

Brent Jun14 reference: \$104.2
Brent spot: \$106.5

(1) Risk Reversal:
Buy 6m \$109.41 call (105% of Jun14 ref): \$3.51/bbl
Sell 6m \$85 put: \$0.95/bbl
Net Debit: \$2.56/bbl (~2.5%)
Indicative cost on \$5mm Notional: \$125,000
Max Loss: \$87.56/bbl

For your reference:
6m \$104.2 call (ATM): \$5.90/bbl (~5.7%)
6m \$109.41 call (105% of Jun14 ref): \$3.51/bbl (~3.4%)
6m \$85 put: \$0.95/bbl (~0.9%)
6m \$90 put: \$1.58/bbl (~1.5%)

(2) ATM 6mo Swap
A futures look-alike in the form of a Jun14 ATM swap, which has positive carry of ~\$2/bbl (differential between Jun14 and spot)

(3) Absolute Return Note on Brent
Structure Absolute Return Note on Brent Crude
Underlier: Brent
Barrier Observation: European
Maturity: 2yrs
Upside Max: Uncapped
Barrier Level: 82.5%
Max Loss: 100%

In fully-funded form, the absolute return structure prices well on crude. You can unwind this early to capture a move. This vehicle gives room to monetize moves in crude prices both on the upside and downside. This structure has a relatively high delta, should crude move higher and can help offset/compensate for your premium paid should crude move lower, but stay above the barrier.

Implied Vol & Price Curves:

The degree of backwardation has subsided but vols are still very low compared to their average over the last 10 years. Investors looking to express a bullish view on Brent crude oil can take advantage of premiums which are close to 10-year lows.

IPE Brent 1mo Implied Vol - Mid Implied Vol

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Source: DB AnalyzerLite, 11/5/13

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