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=#39;t do the trade.

Paul

=/span>

Paul Barrett, CFA

Managing Director

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[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 =conomics of the 10 year treasury lead us to believe yields will likely remain capped while the swap m=rket (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 t= Treasury yields.

To achieve this exp=sure we buy the 10 year tr=asury and pay fixed on a 10 year treasury swap. We would match the DVO1s making us hedged for equal shifts in UST vs swaps.=A0 You would borrow 95% of the Tr=asury cost at Libor + 75bps.

=A0 =A0 =A0

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have received this communication in error, p=ease notify us immediately by return e-mail or by e-mail to jeevacation@gmail.com, and destroy thi= communication and all copies thereof, including all attachments.