***Latin America***

**Brazil**

After months of negative signals but overall relative stability, the policy backdrop in Brazil appears to be quickly unraveling, and the BRL is following suit. USD/BRL is now about 70% higher on the year (BRL REER 20% weaker), and more is likely in store given the potential for further political and policy deterioration (as well as the intensifying recession and unfavorable external backdrop). A policy u-turn could include a return to stronger intervention in the currency - for now, the BCB continues to roll expiring FX swaps at 100% and it has also begun increasing its dollar repo offering. Given the strong headwinds faced by the BRL, however, we don't believe that stronger intervention should have a material impact. We therefore take a bearish stance on BRL, notably versus MXN within Latam, and expect USD/BRL dips below 4 to be bought.

**Mexico**

USD/MXN is now 23% higher than it was in July 2014 and on a real trade-weighted basis, MXN is at a nearly 20-year low. This is comparable to other EM currencies that have suffered a much larger terms of trade shock from commodities or that have high CA deficits / high local risks (see chart at the beginning of this publication). Valuations, still-stretched positioning, Banxico vigilance regarding the currency, and, Banxico matching Fed hikes at the beginning of the cycle, all support being long MXN versus other Latams, despite the continued downward revision of growth forecasts. We prefer to be long vs. EM peers as USD/MXN could continue higher on negative EMFX sentiment (frequently expressed through USD/MXN) and general dollar strength. We enter long MXN/BRL, despite already high levels, and suggest financing 3m USD/MXN puts ATMS by selling 3m USD/COP puts

**Colombia**

The already battered COP was hit hard by the risk-off sentiment and renewed oil weakness. While the adjustment in the currency has been impressive (more than 25% on a real trade-weighted basis since July of last year), we believe that it is not excessive given the ~35% terms of trade shock suffered in this period, and that COP will continue to act as the shock absorber in the ongoing adjustment to lower oil prices. External balances are poor, with the Q1 current account deficit approaching 6% (past 4Q sum; Q2 data to be released in 2 weeks), and FDI and portfolio flows weakening. The weakness of external accounts and relatively high foreign participation put COP in a vulnerable position ahead of Fed tightening (even if oil remains supported). We maintain our bearish stance despite the increasing likelihood of BanRep having to hike rates and the Isagen developments.

**Chile**

CLP continues to move very closely together with copper. The copper supply-demand picture continues to be unfavorable. CLP is better positioned to face the other big EMFX risk, namely Fed tightening, as foreign participation in local markets is low and the current account is balanced. Taken together with the hawkish turn taken by the BCCh in its latest communications, stressing the impact of CLP weakness on the failure of inflation to re-enter the target band, as well as with the significant improvement in speculative positioning in the past few months (much shorter CLP), we are moderately bullish. We like funding CLP with COP, which has much weaker fundamentals and provides somewhat of a hedge against another leg of copper weakness (to the extent that copper and oil move together), while being exposed to Fed tightening (target 4.57

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