

The LatAm Feedbaker

Locals reduced positions in rates & FX

Locals reduced risk exposure

We spent the last few days visiting local hedge funds in Rio and São Paulo. Overall locals are skeptical about Brazilian assets. They continue to see the local story as boring which has driven volatility in both rates & foreign exchange to very low levels. In general, locals are not carrying big positions and are trading both assets tactically.

Waiting for the Fed and hoping for a lower terminal rate

Most of the investors we met expect the selic rate to end this year below our 9.5% terminal rate call. Given that the local yield curve prices in our call, they see room for yield compression and are receiving rates in the short-end. Positioning is light, since locals are on "waiting mode" to have more clarity about FED.

Some watching inflation linkers

Some of the clients we met believe that the ongoing decline in breakeven inflation is making the short-end of the linkers curve more attractive. Some local players prefer to be long linkers in the shorter-end vis a vis nominals.

Long BRL positions lost traction among locals

Contrary to what we heard in the last few months, based on on conversation with investors long BRL positions seem to be losing traction among locals. The currency has been trading in a tight range for a long time and carry is not as attractive as it used to be before. Some noted that there are some downside risks for the trade balance forecasts as commodity prices have been declining at the margin. We still found some locals with long BRL short EUR positions given the positive carry.

Despite news on Petrobras' dividends, no change in views

Despite the news regarding Petrobras' dividends, locals do not see a significant change in the macro scenario ahead. The ongoing positive surprises in tax collections continue to lead to revisions in fiscal forecasts towards our 0.4% primary fiscal deficit this year. Yesterday's positive surprise in retail sales will continue to drive GDP growth forecasts higher in the short-term. We continue to forecast a 2.2% GDP growth this year.

Focus in US equities continues

Locals remain positioned in US equities and do not see many short-term triggers for local stocks. Risk perception on state-owned companies increased and they account for about 20% of the local index and Vale (also subject to short-term noise) accounts for 12% making it more difficult for the Ibovespa to rally in the short-term.

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Investment Strategy
Latin America

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