

From: Paul Morris <[REDACTED]>

To: "jeffrey E." <jeevacation@gmail.com>

Subject: RE: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence [I]

Date: Fri, 11 Sep 2015 23:02:14 +0000

Inline-Images: ATT00005.png; ATT00002.png; ATT00001.png; ATT00006.png; ATT00004.png; ATT00007.png; ATT00003.png; ATT00009.png; ATT00010.png; ATT00008.png

Talk to you on Monday

-----Original Message-----

From: jeffrey E. [jeevacation@gmail.com]

Sent: Friday, September 11, 2015 06:43 AM Eastern Standard Time

To: Paul Morris

Subject: Re: Fw: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence [I]

what are the trades? do you see it?

On Fri, Sep 11, 2015 at 12:20 PM, Paul Morris <[REDACTED]> wrote:

Not sure on the oil idea, he sent over other yesterday but seemed complicated and was planning to talk to him this am about it

-----Original Message-----

From: jeffrey E. [jeevacation@gmail.com]

Sent: Friday, September 11, 2015 04:21 AM Eastern Standard Time

To: Paul Morris; Richard Kahn

Subject: Fwd: Fw: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence [I]

???? what is he suggesting?

----- Forwarded message -----

From: Daniel Sabba <[REDACTED]>

Date: Fri, Sep 11, 2015 at 3:26 AM

Subject: Re: Fw: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence [I]

To: "jeevacation@gmail.com" <jeevacation@gmail.com>

Classification: For Internal Use Only

Ok. There are two trades I would like you to look at. One a cheap long term play in crude, other a play on global central bank liquidity coming down.

From: jeffrey E. [mailto:jeevacation@gmail.com]

Sent: Thursday, September 10, 2015 04:21 AM

To: Daniel Sabba

Subject: Re: Fw: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence [I]

Speak later today I am in Europe

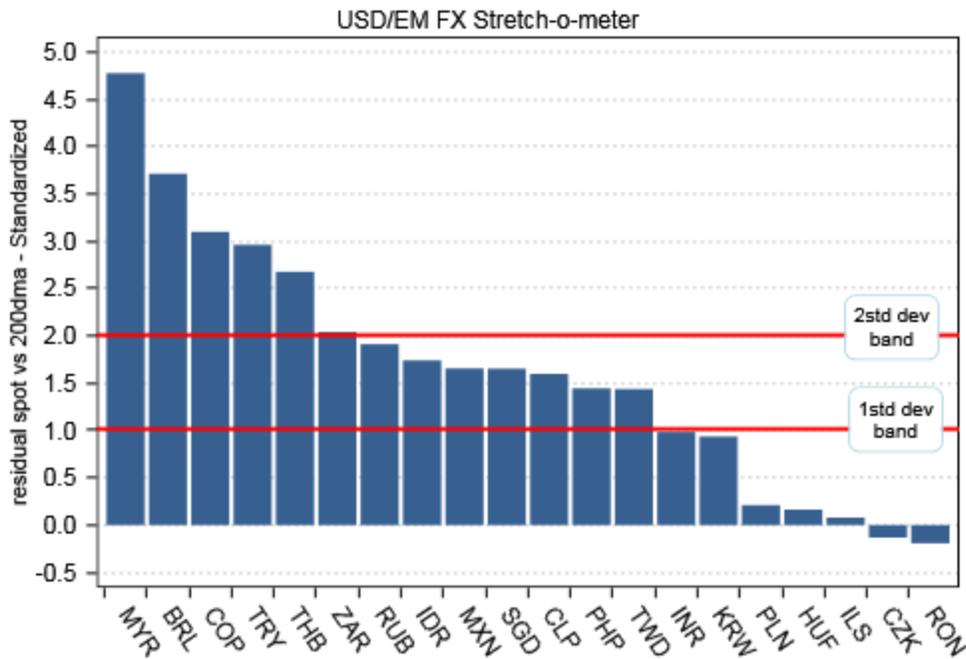
On Thu, Sep 10, 2015 at 4:48 AM, Daniel Sabba <[REDACTED]> wrote:
Classification: For Internal Use Only

Thought provoking charts.

