
From: Daniel Sabba [REDACTED]
Sent: Thursday, March 19, 2015 5:39 PM
To: 'jeevacation@gmail.com'
Cc: Vahe Stepanian; Ariane Dwyer
Subject: Fw: Fwd:Special- BRL: Separating Value from Panic

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From: Isin Sumengen-Ziel (DEUTSCHE BANK AG, LO) [mailto:s[REDACTED]]
Sent: Thursday, March 19, 2015 01:30 PM
Subject: Fwd:Special- BRL: Separating Value from Panic

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We assess the recent sharp move in the BRL and the current balance of risks. The correction does not seem to represent neither overshooting nor panic, and new levels appear justified from a fundamental perspective.

Tactically, given the amount of bad news already priced in, retracement on a favorable external backdrop and lack of escalation on the political front is likely, but this would be limited by the BCB's opportunistic unwinding of its position, as well as by USD strength and the wide CA deficit vs. likely diminished portfolio inflows and maybe FDI flows in the years ahead.

Strategically, the BRL remains exposed to funding risk, global developments (particularly USD strength and risk aversion, as all other EM currencies), and flare-ups in politics / setbacks in policy implementation. However, dramatic further weakening is unlikely given the favorable external debt position (as opposed to 2002), and would require significant further political deterioration, in our view.

The breakevens on USD/BRL risk-reversals expiring by the end of the year are around 3.30-4.00, but valuation, stocks, and positioning suggest a tighter and lower range, in our view (3.00-3.50).

Assaf Shtauber [REDACTED]

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