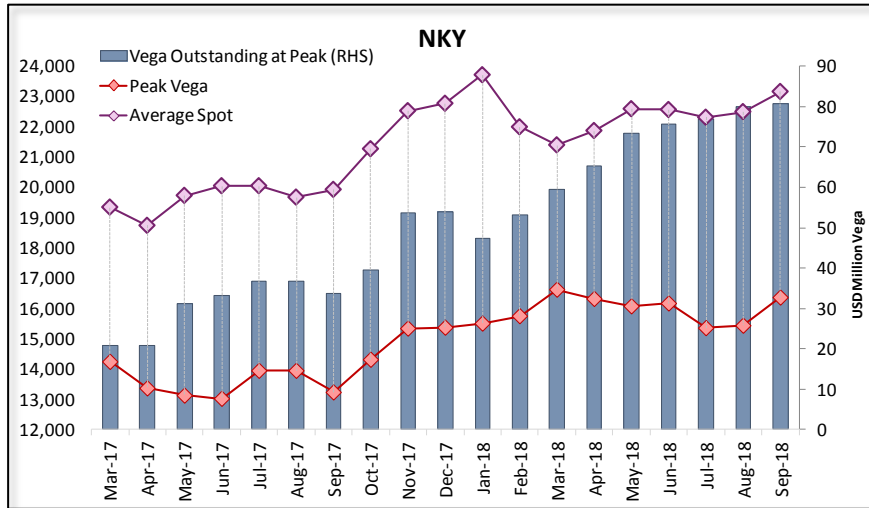
Korean Autocall Monthly Breakdown per underlying



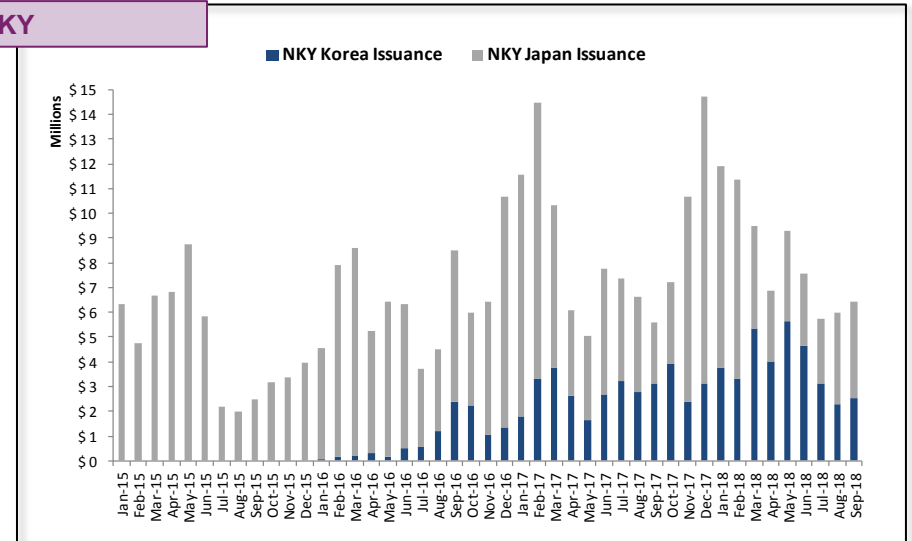
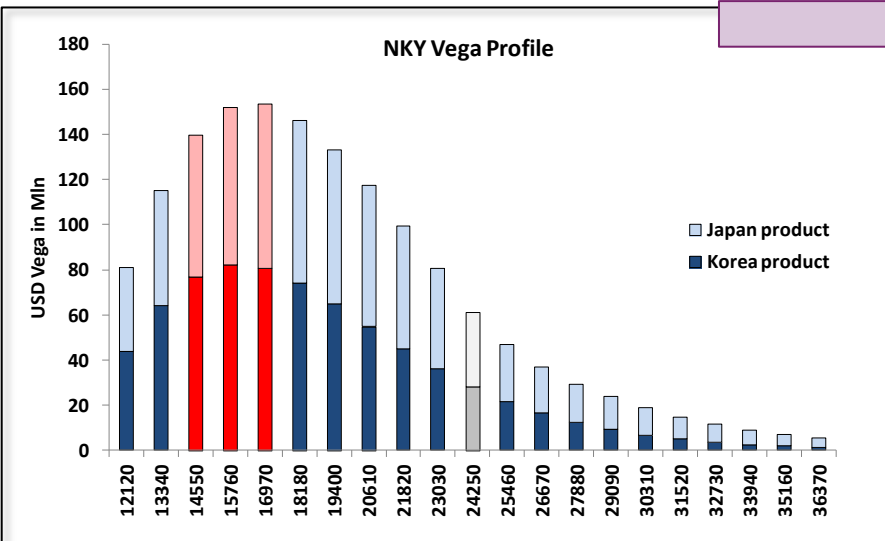
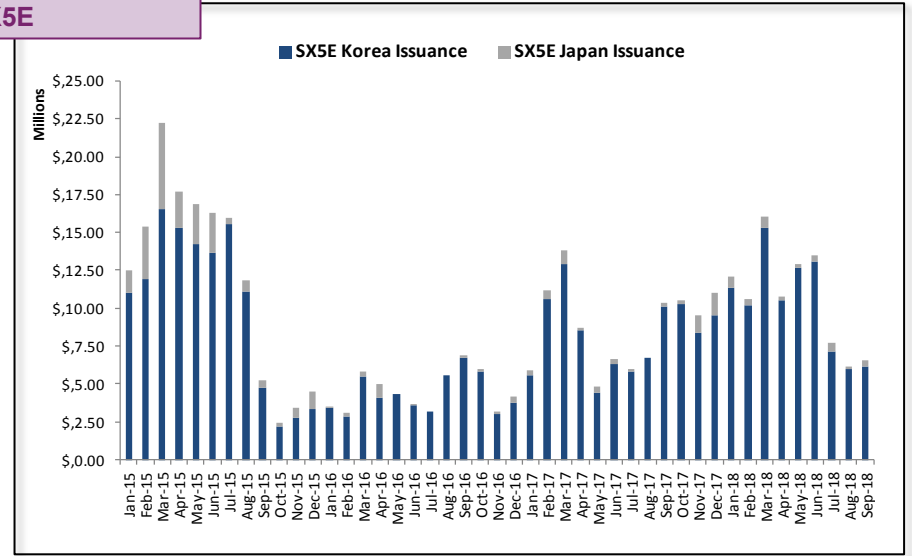
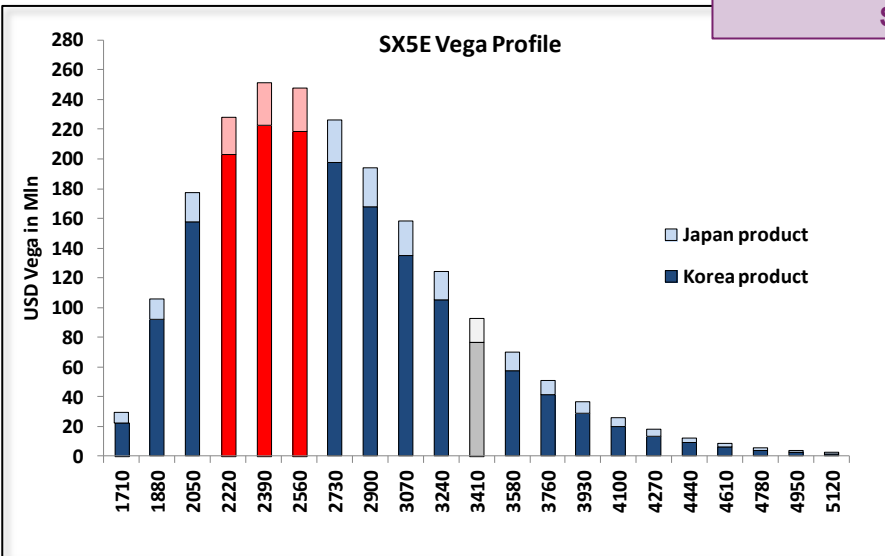
ASIAN STRUCTURED PRODUCT – HISTORICAL PEAK VEGA VS AVERAGE SPOT (KOREAN ISSUANCE)