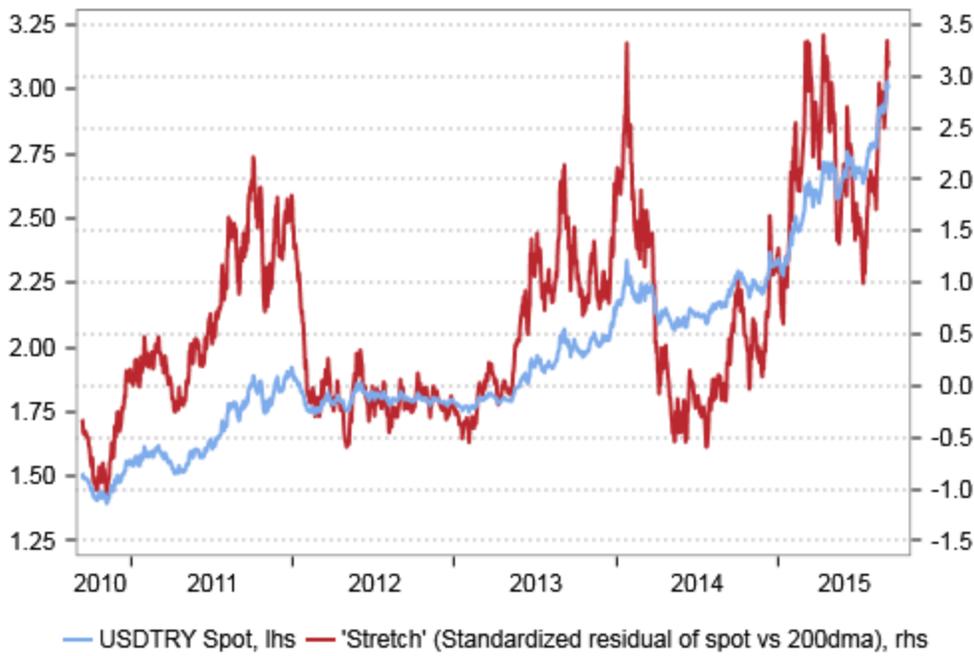
From: Isin Sumengen-Ziel (DEUTSCHE BANK AG, LO) [mailto:sumeisi.indb@bloomberg.net]
Sent: Wednesday, September 09, 2015 10:09 AM
Subject: Gautam:EMEA FX Chartpack: high yielders vs. low yielders divergence

Given the volatile price action in the EMEA high betas (TRY, RUB, ZAR), the below charts may be informative:

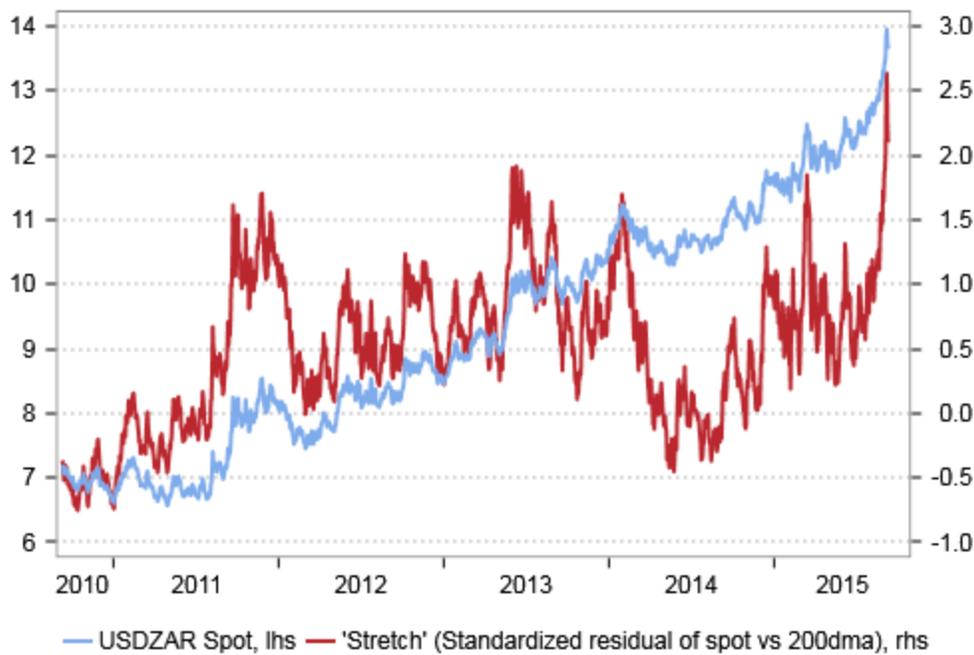
1) Stretchometer: Price action is certainly stretched (on the weaker side) across the board, but especially in MYR and BRL. TRY ZAR RUB price action is also stretched, but not as much as before the rally over the past two days.



