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Subject: Sample of what we have been doing

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Attachments: GIO_Trade_Update_(2010-03-01).pdf

Inline-Images: image002.png; image004.png; image006.png; image008.png; image010.png; image012.png; image021.png

Jeffrey

Good caching up. In advance of getting the ISDA signed, here is a sample of trade ideas that we have been doing with clients.



SHORT CHINESE RATES

Increasing concerns about China overheating and policy tightening was one of the catalysts for the recent market pullback as investors largely believe tightening will need to be aggressive to reign in the liquidity driven by unsustainable levels of stimulus last year. If actions are not taken or delayed too long, the resulting inflation and/or bubble will only become harder to manage in the future. However, if too aggressive, the global recovery could be derailed as China has been one of the main pillars of support pulling the global economy out of recession.

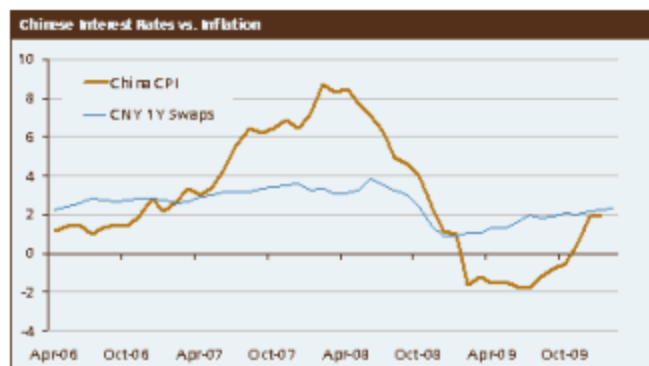
Recent moves to reign in liquidity through raising bank reserve requirements, guiding bank lending lower, and allowing rates on recent government bond auctions to drift higher were, therefore, not unexpected but came slightly faster than most investors had anticipated. While our overall belief is that the government remains support of growth, they are managing this with a view towards stabilizing the future but if signs of inflation or bubble worsen, the government will have a difficult choice to make. However, if we continue on our current path of broadening Chinese growth and solidifying global recovery, Chinese policymakers could have more flexibility in gradually raising rates without fear of derailing the recovery.

Risks

- Benign Chinese inflation allowing rates to remain low.
- Slowdown in global or Chinese economic recovery driving another round of stimulus.

Implementation

- Enter into pay-fixed positions on 1-year or 5-year Chinese swaps.



LONG CHILEAN RATES

As China continues to tighten liquidity, even if modestly, industrial commodities which rallied sharply last year, such as copper, are likely to stabilize following last year's meteoric rise. Given this outlook, we believe investors particularly concerned about bubble and overheating risks in China should look to Chilean interest rates to hedge this risk. Last year, copper exports comprised over 50% of total exports out of Chile supported by strong copper prices which more than doubled.

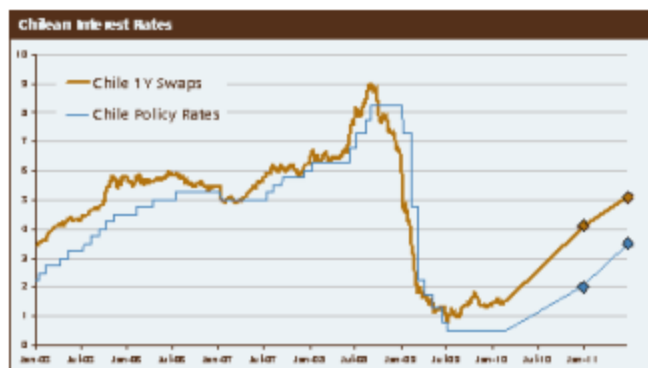
On the back of this, as well as generally rising inflation, JPMSI expects Chilean policy rates to increase from 0.50% currently to 2% by year end and the market expects 1-year rates to increase even more by about 300 bps over the next year to about 4.4%. However, if China continues with moves to tighten or begins to aggressively tighten due to rising bubble concerns, the need to raise rates in Chile may not be as urgent allowing rates to remain low as inflation remains benign. Furthermore, the market implied spread between policy and 1 year rates in 1 year of over 200 bps is much higher than the historical average of around 75 bps and is rarely wider than 150 bps so even if the central bank does raise interest rates as expected, spread normalization would likely result in lower 1 year rates than what is expected by the market.

Risks

- Increased inflationary pressures, from copper or other sources, driving faster than expected rate increases.
- Continued copper strength driven by Chinese purchases or global recovery.

Implementation

- Enter into a 1-year forward starting position on 1 year receive-fixed Chilean Peso swaps.



Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 2/25/10.

LONG BRAZIL EQUITIES

Despite its performance in 2009, we continue to believe Brazil equities will be a strong performer in 2010, albeit to a lesser extent. The market should continue to benefit from strong economic growth and continued upward earnings revisions and remain supported by its exposure to commodities.

