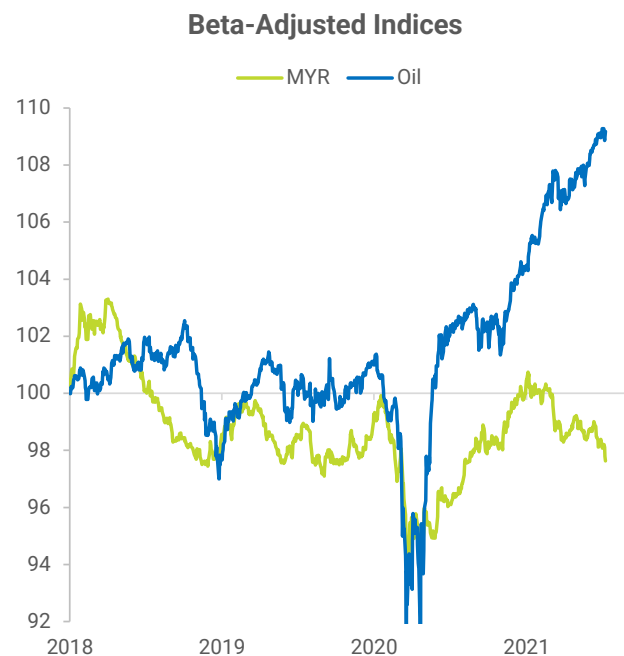
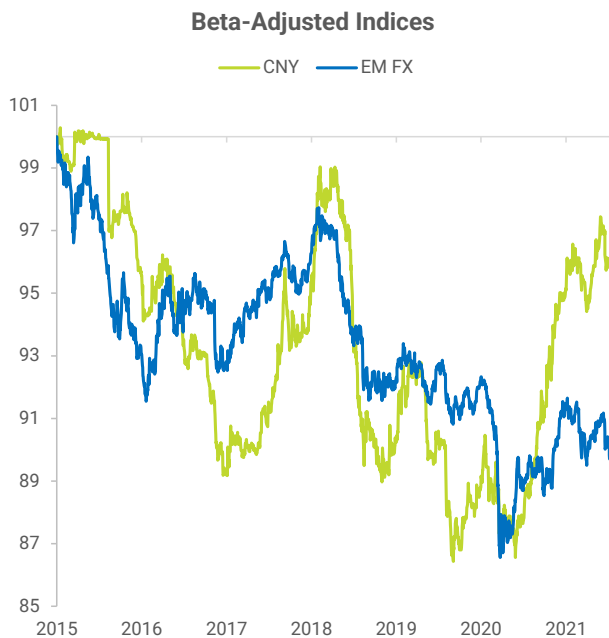


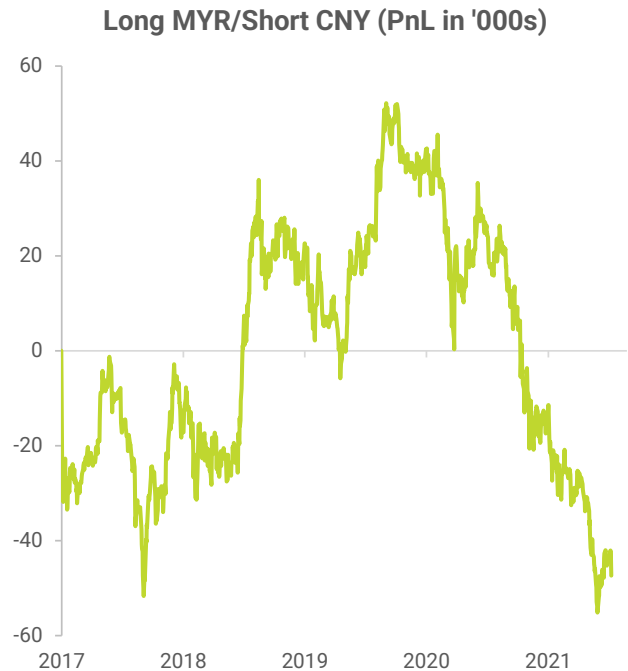
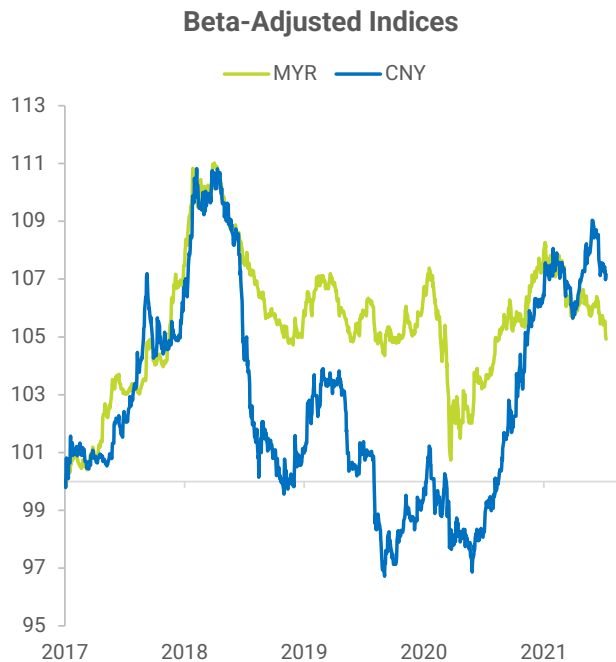
ALPHA BITES: Trade Ideas in EM FX and Rates

