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**From:** Martin Zeman [redacted]  
**Sent:** 9/17/2018 9:07:58 AM  
**To:** 'Paul Barrett' [redacted]; [redacted]  
**CC:** Stewart Oldfield [redacted]; Xavier Avila [redacted]; [redacted]-A Sferrazza [redacted]  
**Subject:** [/] EMEAFX Trade of the week - Enter shorts in ILSPLN before its gone...

Morning Paul – on an RV basis and without taking directional EM exposure, this trade makes a lot of sense.

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**From:** Christian Wietoska [mailto:[redacted]]  
**Sent:** Monday, September 17, 2018 8:38 AM  
**To:** [redacted] <[redacted]>  
**Subject:** EMEAFX Trade of the week - Enter shorts in ILSPLN before its gone...

### EMEAFX - Enter shorts in ILSPLN before its gone...

Short ILSPLN - entrance: 1.038, current: 1.0245, target 0.98, stop: 1.07. The position provides 1.85% carry over 12m

[Please click here for complete report](#)

- **Last Wednesday**, we recommended a short ILSPLN recommendation. We justified this view with attractive entry levels in the pair (close to YTD wide levels), expectations of more supportive inflation and monetary policy developments in Poland compared to Israel, attractive carry and favorable long-term valuation misalignments, and last but not least, the cleaner bond and FX positioning in the Polish local markets.
- **Since then**, inflation data surprised somewhat to the downside in Israel while marginally to the upside Poland. On the back (and particularly today), the pair has moved from 1.038 to 1.025 (and falling). Regardless of the move already seen, we see more room for this trade to perform.
- **In Israel**, we note that the decline in price pressure is not just temporary, and we expect inflation to remain close to those levels over the upcoming months. We really struggle to see a pre-emptive hiking by the BoI with such an inflation profile particularly with core-inflation still below the lower-end of the target range (1-3%). The monetary policy outlook should therefore not be supportive for ILS over the upcoming months.
- **On Poland**, the gradual increase in core-inflation – although still well below target, should be watched closely, particularly given strong domestic growth dynamics and wage growth in double digits. Although we are still a bit cautious on payers in Poland for now, given that headline inflation will (temporarily) fall in Q4, we expect more support from the monetary policy leg given particularly dovish market pricing on the NBP. Please see below link for more details.

**What else?** Besides the above made idiosyncratic arguments for this trade, we also note the historically strong correlation of the pair to USDEUR. In other words, EUR appreciation implies outperformance in PLN vs ILS. However, of late the correlation broke somewhat and the EMEA pair is trading wide relative to USDEUR. In fact, the dislocation between the two pairs is close to two standard deviations and a regression analysis with data since Jan-13 imply ILSPLN at 0.98 (our trade recommendation target). Hence both, our slightly more bullish house view on EUR and the dislocation, support the trade recommendation further.

Best regards, Christian