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From: Barrett, Paul S
Sent: Tue 2/7/2012 5:26:20 PM
Subject: Oil

Jeffrey

Recent developments in WTI fundamentals and Brent Fundamentals have caused the Spread between Brent & WTI to widen out close to extremes of last year. Front month spreads reached \$20 this morning, this arb narrows by ~\$1/month through the rest of the year in anticipation of the Seaway pipe reversal. While the pure play is shorting Brent and buying WTI, shorting Brent is dangerous given improving fundamentals and an escalation of Iran tensions.

Below are several iterations of bullish WTI option strategies on the August contract.

Please note that WTI has spiked intraday on rumors of a Canadian production platform being down for about 10 to 15 days. Option prices need to be refreshed.

August Contract (Last trade date July 16th)

Future ref: 99.50

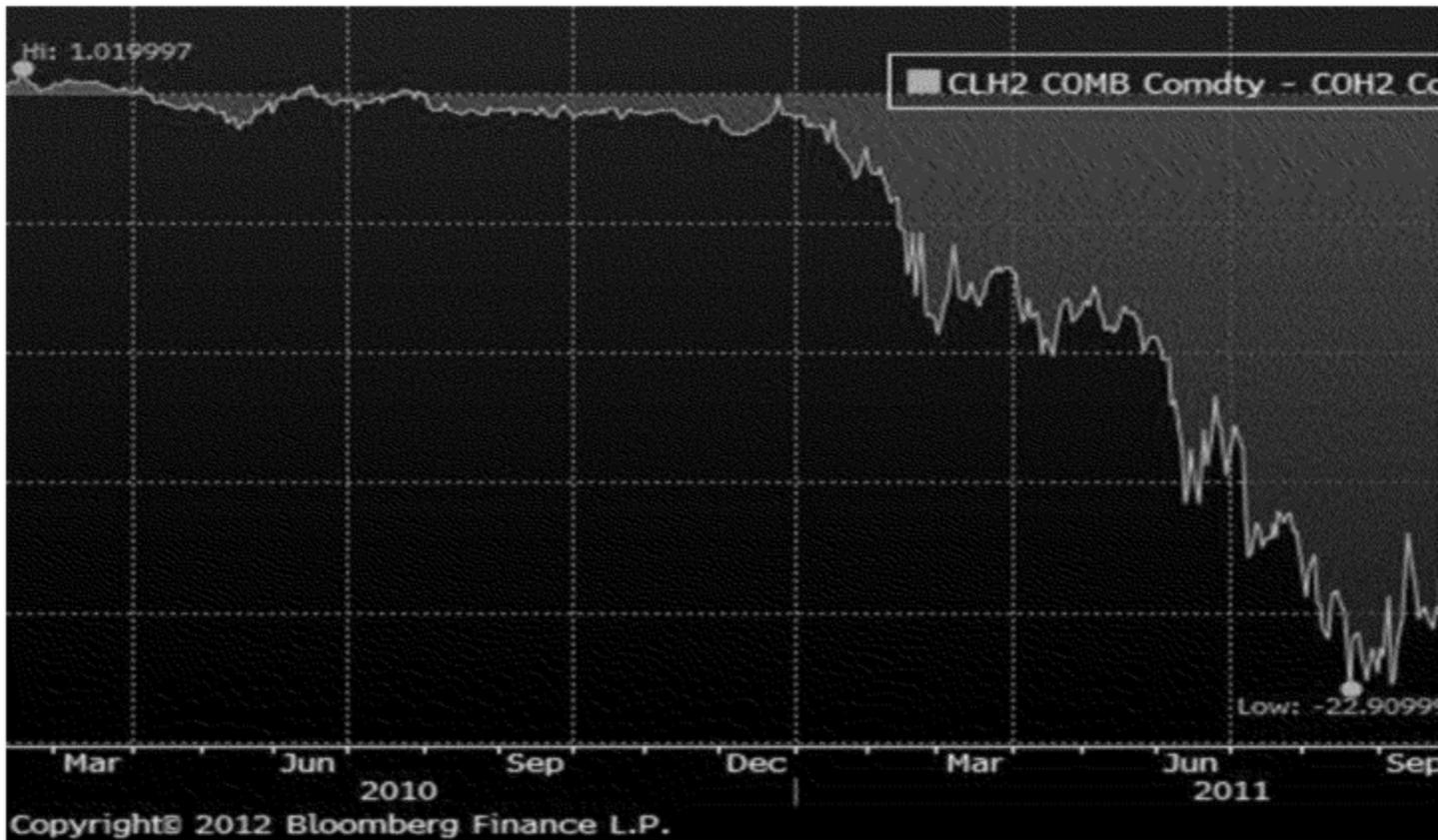
Call Spread: Buy 5% OTM call, Sell 15% OTM call; cost \$3.50/Bbl

Bullish Seagull: Buy ATMF call, sell 12.5% OTMF call, Sell 7% OTMF put; Cashless

Exotic Bullish Seagull: Buy \$100 call, sell \$112.50 call, sell \$100 out with @ Expiry KI of 70

chart

Front Month Contract (Brent – WTI [\$]) 2 year



WTI underperformance related to;

- Stockpiles at Cushing have also grown over the two weeks to January 27 to top 30 million barrels for the first time since December, snapping five straight weeks of declines.
- Speculation of Seaway reversal delays. While the Seaway pipeline should start draining supplies from the Midwest in the second half of this year, traders have been moving to fill the storage tanks at Cushing in anticipation.
- Shipments down the 190,000 bpd Spearhead pipeline from near Chicago to Cushing are set to operate at full capacity for the first time in months in February.