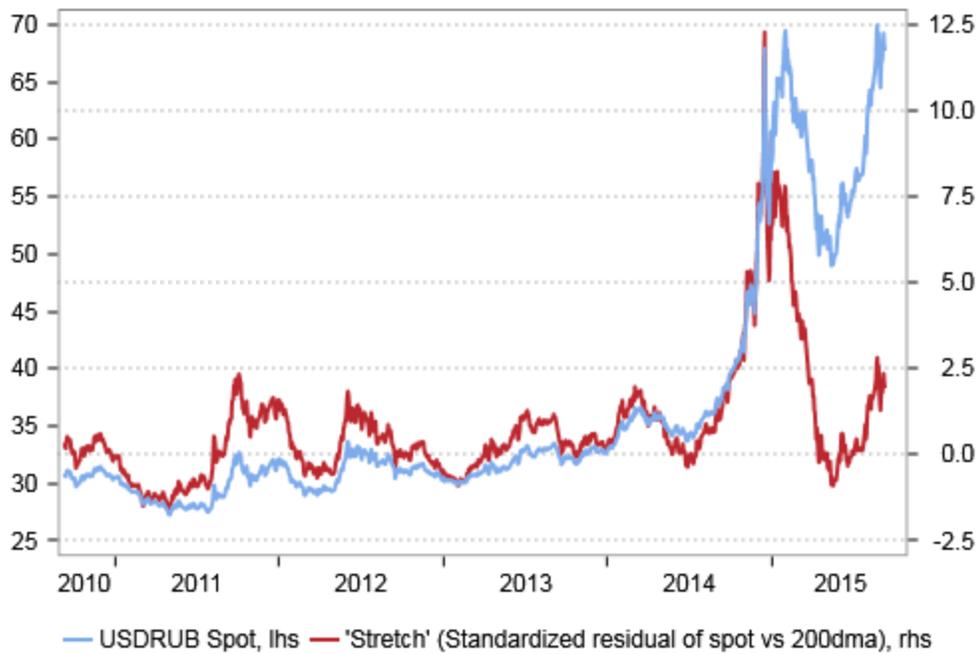
Looking specifically at USDTRY, price action is now stretched to the extent we saw earlier this year and more importantly at the start of 2014 (when the CBT undertook an emergency rate hike).



The stretchometer for USDZAR is at 5-yr highs, but has retraced somewhat in the last 2 days (in line with the risk-on appreciation move observed across the EMEA high-yielders).



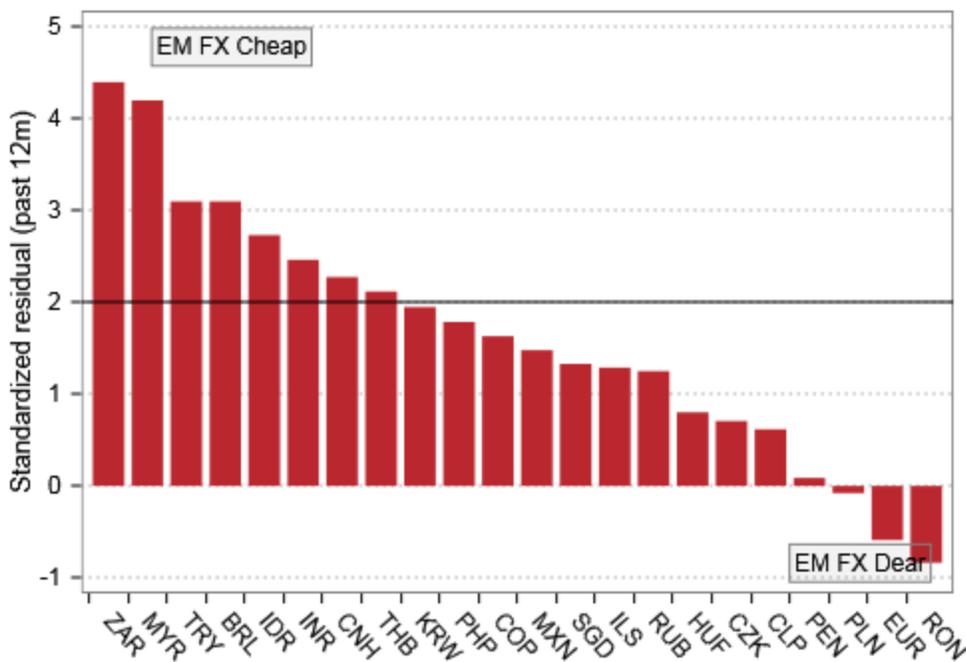
USDRUB price action is also stretched, but we are still far below the 'stretch' levels we have seen in the recent past.



