

ALPHA BITES: Trade Ideas in EM FX and Rates

Monthly Trade Ideas Recap – April 2021

Gautam Jain, PhD, CFA

- The tables below show summaries of all the trades we have recommended in currencies and rates in our weekly Alpha Bites notes.
- **We have made a total of 12 trade recommendations so far, of which 8 are in the money.**
- **The last 5 recommendations have been in rates as we saw more opportunities in rates than FX over the past few weeks because of:**
 - **Higher volatility** in EM rates driven by the volatility in US rates
 - **Greater differentiation among central banks**, with several already hiking, some moving from dovish to hawkish camps, and others staying dovish.
- Of the total 12 recommendations, we have recommended taking profits on two (see [here](#)) and were stopped out of two (see [here](#) and [here](#)). We are further recommending taking profits on one more today. All the closed trades are italicized in the tables.
- **We recommend taking profits on [Receive Chile 10y vs Pay Mexico 10y](#) rate:**
 - With EM rates selling off in sympathy with US rates, **Mexican rates have been under greater pressure than in Chile as they have a higher beta and foreign positioning**, despite the reduction last year, **is still heavy** especially in the long end.
 - Moreover, **rising inflation expectations** led to the removal of rate cuts priced in Mexico.
- With regards to the **two currency trades we were stopped out of** over the past month:
 - **[Long Peruvian sol \(PEN\) vs Short Chilean peso \(CLP\)](#): Adjusted for beta, the sol continues to flash as one of the cheapest currencies in EM currently (see [here](#) and [here](#)) with the election uncertainty weighing on it and the central bank likely preferring to keep the currency weak despite sharply rising exports.**
 - **[Long Polish zloty \(PLN\) vs Short Czech koruna \(CZK\)](#): The [zloty has underperformed](#) as the National Bank of Poland has maintained a dovish bias, including directly intervening in the currency, while the koruna has outperformed as the Czech National Bank has stayed hawkish. We recommended [receiving Czech 2y vs paying Poland 2y](#) to capitalize on the gap between the two curves due to the opposing stances of the central banks.**

FX Trade Recommendations Summary

Date		Currency		Amount (USD mn)		Entry Price		Current or Closed Price		PnL ('000s)		
Initiated	Current or Closed	Long	Short	Long	Short	Long	Short	Long	Short	Current or Closed	Target	Stop-Loss
1/11/21	3/16/21	PEN	CLP	\$1.00	-\$0.36	3.60	719.19	3.70	723.60	-\$24.2	\$63.0	-\$31.5
1/18/21	3/1/21	RUB	COP	\$1.00	-\$0.76	74.26	3460	74.04	3613	\$38.5	\$81.3	-\$40.7
2/1/21	3/29/21	PLN	CZK	\$1.00	-\$0.97	3.73	21.47	3.94	22.13	-\$26.1	\$40.5	-\$20.3
2/8/21	4/5/21	KRW	TWD	\$0.70	-\$1.00	1119	28.00	1127	28.50	\$12.4	\$56.0	-\$28.0
2/22/21	4/5/21	MXN	CAD	\$0.54	-\$1.00	20.79	1.26	20.26	1.25	\$9.6	\$64.7	-\$32.4

Note: PnL estimates do not include transaction and other related costs; data as of April 5, 2021, 8:30 am EST

Rates Trade Recommendations Summary

Date		Rate		DV01		Entry Price		Current or Closed Price		PnL ('000s)		
Initiated	Current or Closed	Receive	Pay	Rec	Pay	Rec	Pay	Rec	Pay	Current or Closed	Target	Stop-Loss
1/25/21	4/5/21	Chile 10y	Mexico 10y	1000	-840	2.65	5.45	3.36	6.84	\$49.6	\$93.4	-\$46.7
2/15/21	3/1/21	SAGB 7% 2031	ZAR 10y IRS	825	-1000	9.02	6.76	9.36	7.46	\$42.5	\$72.5	-\$36.3
3/1/21	4/5/21	Hungary 10y	Poland 10y	1000	-1000	2.41	1.69	2.65	1.87	-\$4.7	\$86.3	-\$43.2
3/8/21	4/5/21	Mexico 10y	Mexico 5y	800	-1000	6.40	5.52	6.84	6.05	\$16.4	\$63.1	-\$31.6
3/15/21	4/5/21	Colombia 5y	Colombia 10y	1000	-1000	3.84	4.84	4.50	5.51	\$2.6	\$37.1	-\$18.6
3/22/21	4/5/21	South Africa 10y	South Africa 2y	1000	-1000	7.61	4.52	7.68	4.46	-\$12.6	\$122.2	-\$61.1
3/29/21	4/5/21	Czech 2y	Poland 2y	1000	-1000	0.94	0.38	1.00	0.53	\$10.0	\$33.9	-\$17.0

