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Sent: Thursday, April 18, 2013 7:06 PM
To: Jeffrey Epstein (jeevacation@gmail.com)
Cc: Barrett, Paul S; Weissend, Renee E
Subject: Brent vs WTI

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Please find follow-up points below as promised; let us know if you have any questions.

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&nb=p; Term structure of Brent (backwardation) vs WTI (contango) more attractive to go long Brent

* Supply story more favorable for higher Brent than WTI prices. Seaway pipeline likely not enough to balance the supply of WTI in Cushing

* Supplies of WTI remain very healthy. North America retains its primary role in expanding non-OPEC supply, accounting for 82% of the total increase over the last two years.

* Flows from the Keystone XL pipeline leading out of Cushing into the Gulf Coast have been delayed, but should start in late 2013 and allow an additional 700kb/d to leave Cushing. With Seaway currently pumping ~30kb/d from Cushing to the Gulf Coast, Keystone would represent a significant increase in pipeline capacity.

* The Seaway pipeline in combination with the Keystone XL pipeline will help alleviate some of the supply building up in Cushing. However, we don't believe these projects will be sufficient to completely resolve the WTI supply overhang.

• 2013 Brent supply/demand balances remain tight with OPEC production slowing and Chinese demand growing

12 month price target: \$120/bbl Brent & \$105/bbl WTI

• Brent crude prices have softened from their February highs, as the global market balance eased on the back of seasonally weaker product demand, and a diminished pull in crude as refineries approach a short-term peak in planned maintenance.

• Looking forward we expect a healthy appetite for crude as refineries return from maintenance, and as global growth continues to improve. Specifically, we see an ongoing recovery in the U.S., as well as continued structural demand growth from emerging markets.

• While demand looks supportive, supplies are also seeing a slight improvement which will keep the market roughly balanced. North American shale production alone cannot compensate for the global growth in demand. However, the return of volumes from Sudan and better output from Angola is likely, which would help balance the market.

• Geopolitical risk remains a critical variable in the supply equation. Iran's production has decreased by roughly 25% from its 2011 peak and Nigerian output has also dropped to 3 year lows with unrest in the Niger River Delta hampering production.

• Given the supply/demand dynamics for crude, the Brent crude futures curve remains in backwardation further out on the futures curve. The differential between the prompt month future and one year forward is \$2.34, which can provide attractive roll-yield if market conditions remain as tight as we expect.

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Brent Supply

• We project 2013 non-OPEC production growth will be 1.2mb/d (2%), driven largely by North American contributions from US and Canadian oil sands production.

Our projection for OPEC production is expected to decline from 31.3mb/d in 2012 to 30.9 mb/d in 2013. The projections include a more cautious view for Libya, where declining supplies on the back of recent social tensions have reduced growth expectations to almost zero for 2013. Similarly, security concerns and reappraisal of the timing around infrastructure reconstruction lowers Iraqi growth to just 0.2 mb/d yoy, with most project start-ups now concentrated in the 2nd half of 2013. Lastly, Saudi Arabian production has declined notably, from peak levels just below 10mb/d to current levels of 9mb/d.

Brent Demand

• For full year 2013, we expect global demand to grow by 0.9 mb/d to 91.1 mb/d, with the most significant growth coming from China, while Europe experiences another year of mild contraction.

• China's total oil demand is expected to expand by 4.3% yoy to 10.3mb/d, with Chinese imports accounting for more than half of their demand. Some estimates suggest that China has surpassed the United States as the largest crude importer in the world.

• While the United States and Europe will not contribute to growth in oil demand, the contractions we have seen in past years will slow dramatically. The US is expected to see demand growth contract by 0.5%, from -2% in 2012 and Europe is expected to see demand contract by 1.4%, from -3.7% in 2012.

2013 Key Pipeline Projects

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