2) Financial fair value (based on a regression of spot on S&P, VIX, Crude, CRB, US 10y, DXY, carry):

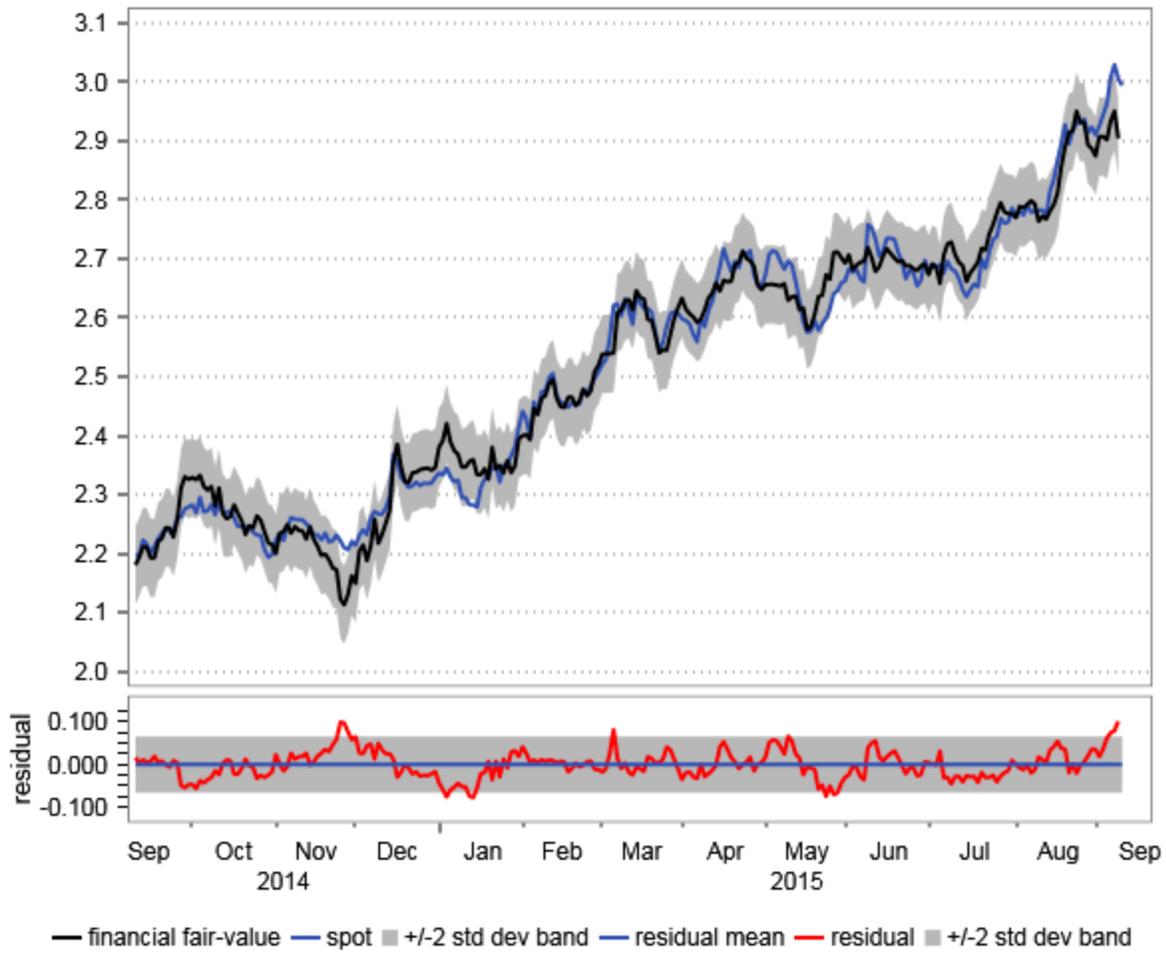
According to our short term 'financial fair value' metric, EM FX is cheap almost across the board, with ZAR being the most undervalued currency. TRY is also cheap, while RUB less so. However, these results should be taken with a pinch of salt, as the short-term valuation metric provides a better picture when currencies are trading within relatively tight ranges, rather than trending strongly and breaking new ground (as is the case currently for many EM currencies) due to domestic factors/factors not captured by the model.

