

Subject: EM MSF - Outlook, trade updates, specials on Arg, Mex, SoA, FX
From: Martin Zeman <[REDACTED]>
Date: Fri, 27 Oct 2017 12:43:30 -0400
To: "Paul Barrett ([REDACTED])" <[REDACTED]>, Stewart Oldfield <[REDACTED]>

I haven't read this yet, but it has updates on Arg and South Africa post the latest news/elections.

From: Drausio Giacomelli
Sent: Friday, October 27, 2017 11:38 AM
Subject: EM MSF - Outlook, trade updates, specials on Arg, Mex, SoA, FX

The repricing of premium across EM that we have highlighted over the past six+ weeks is starting to show some signs of overshooting in FX. But we avoid retracement trades before uncertainty about US taxes and Fed is resolved and we see fatigue in the repricing of growth via weaker equities.

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Economics Focus: In Asia, we expect Taiwan's GDP growth to accelerate in Q3 and South Korea's CPI inflation and export growth to fall in October. In EMEA, we believe CNB will hike the policy rate by 25bps next week. While October inflation is likely to decline in Poland and Russia, it should accelerate in Turkey. In LatAm, the COPOM minutes on Tuesday should reinforce a final 50bp cut next while leaving the door open for more. Watch for some deceleration in Mexico's Q3 GDP as private consumption continues to decline at the margin.

Strategy Focus: The repricing of premium across EM that we have highlighted over the past six+ weeks is starting to show some signs of overshooting in FX. But we avoid retracement trades before uncertainty about US taxes and Fed is resolved and we see fatigue in the repricing of growth via weaker equities.

FX: Increased correlation with US yields and overshooting vs. DXY (observed in the underperformance vs. EUR since mid-October) point to pent-up FX-hedging demand for local bonds. This is unlikely to reverse before the pressure on core yields ease. The contribution of idiosyncratic shocks in

TRY, ZAR, MXN and (less so) BRL has amplified this unfavorable backdrop. RUB remains the last bastion of carry, but we tighten stop on heavy positioning. We maintain a bullish medium-term view on BRL (vs. EUR and wait to re-enter vs. USD) on flows and economic upturn, while keeping USD/MXN longs. Open long USD/ILS on valuation and potential for BoI intervention. Add USD/KRW puts and keep SGD funding in Asia.

Rates: We are comfortable recommending short-end receivers where inflation dynamics and real rates are supportive as in Brazil (where we now see 100bp of value in Jul18/Jan19 FRA), Russia, and Colombia. We closed our ASW compression trade in ZAR and see some short-end pull-back before elections and possible downgrade in November. We see TRY as the best vehicle to position for retracement in Turkey – but once it trades more orderly. Having been skeptical about duration we note that interest rate differentials vs. DM are still near lows. We see relatively high term premium in Peru (but tighten stop), Hungary (favoring flatteners), and Israel (vs. US payers), but keep steepeners in Asia and CZK. Favor ARS floaters (Bocan 20s) and hard currency for duration.

Credit: Idiosyncratic factors have been dominant over the past week, including. Venezuela/PDVSA payment deadlines (PDVSA CDS could be triggered if 20s' amortization is not paid by Wednesday). Stay neutral South Africa as spreads price in downgrades and retain 5s10s cash curve flatteners.

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