

From: Paul S Barrett <[REDACTED]>

To: Jeffrey Epstein <jeevacation@gmail.com>

Subject: RE: 10 year swap spread

Date: Mon, 22 Nov 2010 18:41:25 +0000

Attachments: nov22_10yr_swap_spread_valuation.pdf

Inline-Images: image001.jpg

Example

Buy 10MM of the 10yr treasury with a 2.625% coupon (ytm 2.97%)

Borrow \$9.5MM at 3month Libor + 75bps

Pay fixed on \$9.65MM on a 10yr swap

Annual negative carry (per 10MM notional) = \$84,000

Monthly negative carry (per 10MM notional) = \$7,000

\$ value per basis point = \$8,800 per basis point

So we need the spread to move 1bp/month in our favor to cover the negative carry.

Therefore if we put the trade on at +9bps and we move to 0bps spread we lose (1bp of carry PLUS 9 bps of DV01) 10bps or \$88,000 per 10MM.

Therefore if we put the trade on at +9bps and we move to 19bps spread we make (-1bp of carry PLUS 10bps of DV01) 9bps or 79,200 per 10MM.

Attached spreadsheet shows more details.

This is a trade we would only do at +9. If we don't get there we don't do the trade.

Paul

Paul Barrett, CFA

Managing Director

Global Investment Opportunities Group

JPMorgan Private Bank

40W 57th Street, 33rd Floor, New York, NY 10019

[REDACTED]

paul.s.barrett@jpmorgan.com

From: Jeffrey Epstein [mailto:jeevacation@gmail.com]
Sent: Monday, November 22, 2010 12:48 PM
To: Paul S Barrett
Subject: Re: 10 year swap spread

size and move per basais point after one month taking into account libor????

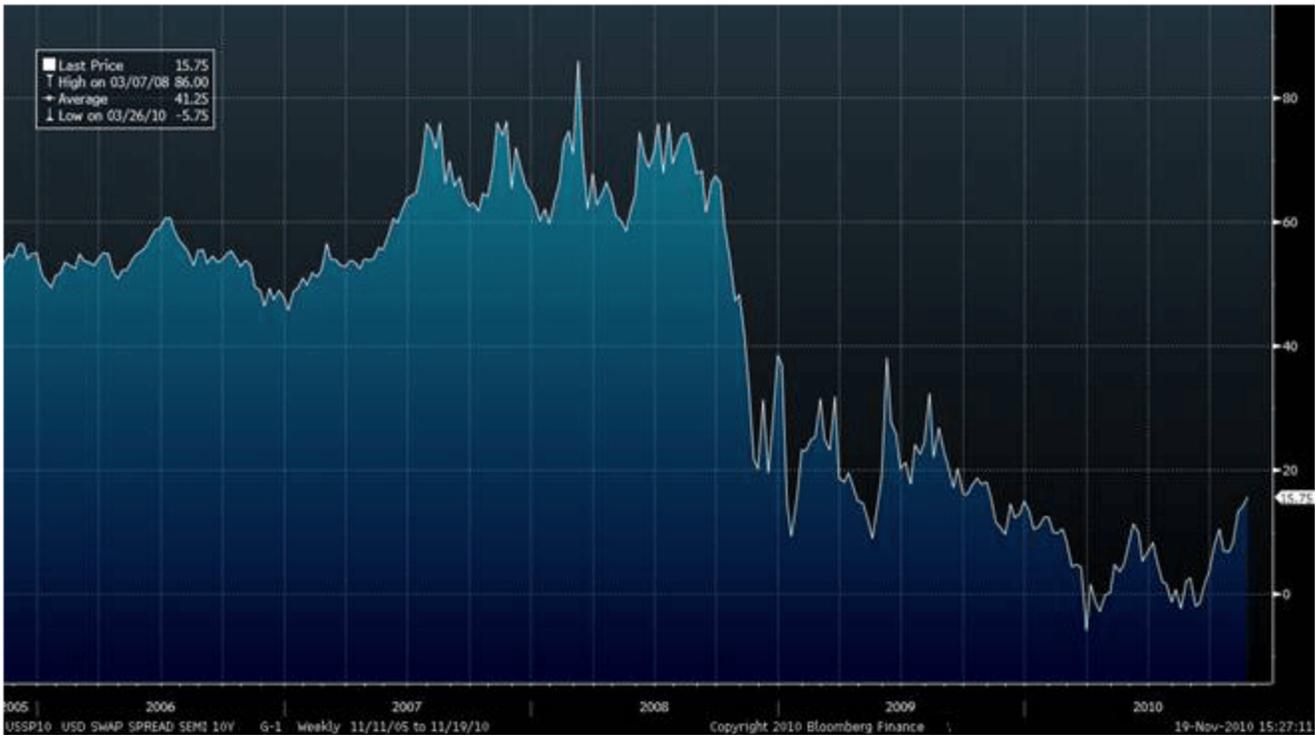
On Mon, Nov 22, 2010 at 9:58 AM, Paul S Barrett <[REDACTED]> wrote:

Swap Spread Idea: (Target entry at +9bps; currently at +15bps; target exit at +25bps)

Currently the spread between the 10 year treasury (2.81%) and the 10 year swap (2.96%) is 15 BPs. This spread has widened from a historic low -5 BPs in early September. As shown in the 5 year chart below, spreads historically run around 40 BP. If we go back further, the chart tells the same story.

With announced QE2, the economics of the 10 year treasury lead us to believe yields will likely remain capped while the swap market (represents the investor community) will be driven by economic data. If the Q4 consumer spending and profits numbers surprise to the upside, swaps would likely move higher relative to Treasury yields.

To achieve this exposure we buy the 10 year treasury and pay fixed on a 10 year treasury swap. We would match the DVO1s making us hedged for equal shifts in UST vs swaps. You would borrow 95% of the Treasury cost at Libor + 75bps.



This email is confidential and subject to important disclaimers and conditions including on offers for the purchase or sale of securities, accuracy and completeness of information, viruses, confidentiality, legal privilege, and legal entity disclaimers, available at <http://www.jpmorgan.com/pages/disclosures/email>.

--

The information contained in this communication is confidential, may be attorney-client privileged, may constitute inside information, and is intended only for the use of the addressee. It is the property of Jeffrey Epstein. Unauthorized use, disclosure or copying of this communication or any part thereof is strictly prohibited and may be unlawful. If you have received this communication in error, please notify us immediately by return e-mail or by e-mail to jeevacation@gmail.com, and destroy this communication and all copies thereof, including all attachments.