Global Investment Opportunities Group (GIO)

J.P.Morgan

Investment Themes

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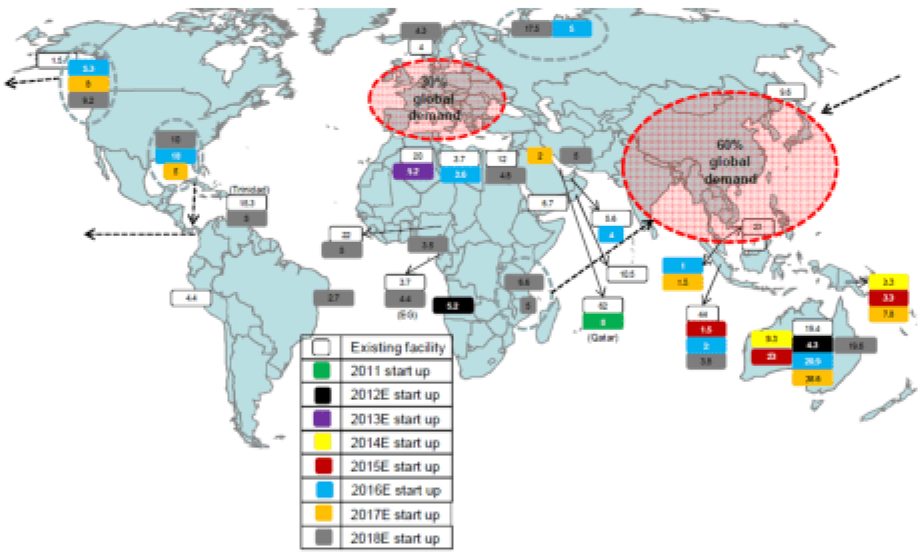
NEW TRADE IDEA: Implications of Cheap Natural Gas

We believe cheap natural gas in the US is creating attractive longer-term investment opportunities, particularly around the liquid natural gas (LNG) supply chain as the commodity continues to globalize. Demand for natural gas is steadily increasing across the world due to rising energy needs, the search for cleaner energy alternatives, coal plant retirements, and nuclear power concerns. However, natural gas supply remains concentrated (40% comes from Russia and the US) and due to the difficulties in transporting the commodity, natural gas pricing can vary significantly across different geographies. With North American natural gas trading at 70-80% discounts to Japanese and UK markets, we believe efforts to close this gap will drive continued growth in the LNG industry.

We encourage investors to build exposure across the LNG supply chain for the long term: E&Ps, pipelines, liquefaction sites, and shippers. JPMorgan research estimates that the number of countries with LNG import capabilities will rise from 25 at the end of 2011 to 48 by the end of 2015 creating as much as $1 trillion in CAPEX spending for the Equipment & Services industry through 2018. The North American market alone has 7 LNG export projects in the approval process and is expected to come online in 2015-2016. As these LNG sites are built, [redacted] and pipeline companies should benefit (from higher natural gas prices and increased volumes) as well as shippers and ship builders from the need to transport the LNG to markets with limited domestic access.

Additionally, there is a near term opportunity in US-based chemical and fertilizer companies which use natural gas and its derivatives as major inputs. These companies are experiencing a competitive advantage over their non-US counterparts and are able to manage their margins better.

Location, schedule and scale of new liquefaction capacity



Source: JPMorgan

Short Term	**End Users**	Fertilizer and Chemical Companies
Longer Term	**Liquefaction**	E&C firms focused on global energy projects
	Pipelines	MLPs
	Exploration & Production	Shale investments near LNG sites/investments

CLOSING TRADE IDEA: LONG INDONESIAN RUPIAH

We are closing our long Indonesia Rupiah trade as we see limited upside in the currency outside of carry as we are now within 1% of JPMS LLC's forecast of 9,000 by mid-year 2012. Over the two years since we recommended the Rupiah, investors have benefited from 5-6% of carry annually plus 3% currency appreciation.