Financial fair value (USD crosses):

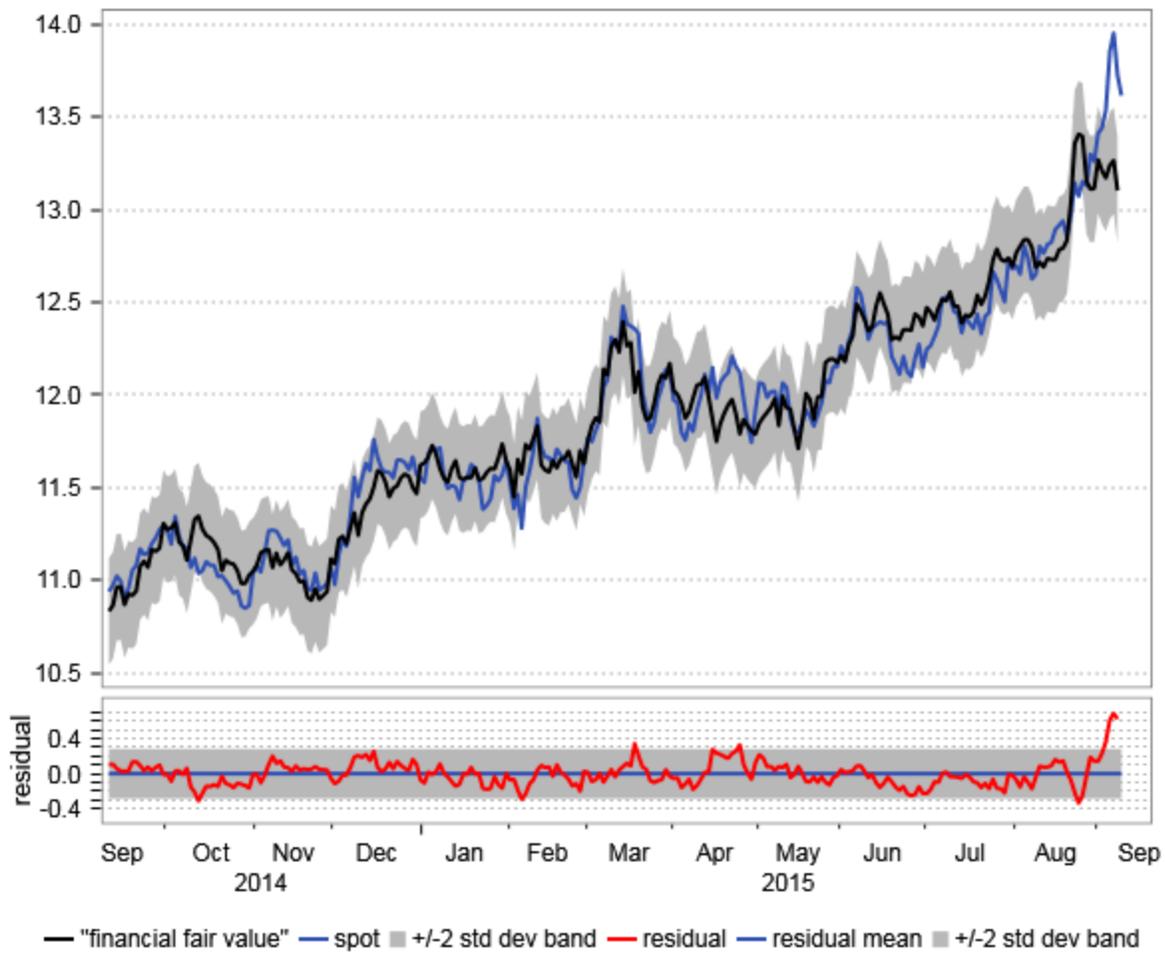


As the charts below show, the extent of undervaluation (i.e. the magnitude of the model residual) is at 1y extremes for TRY and ZAR, but not for RUB.

