Emerging Markets Trade idea

Relative value never goes out of style

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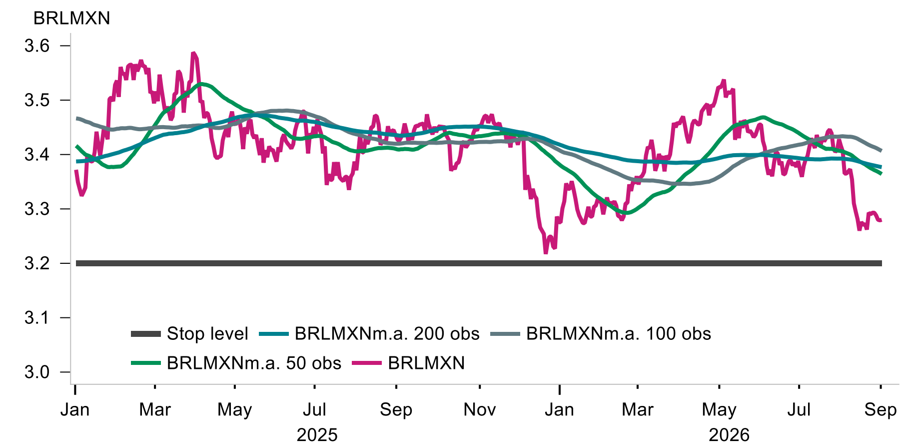
- **While we have a strong directional view in our EM FX portfolio (see EM Focus EM FX portfolio update: thirsty for more and follow EM FX portfolio dashboard at Red Mount Analytics for live updates), we also see near-term tactical opportunities for relative value.**
- **We establish a long BRL/MXN via a 3-month forward contract with a time-stamped reference implied spot level of 3.284 BRL/MXN, a stop-loss at the reference BRL/MXN 3.245 and a take profit target at 3.3770.**
- **We also establish a short PEN/CLP via a 3-month forward contract with a time stamped reference implied spot level of 278.6338, a stop-loss at the implied spot of 281.20 and take profit target at 267.3927**

Long BRL/MXN on idiosyncratic exposures and short PEN/CLP on valuations

While we have a strong directional view in our EM FX portfolio (see EM Focus EM FX portfolio update: thirsty for more and follow EM FX portfolio dashboard at Red Mount Analytics for live updates), we also see near-term tactical opportunities for relative value.

In the case of the BRL vs the MXN, we believe the MXN has room to react more strongly to a potential series of hikes by the US Fed, while the BRL is likely to be more sensitive to electoral polls. The presidential election polls in Brazil are not getting closer to a tie between the President Luiz Ignacio Lula da Silva and the main challenger Flavio Bolsonaro. While the result of the election will no doubt have a strong impact, we believe the volatility of the BRL will be more concentrated around the actual election dates in October. As we have written in the past, we also see the election as less binary this time around as we view Lula as being motivated by leaving a lasting legacy, unmarred by a fiscal crisis.

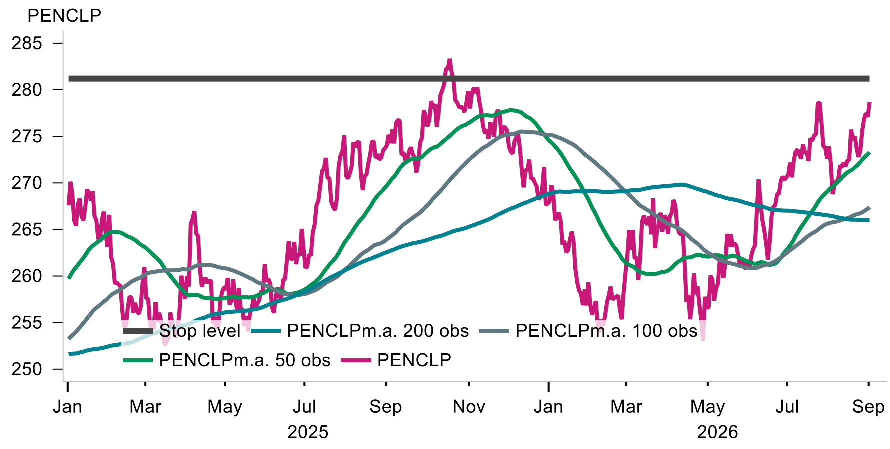
Long BRL/MXN



Source: Bloomberg, Credit Agricole CIB

In the case of the CLP/PEN, the trade is purely motivated by valuations, while the currencies have similar exposure to terms of trade, exporting copper and importing energy. Both countries have elected right-leaning governments and finally, both are low yielders in EM.

Short PEN/CLP



Source: Bloomberg, Credit Agricole CIB

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