Note: PnL estimates do not include transaction and other related costs; data as of April 5, 2021, 8:30 am EST

IMPORTANT INFORMATION AND DISCLAIMER

THIS DOCUMENT IS INTENDED ONLY FOR THE PERSON TO WHOM IT HAS BEEN DELIVERED. THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL, IS NOT AN OFFER OR A SOLICITATION OF AN OFFER IN RESPECT OF SECURITIES AND SHOULD NOT BE CONSTRUED AS AN OFFER OF ANY KIND OR THE SOLICITATION OF AN OFFER TO BUY IN ANY STATE OR JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. THE DOCUMENT HAS BEEN PROVIDED FOR INFORMATIONAL AND EDUCATIONAL PURPOSES ONLY. THE INFORMATION IS NOT INTENDED TO PROVIDE OR CONSTITUTE INVESTMENT, ACCOUNTING, TAX OR LEGAL ADVICE.

THIS DOCUMENT AND THE TRADING STRATEGIES DISCUSSED WITHIN THE DOCUMENT ARE THE INTELLECTUAL PROPERTY OF GAUTAM JAIN AND MAY NOT BE REPLICATED, REPRODUCED OR REDISTRIBUTED IN WHOLE OR IN PART NOR MAY ITS CONTENTS BE DISCLOSED TO ANY OTHER PERSON UNDER ANY CIRCUMSTANCES, WITHOUT THE EXPLICIT CONSENT OF GAUTAM JAIN.

THE HYPOTHETICAL PERFORMANCE FIGURES HEREIN SHOULD NOT BE CONSTRUED AS INDICATIVE OF THE FUTURE PERFORMANCE OF THE STRATEGY OR OF ANY PROPOSED TRADING PROGRAM. HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT THE STRATEGY OR OF ANY PROPOSED TRADING PROGRAM WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. THE HYPOTHETICAL PERFORMANCE FIGURES PROVIDED HEREIN ARE CALCULATED BY GAUTAM JAIN AND ARE UNAUDITED.

THESE RESULTS ARE BASED ON SIMULATED OR HYPOTHETICAL PERFORMANCE RESULTS THAT HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE THE RESULTS SHOWN IN AN ACTUAL PERFORMANCE RECORD, THESE RESULTS DO NOT REPRESENT ACTUAL TRADING. ALSO, BECAUSE THESE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THESE RESULTS MAY HAVE NOT ACTUALLY BEEN EXECUTED, THESE RESULTS MAY HAVE UNDER- OR OVER-COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED OR HYPOTHETICAL TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THESE BEING SHOWN.

EXPOSURE TO EMERGING MARKETS GENERALLY ENTAILS GREATER RISKS THAN EXPOSURE TO WELL-DEVELOPED MARKETS, INCLUDING POTENTIALLY SIGNIFICANT LEGAL, ECONOMIC AND POLITICAL RISKS. THE PRICES OF EMERGING MARKET EXCHANGE RATES, SECURITIES AND OTHER ASSETS ARE OFTEN HIGHLY VOLATILE. MOVEMENTS IN SUCH PRICES ARE INFLUENCED BY, AMONG OTHER THINGS, INTEREST RATES, CHANGING MARKET SUPPLY AND DEMAND, EXTERNAL MARKET FORCES (PARTICULARLY IN RELATION TO MAJOR TRADING PARTNERS), TRADE, FISCAL, MONETARY PROGRAMS, POLICIES OF GOVERNMENTS, AND INTERNATIONAL POLITICAL AND ECONOMIC EVENTS AND POLICIES. ANY PROJECTIONS, MARKET OUTLOOKS OR ESTIMATES IN THIS DOCUMENT ARE FORWARD LOOKING STATEMENTS AND ARE BASED UPON CERTAIN ASSUMPTIONS. OTHER EVENTS WHICH WERE NOT TAKEN INTO ACCOUNT MAY OCCUR AND MAY SIGNIFICANTLY AFFECT RETURNS OR PERFORMANCE OF AN INVESTMENT. ANY PROJECTIONS, OUTLOOKS, OR ASSUMPTIONS SHOULD NOT BE CONSTRUED TO BE INDICATIVE OF THE ACTUAL EVENTS WHICH WILL OCCUR. THE HYPOTHETICAL PERFORMANCE FIGURES HEREIN SHOULD NOT BE CONSTRUED AS INDICATIVE OF THE FUTURE PERFORMANCE OF THE BASKET OR OF ANY PROPOSED TRADING PROGRAM.