



Theme #12: Burrito barato, pisco not sour — buy MXN/COP, PEN/CLP

- Go long MXN/COP on fundamental divergence, greater Banxico management of currency volatility and the pair's undervaluation vs. oil.
- Go long PEN/CLP – the pair has reduced exposure to copper and BCRP's substantial FX reserves should ensure continued management of PEN and relative outperformance versus other commodity exporters in Lat Am.

Focus on heterogeneity

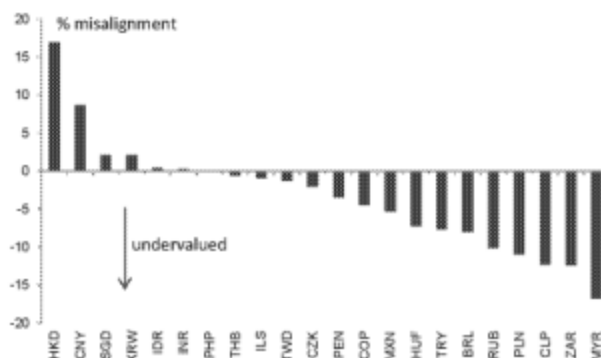
As mentioned in our year-end outlook, we envision another difficult year for Lat Am FX in 2016. Besides the adjustment to a new external backdrop (with higher rates in the US and lower commodity prices), idiosyncratic problems including political uncertainty, high foreign ownership of domestic assets, fiscal woes, and inflation pressures should continue to weigh on the much battered asset class.

That said, there are heterogeneities within the region as countries sit in different stages of the adjustment process. This provides in a good environment for relative value. We present two opportunities in the Lat Am space that take advantage of the differences in policy making within the region while reducing outright exposure to further declines in commodities prices.

Mispricing in the oil block: Long MXN/COP (target: 205, stop: 170 ref: 182)

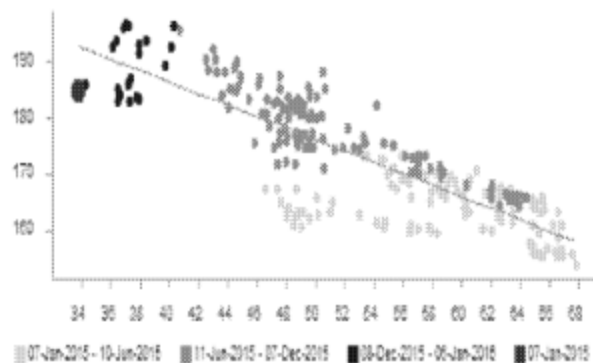
Traditionally not an oil exporter, MXN has still suffered from the fall in oil prices and the China-related increase in risk aversion. Adjustments in expectations on energy sector reforms and therefore prospective oil related FDI inflows, and the peso's use as a proxy hedge for other Lat Am FX exposures are the two obvious culprits behind the recent move lower, which in our view has been exaggerated. Lower exposure to China and US related externalities should translate into lower volatility for the MXN. We also believe that a weaker peso could be harmful to the economy through the "financial stability" channel, justifying the rather "currency oriented" communiqués adopted by Banxico. Going forward we envision two possible scenarios: further currency volatility management by Banxico in case "risk-off" continues, or a retracement to fundamentals if global volatility subsides (MXN is undervalued on our fundamental metrics). In either case we see MXN trading at stronger levels versus other LatAm FX in the near future.

Intra and inter-regional valuation on our fundamental BEER metric



Source: Deutsche Bank, Bloomberg Finance LP

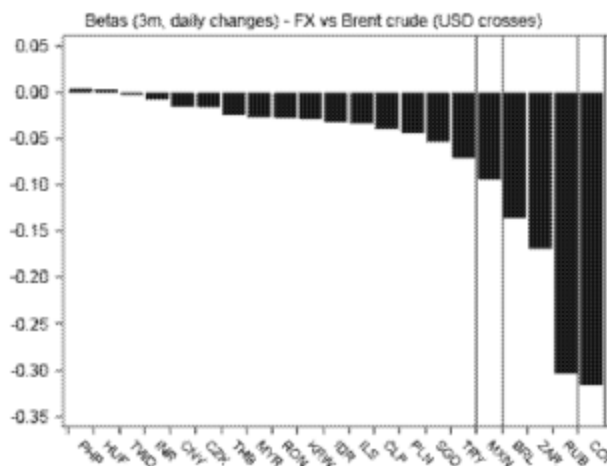
MXN/COP is undervalued vs. oil



Source: Deutsche Bank Global Markets Research (indicative prices)

Source: Deutsche Bank, Bloomberg Finance LP

COP has greater exposure than MXN to further crude weakness



Source: Deutsche Bank, Bloomberg Finance LP