

From: "Barrett, Paul S" <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
CC: "Giuffrida, David J" <[REDACTED]>
Subject: Couple of ideas into year end
Date: Tue, 06 Dec 2011 19:39:56 +0000

Attachments: GIO_Trade_Alert_2011-12-05_(January_Effect).pdf;
At_Exp_EURUSD_Fwd_Extra_05_Dec_11.pdf; SEK-SPX_correlation.pdf;
Exotic_SEK_Butterfly_05_Dec_11.pdf; USD-SEK_spreads_05Dec11.pdf;
DB_Brent_Autocallable_09_Dec_11.pdf

Jeffrey

January Effect Stock List:

Each year heading into December, investors look for investments that have declined that year to use the short term losses against tax obligations. We have put together a quantitative screen that resulted in 14 names that fit the criteria (see attachment for criteria and list of names). Last year we did a similar screen (obviously resulted in different names) and the basket was up ~14% over a period with the S&P up ~4%. This is an interesting seasonal opportunity.

Arcelormittal (MT):

Arcelormittal (MT) is one of the largest steel producing companies in the world. The market cap is 22.8 bn Euros. ArcelorMittal has significant leverage to higher steel prices and also has a competitive advantage due to the fact it produces its own iron ore. MT has improved the balance sheet of the past few years and continues to generate steady EBITDA. MT's bonds have traded off over the past few months because of MT's European exposure, which we think is overdone for this name (52% of sale ex Western Europe).

We like the MTNA 6.125 of 6/1/2018 at 6.36% YTM (98.75) – Baa3/BBB-

Balance Sheet

11.3 bn Liquidity (8.5 bn unused line and 2.8 bn cash/cash equivalents)
Net Debt – 24.9 bn (9/30/2011)
Net Leverage LTM 2.4x
BBB/BBB-/Baa3

Liquidity Lines

4 bn syndicated credit facility that matures 5/6/2015 (non drawn)
6 bn syndicated credit facility that matures 3/18/2016 (1.8 b drawn)
.6 bn bilateral credit lines matures 6/30/2013 (300 mm drawn)

5.1 average maturity with no covenants on term debt (covenant of 3.5 x net debt/EBITDA applies only to available liquidity)

Debt Maturities

2011 2.1 bn matures
2012 1.7 bn matures
2013 4.4 bn matures
2014 3.7 bn matures
2015 2 bn matures

JPM EBITDA estimates

2013 – 13.78 bn

2012 – 10.83 bn
2011 – 10.031 bn
2011 Q3 EBITDA – 2.4 bn
9 month 2011 – 8.4 bn

Call Overwriting

Volatility is elevated across asset classes (see recent cross asset vol monitor) and the market has also rallied ~8% off the lows two weeks ago. We think for clients that want to maintain long equity positions we have sold out of the money calls as a way to take in some income while keeping the long position. I would be happy to work through devising a strategy for your specific positions.

Protection:

We are using this rally to lighten up on some risk assets. For clients that don't want to sell and want to add protection in other ways, or clients that want to take directional view that markets will go lower, we have several different ideas of how to implement.

- 1) **EUR**- Still favor buying longer term downside on the EUR- there is a sensitivity analysis attached for a 6 month downside EUR fwd extra.
- 2) **Swedish Krona**- As S&P falls in value the correlation between SEK and S&P trends towards 1. Right now correlation is above .8 and volatility is sub 20 vs S&P vol at close to 30. This is closely tied to the fact that foreign ownership of SEK equity is close to 40% and has trended over time. Thus when the risk-off trade is in favor we see selling of SEK. I have attached a slide that goes over the SEK-S&P correlation and two different implementation trades.
- 3) **VIX**- Buy a call spread on VIX index: December 2011 expiry 30 by 40 call spread for 1.45 with a max gain of ~5.9x your premium spend.
- 4) **SPY**- Short dated put spreads on the SPY looking at mid Dec and mid Jan expiries

Brent Oil:

Middle East Tensions continue with the latest news this weekend on Iran allegedly shooting down a US drone. Plus, possible collapse of Iraqi Government, rising conflicts in Bahrain (with alleged involvement by Iran), Pakistan Tensions from our mistaken hit of their soldiers and continued Israeli conflicts. Even though Brent is more expensive than WTI (the spread has narrowed since the announced reversal of the Seaway pipeline at Cushing), I still think given geopolitical issues, adding long Brent exposure over the short-term is an opportunistic trade.

Iran exported around 2.2mm BPD (barrels per day) last year with Europe importing 20% of that amount. The EU has yet to stage a full embargo on Iranian oil but this is still a strong possibility. Europe would need to find approximately 500k BPD in the event of an embargo.

Pricing below:

April 2012 contract (12Mar2012 expiry)

109.70 reference rate

Risk reversal

- 1) Buy 117.50 call
- 2) Sell 100.00 put

Cashless

Bullish Seagull

- 1) Buy 110/125 call spread
- 2) Sells 104.75 put

Cashless

Brent oil (S&P GSCI™ Brent Crude Oil Index Excess Return) auto-callable note (termsheet attached):

Another interesting way to implement a short-term bullish Brent view is through a note linked to the S&P GSCI™ Brent Crude Oil Index Excess Return (SPGSBRP Index), which is currently beneficial based on the backwardated term structure (the index purchases the front month contract). The index has a daily correlation with Brent front month of .98 (over the last year).

Tenor: 3-6 month

Review: 1st review is 3 months after trade date and thereafter note is reviewed daily until final maturity

Coupon: 6.80% (13.6%-27.2% annualized given call date)

Max: 6.80% (holding period)

Barrier: 20% at expiry

Max loss: 100%

Paul Barrett, CFA
Managing Director
Global Investment Opportunities Group
JPMorgan Private Bank
40W 57th Street, 33rd Floor, New York, NY 10019
[REDACTED] (W) [REDACTED] (F)
[REDACTED]

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 [REDACTED]