However, volatility has been increasing lately driven by increasing concerns about inflation and policy normalization and is likely to continue with increased noise around the elections later this fall. Valuations are also not cheap at about 13x forward earnings (above the historical average of 11.5x). While we are still optimistic on Brazil's outlook medium and longer term, the near term volatility bodes for protecting downside risks.

Risks

- Global and/or local economic recession.
- Elections.

Implementation

- Structured notes giving market exposure but with downside protection.
- Please speak with your J.P. Morgan representative regarding investment options.



Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 2/25/10.

LONG TEMPORARY HIRING COMPANIES

Overall employment in the U.S. continues to struggle but despite the weaker than expected payroll report for January, there was a silver lining in improvement in temporary hiring. This sub-segment typically leads overall employment in recoveries as companies add personnel to meet production needs but are hesitant to hire full-time workers until there is more confidence in the economic recovery. Historically, temporary hiring has bottomed about 2 months before overall hiring and typically turns positive on a year over year basis about 6-12 months ahead of total payrolls.

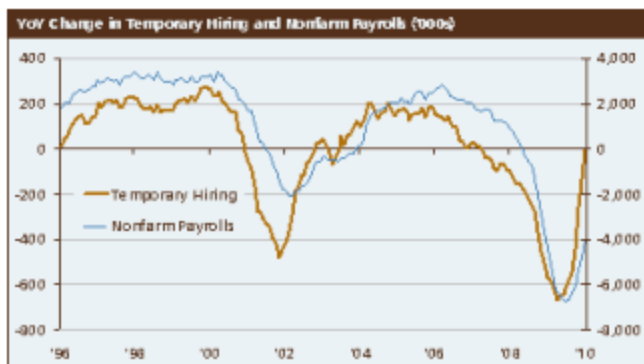
One way to benefit from the improvement in this early indicator is through Business Service providers. In addition to the improving hiring statistics, the JPMSI analyst covering the sector believes pricing pressures and gross margins have stabilized for this industry. Valuations are slightly higher than prior recessionary troughs but still below median multiples in a recovery. Lastly, while there could be some pressure from unemployment tax increases or increased healthcare costs from potential reform, the JPMSI analyst believes over time most of the increase can be passed through to customers.

Risks

- Double dip recession in U.S. driving further labor shedding, especially in temporary workers.
- Political/regulatory risks with higher unemployment tax or healthcare costs.

Implementation

- Please see the attached research from our JPMSI analyst [Andrew Steiner](#) for his latest recommendations.



Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 2/25/10.

LONG INDONESIA RUPIAH

The Indonesia Rupiah was the best performing Asian currency in 2009 and the currency is expected to strengthen further in 2010. The country benefited from resilient trade and current account surpluses, even in the face of rising domestic demand and imports, and like many other emerging markets countries, Indonesia also continues to benefit from strong commodity prices. While the country had historically been known for its political instability, developments over the last decade such as a regional autonomy program and holding its first direct elections in 2004 have greatly improved conditions in the country. Lastly, Moody's upgraded Indonesia's sovereign debt in 2009 and all 3 major ratings agencies had stable outlooks for the country into 2010.

JPMSI's FX analyst is forecasting the Indonesia Rupiah to strengthen to 8,800 versus the U.S. Dollar by mid-2010 which implies additional 6-7% of appreciation. Additionally, local rates in Indonesia also offer a nice pick-up over developed markets – policy rates are currently 6.5% versus 0-0.25% in the U.S., 0.10% in Japan, and 1.00% for the ECB.

Risks

- Government intervention to protect the export sector.
- Political risks or increased political instability.

Implementation

- Supranational bonds linked to the Indonesia Rupiah
- F/X options and forwards vs. USD.

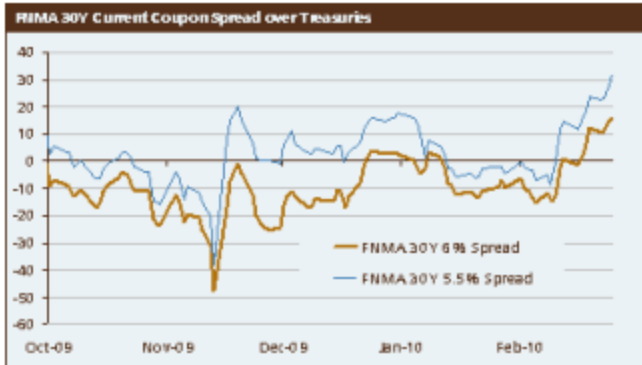


Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 2/25/10.

CHANGES TO PRIOR TRADES

CLOSING TRADE: SHORT MORTGAGE RATES

In January we had highlighted an opportunity in mortgage markets to short rates making a bet on higher rates when the Federal Reserve ends its MBS purchase program in March. Since then, spreads have widened, particularly on higher coupon MBS. For example, the spread of 6% Fannie Mae 30 year mortgages over Treasuries have widened about 20 bps since the beginning of January when we first wrote about the position. As we had stated previously, we were only expecting a modest increase in the near term as any significant widening would likely have been followed by new government actions to keep rates low. As further upside is limited from here, we are closing out this trade.



Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 2/25/10.

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