CLOSING TRADE IDEA: LONG AIRLINE STOCKS

We are closing our long airline stocks trade. Since we initiated the trade, airline stocks have declined 14% driven first by a 40% rise in oil prices and then as oil retreated, concerns of a slowing economy. Bookings in the space remain strong and the consolidating industry continues to support improved pricing power. However, with two of the risks we highlighted having played out, a labor-negotiation driven bankruptcy filing, and Europe driven slowdown concerns, we believe it is time to throw in the towel and close this trade out.

OUTSTANDING TRADE IDEAS

Trade	Rationale	Risks	Levels	Update
Long High Yield	• Market is currently pricing in high default expectations relative to history and JPMS LLC expectations of 2%.	• Double dip in the economy driving higher defaults or default expectations	HY CDX Spread: • Jan-5-2010: 485 bps • Current: 566 bps	• IB expects YE CDX.HY spread at 550bp, continue to hold and opportunistically add
High Dividend Stocks	• High dividend yielding stocks to benefit from investors searching for yield. • Gap between dividend yields and bond yields are tighter than historical levels and near historical peaks making stocks cheap to bonds on a relative basis.	• Liquidity/credit crisis sparking additional dividend cuts.	Spread between [redacted] 500 Dividend Yield & 5Y Investment Grade Bond Yields: • Jan-5-2010: -1.44% • Current: -0.55%	• Remains a core part of equity exposure and valuation remains attractive versus fixed income • Focus on underperforming stocks/sectors
Buy Brazil Inflation Linked Bonds	• Current inflation breakevens are likely low given need for large infrastructure investments. • Political noise around upcoming elections likely to create entry points. • Central Bank comments indicate pushing out of rate hike allowing inflation to run.	• Earlier than expected Central Bank tightening keeping inflation low • Elections • Double dip in the global economy	Brazil 2013 Inflation Breakeven: • Jan-5-2010: 5.4% • Current: 5.55%	• Brazil's CB rate cuts are likely to continue to pressure inflation upwards • Inflation surprised to the upside in Jan '12
Long Korean Won	• Capital account surplus. • Leverage to economic recovery. • Performance has lagged other emerging market currencies.	• Double dip in global economy	JPYKRW: • Jan-5-2010: 12.44 • Current: 14.32 USDKRW: • Jan-5-2010: 1140.50 • Current: 1123.78	• Korea have expanded currency swap lines from $13b to $70b, signaling willingness to combat a EUR debt crisis spillover • Targeting 1040 by Dec '12 • Korea's indicators look strong with strong current account surplus
Long Brazil Equities	• Strong outlook for economic growth. • Support from commodities exposure. • Upward earnings revisions.	• Volatility likely to increase with elections this fall. • Valuations at the higher end of historical ranges. • Inflation/policy tightening concerns.	iShares MSCI Brazil • Feb-26-2010: 68.37 • Current: 67.77	• Valuations remain cheap: P/BV < 2008 lows and dividend yields +4% • Strong GDP expected: 5.7% in 4Q12
Long Russian Ruble	• Improving current account and strong GDP growth expected. • Fund flows improving driven by high yields and constructive FX outlook. • JPMS LLC forecasting 27.23 by year end.	• High correlation to oil. • CBR managing the currency appreciation.	USD/RUB • Apr-26-2010: 29.11 • Current: 30.07	• Resilient Brent prices and stronger than expected domestic demand, risk tilted to the upside • Flow momentum for RUB among the strongest in EM • GDP growth is expected to expand by 3.5% yoy • Political risks remain

Note: Current levels are as of Feb 14, 2012.