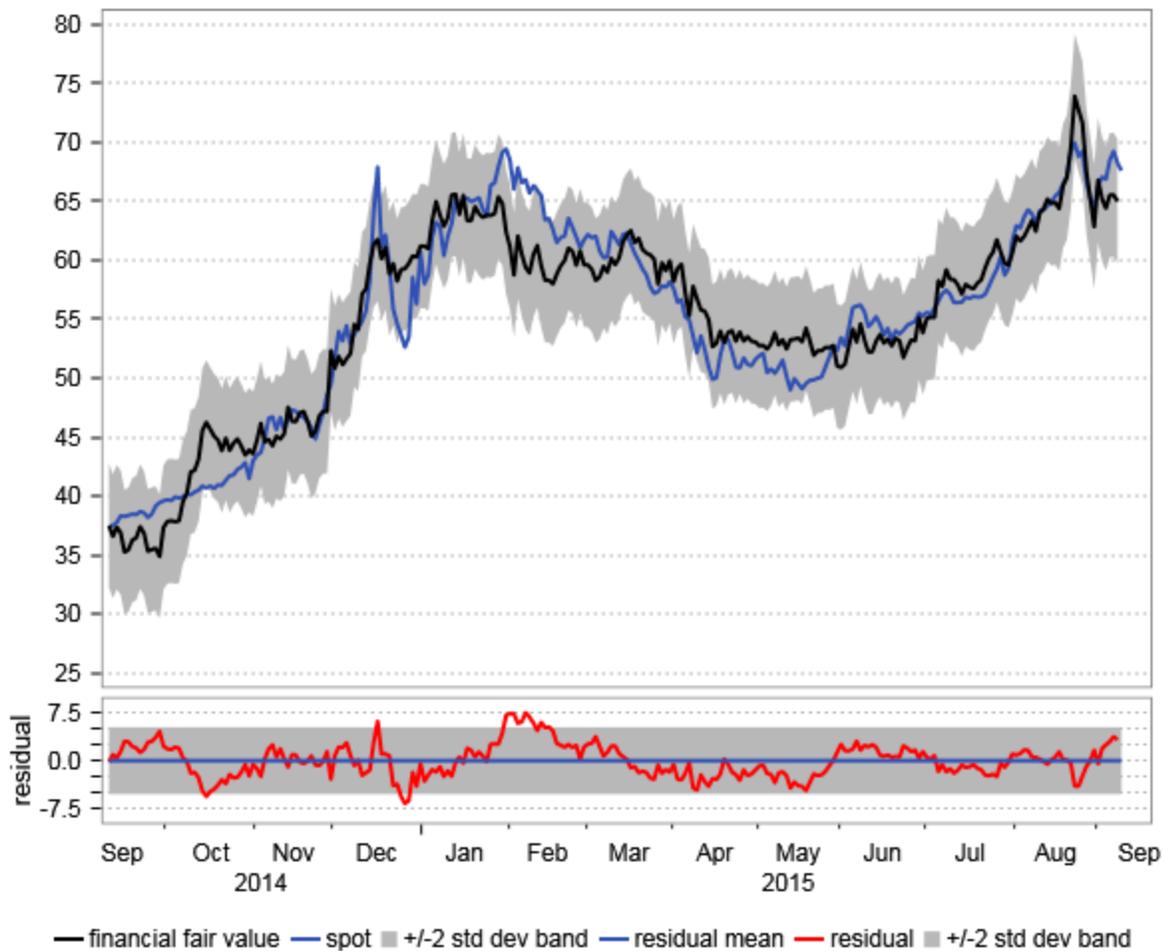
USDTRY:



USDZAR:



USDRUB:



Another point to highlight from the financial fair value metric, other than the cheapness of TRY and ZAR in particular, is the resilience of Central Europe (HUF, CZK, PLN, RON). We have been highlighting our bullish bias on the region (HUF and PLN in particular), and the financial fair value metric corroborates the fact that these currencies have been mostly immune to the recent sell-off in EM FX. They have the best performing EM currencies (vs USD) since the yuan deval. Over this period, there has certainly been differentiation within EMEA – weakening bias in the high yielders TRY RUB ZAR and resilience in Central Europe fx.

This differentiation is also evident in the chart below, which indicates that the average correlation between the EMEA fx currencies (USD crosses) has come down sharply in the past few months.

Average correlation within EMEA FX (daily changes)



Best,
Gautam



Gautam Kalani, [REDACTED]
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