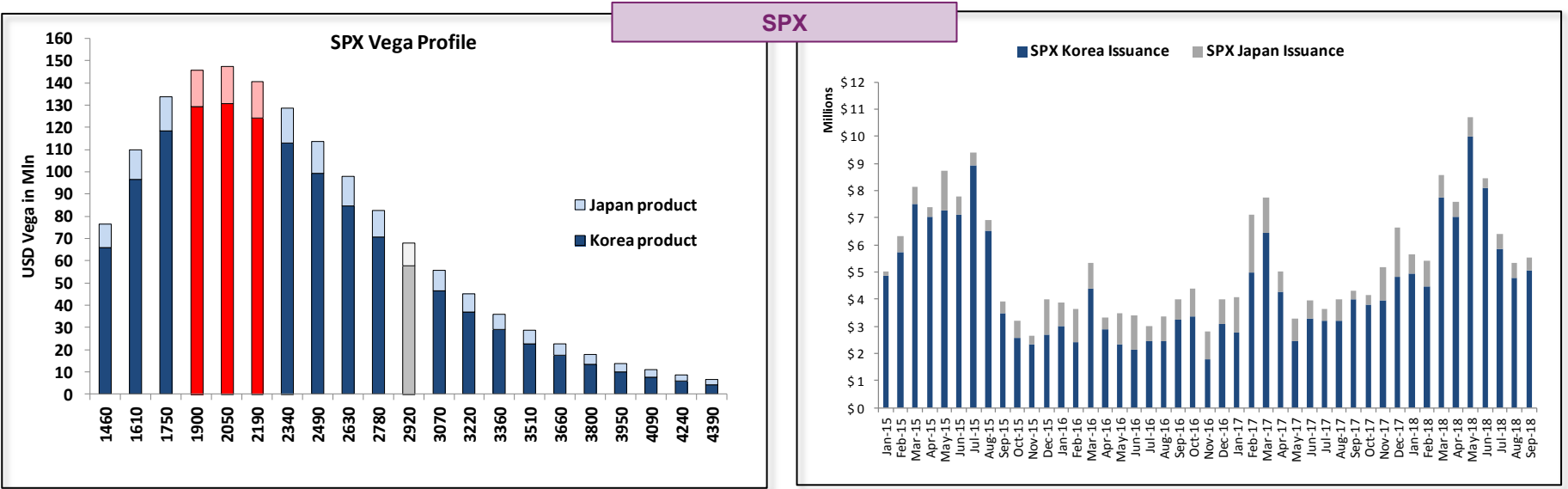
ASIAN STRUCTURED PRODUCT – HISTORICAL PEAK VEGA VS AVERAGE SPOT (KOREAN ISSUANCE)



ASIAN STRUCTURED PRODUCT – AGGREGATE VIEW OF MAIN INDICES FROM JAPAN AND KOREA MARKET...



ASIAN STRUCTURED PRODUCT – AGGREGATE VIEW OF MAIN INDICES FROM JAPAN AND KOREA MARKET...



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