

On Tue, Jan 14, 2014 at 4:23 AM, Vinit Sahni <[REDACTED]> wrote:
Classification: Confidential

Jeffrey - was looking for value in the EM space, post the PDVSA analysis, started looking at Mexico...

here is a trade I think makes sense -> buying MBONO 30y unhedged

At around 7.5% yield, inflation probably in the 3-4% in the foreseeable future, and USD/MXN likely stable or stronger in real (deflated) terms, I think it is good value. The curve is steep. If you look at 10Y10Y UST and 10Y10Y MXN yields, the spread is above 500bp. Say inflation differential is 100bp higher in Mex and credit diff is 100bp (10Y CDS is about 100bp higher in Mexico although Mex has much better debt dyn), this still leaves about 300bp of cushion for real depreciation per year...In sum, it seems good value

near term mark to market risk is slower pace of implementation of energy reform and a selloff in USTs

happy to discuss further if u find interesting...

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CNYMXN chart courtesy Nav Gupta (shows relative value in Labour cost between China and Mexico)

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Vinit Sahni
Managing Director | Global Head - Professional Client Group & Key Client
Partners Capital Markets Group

Deutsche Asset & Wealth Management
[REDACTED]

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Fro Jeffrey Epstein <jeevacation@gmail.com>
m:

To: Vinit Sahni/db/dbcom@DBEMEA,

Cc: Tazia Smith/db/dbcom@DBAMERICAS, "Nav Gupta (DEUTSCHE ASSET MANAG)" <[REDACTED]>, Paul Morris/db/dbcom@DBAMERICAS, Vahe Stepanian/db/dbcom@DBAmericas

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