

## EM Alpha

## Close sell MXN/ZAR and CZK receiver

**LatAm FX carry dethroned by rising global volatility**

Over the past month, an increase in global volatility on the back of high uncertainty around US rates, as well as a deterioration in geopolitical conditions, put pressure on EM FX. In particular, high-yielding currencies went through meaningful depreciation, as the appeal of carry faded on the back of higher volatility.

In this backdrop, MXN was the third worst-performing currency in EM over the past month, depreciating by almost 5% against the US dollar. In our view, heavy positioning has been an important driver of the sharp move under the less benign global outlook. In contrast, ZAR has been the second best-performing currency in EM over the past month, strengthening by roughly 3.4% against the US dollar. This has been largely supported by valuation, a hawkish central bank and light positioning.

**We close our sell MXN/ZAR recommendation**

We close our sell MXN/ZAR trade recommendation, which we opened on September 25 (see [Switch from buy ZAR/CLP to sell MXN/ZAR](#)). We entered the trade at 1.09 and exit now at 1.04. While we continue to see MXN as overvalued, largely driven by carry (see [Keep calm, but don't carry on with MXN](#)) and vulnerable to risk-off shocks (see [The Kryptonites to the Super Peso](#)), we believe that risk-reward of selling MXN is not attractive at current levels as a more hawkish central bank and a resilient US economy may provide some short-term support to the currency. Moreover, we have turned bearish ZAR as we see hawkish monetary policy as largely priced-in (see [More pain for EM: long EURZAR](#)).

**We also close our 10y CZK IRS receiver**

We also close this position which is now at 4.55% from the entry at 4.85% on October 4. We continue to like long duration in Czechia and would receive into spikes as we ultimately expect deeper cuts into the terminal rate than currently priced in. However, we see two near-term risks: first, the upcoming November rates meeting is a very close call, though our baseline remains that it will bring the beginning of the cutting cycle; second, the geopolitical situation is very unstable and could bring another spike in oil prices.

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GEM FI & FX Strategy  
Emerging Markets Global

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For a complete list of our open trades and closed trades over the past 12 months see our latest [Global Emerging Markets Weekly](#).

**List of acronyms:**

EM: Emerging Markets  
FX: Foreign exchange  
LatAm: Latin America  
MXN: Mexican peso  
US: United States  
ZAR: South African rand

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