
From: Jeffrey Epstein <jeevacation@gmail.com>
Sent: Monday, November 22, 2010 7:42 PM
To: Paul S Barrett
Subject: Re: 10 year swap spread

what is three month libor and why is the spread so high on treasury.?

On Mon, Nov 22, 2010 at 2:41 PM, Paul S Barret= <paul=s.barrett@jpmorgan.com
<mailto: [REDACTED]>> wrote:

Example

Buy 10MM of the 10yr treasury with a 2.625% coupo= (ytm 2.97%) =A0
Borrow \$9.5MM at 3month Libor + 75bps =A0 =A0 =A0
Pay fixed on \$9.6=MM on a 10yr swap

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

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

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

=A0

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

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

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.=/p>

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

=/span>

Paul Barrett, CFA

Managing Director

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[REDACTED]

[REDACTED] <mailto:[REDACTED]>=>

From:=span style="font-size: 10pt;"> Jeffrey Epstein [mailto:jeevacation@gmail.com]

Monday, November 22, 2010 12:48 PM

To: Paul S Barrett

Subject: Re: 10 year swap spread=/p>

size and move per basais point after one month taking in=o account libor????

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

<=pan style="font-size: 11pt; color: rgb(31, 73, 125);">Swap Spread Idea:=A0 (Target entry at +9bps; currently at +15bps; target exit at +25bps)

1%) and the 10 year swap (2.96%) is 15 BPs. This spread has widened fro= 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, th= 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 profit 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.

=A0

=A0

=A0

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