Trade	Rationale	Risks	Levels	Update
Long EuroStoxx 50 Dividends	• Attractive levels as has underperformed broad equity markets. • Limited downside from current levels which are pricing in full elimination of bank and insurance company dividends. • Consensus estimates for EuroStoxx 50 dividends are 120 for 2012 and 124 for 2013.	• Liquidity crisis or double dip recession in Europe. • Regulatory risk affecting financial institutions. • Index composition risk.	EuroStoxx 50 Dividend Futures 2012 Contracts: • Jun-9-2010: 89 • Current: 116.40 2013 Contracts: • Oct-14-2010: 105 • Current: 103.9	• Expect 2012 to be a volatile year for the 2013 EuroStoxx 50 Div future contract, but continues to price in a significant cushion to JPM estimates • JPM forecasts 124 for 2013 contracts
Long Telecom Equipment Stocks (Internet Mobility)	• Large CAPEX investments are likely required to support growth in mobile internet usage • Smartphones and tablets are expected to grow at 30-50% CAGRs over the next 3 years. • Increased data usage on mobile devices such as smartphones and tablets.	• Consumer recession. • New technology or entry of low cost competitor.	Bloomberg US Telecom Equipment Index • Oct-13-2010: 44.07 • Current: 58.24	
Long Emerging Markets Inflation	• Strong demand for natural resources and agricultural goods driven by growing middle classes in Emerging Markets. • Recent weather related supply disruptions adding to upward pressure on commodity prices.	• Increased supply of commodities. • Sharp slowdown in Emerging Markets economic activity.	[redacted] Global Natural Resources Index • Mar-30-2011: 4068 • Current: 3607	
Long Infrastructure Stocks	• Expecting Engineering and Construction backlog to continue to steadily build • Global LNG trade requires extensive infrastructure build out • Strong CAPEX expectations for commodity companies	• Global growth slows • Commodity price declines • Worse than expected public-sector headwinds	Russell 2000 Engineering & Contracting Services Growth Index Mar-31-2011: 788.97 Current: 788.56	• Private-sector strength expected to offset public-sector headwinds • E&C multiples still reasonable following Jan '12 rally
Long Dated Muni	• Muni to Treasury ratio should fall in early 2012, but remain elevated vs. historic norms • JPMS overweight essential service munis	• Unpredictable response of investors to: negative headlines and the economic response to fiscal consolidation needed at the federal level	JPM Muni Total Return USD 20Y Oct-04-2011: 260.53 Current: 266.36	• Long-term issuances have been low driving longer-dated mui yields to new lows
Long Globalization of Natural Gas	• Demand for natural gas steadily increasing • Significant differences in global natural gas prices expected to drive globalization • JPMS LLC estimates countries with LNG import capabilities will rise from 25 to 48 by the end of 2015	• Significantly lower oil to natural gas spread • Regulatory issues	Henry Hub to Global LNG Feb-14-2012: Spread to Japan: 14.13 Spread to UK: 6.66	

Note: Current levels are as of Feb 14, 2012.

