

From: "Ens, Amanda" <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
CC: "Barrett, Paul S" <[REDACTED]>
Subject: To Do: BRL step-up note - closing today
Date: Tue, 12 Mar 2013 13:39:48 +0000

Jeffrey,

With the Brazilian policy rate at 7.25% and rate hikes increasingly likely in an effort to stem inflation, we remain structurally bullish on the Brazilian real due to the attractive carry.

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Paul recommends you invest \$2mm in this BRL currency note.

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HSBC-issued BRL Step-up Note

Tenor: 53 weeks

At expiry barrier protection: 15%

ATMS strike coupon: 5%

Step-Up strike: 3% OTMS

Step-up coupon: 23.5%

Max gain: 28.5%

- If BRL performance is between -15% and 0%, you receive your principal back
- If BRL performance is between 0% and 3%, +5% return
- If BRL is 3% stronger at expiry, +28.5% return
- If BRL performance is weaker than -15%, 1-for-1 loss from initial spot

More drivers of our constructive BRL view:

Brazil continues to have an inflationary problem, with y/y inflation above 6% and still rising. Even though many analysts expect inflationary pressure to recede as the year progresses (JPM IB expects y/y inflation to fall to 5.6% by year end), the stickiness of inflation has raised expectations that a tightening cycle is coming. Consequently, it was the comments accompanying the decision to keep rates unchanged at 7.25% that mattered for markets last week. The statement duly delivered. The reference to maintaining rates constant for a prolonged period of time was dropped and the committee stated it will monitor the macro outlook to decide its next steps. However, as more hawkish language was expected by many (as indeed are rate hikes), the confirmation afforded the BRL moderate support. It took the upside surprise on CPI inflation on Friday to push USDBRL briefly through 1.95— close to the level where the Central Bank recently intervened in the derivatives market. With momentum in the BRL continuing to build, further near term tests of this level seems likely.

Longer term, the performance of the BRL is likely to depend on how much the economy strengthens. After all, the authority's concerns that loose monetary policy elsewhere had caused the BRL to decouple from its fundamentals was a key reason for their intervention last year. But, one consequence of a weaker currency is inflation – which they now have to deal with. Consequently, even in a bearish scenario, where inflation comes off and growth fails to materialise, we think it is highly unlikely that the authorities would act to push the BRL to the very weak levels seen last year.

Thanks,
Amanda

Amanda Ens | Vice President | Global Investment Opportunities | J.P.Morgan | NMLS ID: [REDACTED]
320 Park Ave, 14th Floor, New York, NY 10022

EFTA00705141

T: [REDACTED] | F: [REDACTED] | M: [REDACTED]

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