Long Malaysian ringgit vs Short Chinese renminbi

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- **The People's Bank of China (PBOC) surprised markets last week with a 50 bp cut in the reserve requirement ratio.** PBOC's move is likely in response to the recent [softening of data](#) to ensure that the economy doesn't slow more than expected in H2 and growth for the year as a whole stays within the forecasted range of 8-9%.
- **While this is likely not the start of an aggressive easing cycle, it should still weigh on the renminbi (CNY):**
 - The latest action exhibits PBOC's concerns about **slowing exports**, thus **ruling out strong fixings for CNY**.
 - **The easing stance of PBOC contrasts with all the major economies**, which are either raising rates already or are headed in the direction of monetary tightening.
 - **CNY has outperformed the broad EM FX complex** since last year (see the left chart above).
- **We find this to be an opportune entry point for a Short CNY against Long Malaysian ringgit (MYR) trade as:**
 - **MYR has underperformed vis-à-vis CNY** (charts on next page) **and oil**, which it exports (right chart above).
 - **One reason for MYR's lag is political noise** with the [largest party \(UMNO\) in the ruling coalition withdrawing support](#) and asking for the PM to resign. **While adding uncertainty, the impact should be limited** since UMNO has been mulling the action for some time and UMNO ministers have not resigned.
 - **Another reason for the currency's underperformance is the resurgence of coronavirus** which has resulted in renewed lockdowns. **However, the pace of vaccination has ramped up** with [25% of the country receiving at least one shot](#) and the country is on the path to achieve herd immunity well before year-end.
 - Besides vaccinations, **higher oil prices**, [a new fiscal stimulus package](#), and **expectations of growth staying robust in China**, the main trading partner, **are supportive of growth and the central bank not easing**.
- The charts and tables on the following page provide details regarding sizing and expected returns of the trade.



Trade Entry Levels, Sizes, and Expected Returns

| | Long MYR | Short CNY |
|------------------------------------|------------------|---------------------|
| Spot Levels vs USD | 4.19 | 6.48 |
| Beta-neutral Amounts (USD) | \$700,000 | -\$1,000,000 |
| VAR (2y) | \$5,400 | \$6,500 |
| VAR of pair | \$6,000 | |
| Z-Score/3m Return (not ann) | | |
| Z-Score of Pair | -1.8 | |
| Expected 3m Return | 12.9% | |
| 3m Carry | -1.2% | |
| Total Expected 3m Return | 11.7% | |
| Expected 3m PnL Assuming | | |
| | w/ carry | w/o carry |
| Mean Reversion | \$39,800 | \$43,800 |
| Levels - 1m ago | -\$1,800 | \$2,200 |
| Levels - 6m ago | \$24,000 | \$28,000 |
| Levels - Best day in 4 years | \$91,300 | \$95,300 |
| Levels - Worst day in 4 years | -\$10,900 | -\$6,900 |

Note: For return computation, we assume margin of 20% of Long + Short amount; data as of Jul 12, 2021, 8:30 am EST; EM FX = equally weighted index of 22 currencies' spot returns

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