CLOSED TRADE IDEAS

Trade	Rationale	Risks	Levels	Rationale for Closing
Short Agency Mortgages	• Mortgage rates are trading at historically tight levels to US Treasuries. • Fed poised to end agency MBS purchases at the end of March.	• Fed continues to buy MBS but ends purchases of Treasuries	6% Fannie Mae 30Y Mortgage Spread • Jan-5-2010: -2 bp • Fed-25-2010: 16 bp	Given the move in spreads we are closing this trade as further upside is likely to be limited and accompanied by further government intervention.
2-10 Yield Curve Flattener	• Spread between 2Y and 10Y swaps are near historic highs • Expectations for Fed tightening should drive sell off in 2Y bonds causing spread compression	• Fed remains low for much longer than expected • Fed ends purchases of US Treasuries or purchases do not offset issuance	Spread between 2Y and 10Y swaps: • Jan-5-2010: 256 bps • May-7-2010: 238 bps	Profitability levels reached as pullback in risk drove a rally in long term rates. Fed is expected to maintain its "low for long" language but looking to re-enter the trade when posturing changes.
Long Palladium	• Strong demand and leverage to recovery in the global consumer. • Supply challenges due to frequent production disruptions in Russia.	• Double dip recession. • Discovery of additional supply outside of Russia.	Palladium: • Jan-5-2010: 420 • Mar-4-2010: 456	Reached JPMS LLC target of $450/oz.
Long Turkish Equities	• Favorable valuation versus Emerging Market equities. • Valuation re-rating from structurally lower inflation and interest rates. • Signing of IMF stand-by agreement could be a catalyst. • Upgraded to BB in February.	• Higher than expected increases in inflation or interest rates. • Failure to sign IMF stand by agreement.	MSCI Turkey (Local): • Jan-5-2010: 794,548 • Jun-9-2010: 778,537 MSCI Turkey (USD): • Jan-5-2010: 549 • Jun-9-2010: 493	Increasing uncertainty on political front and market fundamentals. Likely to trade in line with the region.
Long Temporary Unemployment	• Temporary hiring has rebounded strongly and set to turn positive. • Temp hiring recovery typically leads overall employment. • Attractive valuation vs. prior expansions.	• Temp hiring deteriorates. • Double-dip recession. • Increase in hiring costs due to political / regulatory changes.	[redacted] 1500 HR & Employment Services Index: • Feb-26-2010: 59.55 • Mar-23-2010: 67.04	Profitability levels reached as temporary employment turned positive on year over year basis and recommended closing positions due to lack of near term catalysts and valuations that were already pricing in improving temporary employment picture.
Long Chilean Rates	• Chilean interest rates are expected to rise due to higher inflation (strong copper prices). • 1Y swaps increase expected over the next year is 2x expected policy rate increase. • Tightening by China could reduce need to raise rates in Chile.	• Strong copper prices supported by China or solid global recovery. • Strong local growth driving higher inflation."	Receive fixed 1Y CLP rates 1Y forward • Feb-26-2010: 4.34% • Jun-9-2010: 4.09%	Rates have declined about 30 basis points and further decline is limited given consensus policy rate expectations.
Short Chinese Rates	• Inflation / overheating concerns driving policy tightening. • Tightening came earlier than investment community expected. • Strong growth should also lead to higher rates.	• Benign inflation in China. • Slow down in growth or double dip recession driving further stimulative government actions.	1Y CNY Swaps Rates: • Feb-26-2010: 2.27% • Aug-2-2010: 2.10% 5Y CNY Swaps Rates: • Feb-26-2010: 3.74% • Aug-2-2010: 2.91%	Rates likely to remain low for the near term given slowdown in economic data, accommodative government, and policy measures addressing pockets of inflation in certain industries.

Trade	Rationale	Risks	Levels	Rationale for Closing
Long Indonesia Rupiah	• Strong fundamentals with trade and current account surpluses. • Benefiting from commodities exposure. • JPMS LLC target: USD-IDR of 8,650 by year end.	• Government intervention. • Return of political instability.	IDR • Feb-26-2010: 9,343 • Feb-14-2012: 9,049	Limited upside outside of carry
10Y Swap Spread Widener	• Swap spreads much tighter than historical levels with 10 year swap spreads dipping into negative territory for the first time recently. • Very short term trade on technical rebound.	• Correction to historical norms can take a long time. • Swap spreads become more negative.	10Y Swap Spreads • Mar-30-2010: -5 bps • May-7-2010: 5 bps	Market corrected.
Long Palladium	• Demand remains strong with improving auto sales in the US, China, and Brazil. • Supply remains constrained. • JPMS LLC forecasting an average price of $600/oz for 4Q10.	• Pullback in auto demand. • Discovery of a new mine.	Palladium: • May-4-2010: 515 • Oct-14-2010: 600	Reached JPMS LLC target of $600/oz.
Long EuroStoxx 50 Dividends	• Attractive levels as has underperformed broad equity markets. • Limited downside from current levels which are pricing in full elimination of bank and insurance company dividends. • Consensus estimates for EuroStoxx 50 dividends are 122 for 2011 and 135 for 2012.	• Liquidity crisis or double dip recession in Europe. • Regulatory risk affecting financial institutions. • Index composition risk.	EuroStoxx 50 Dividend Futures 2011 Contracts: • Jun-9-2010: 93 • Oct-14-2010: 114	Extended shorter term contracts to longer maturity contracts
Long Airline Stocks	• Seasonal benefit from buying in September/October and selling in April/May • Structural benefits from improved cost discipline, increasing revenues and pricing power, and plans to delever balance sheets	• Double dip recession • High oil prices coupled with weak economy • Decline in bookings.	NYSE Airlines Index • Nov-17-2010: 48.70 • Feb-14-2012: 40.61	Stocks hurt by higher oil prices and weakening confidence in the economy. Recent fleet orders also bring into question management discipline.