

MONTHLY LETTER | August 2019



Monthly results. The Blue Alpha fund showed a correction after expressive results in the previous months. The fund had realized annualized volatility of 5% with losses in fx and rates that were explained by worsening the trader war negotiations. The equity book presented positive results, partially offsetting the fund's losses in the month. We continue to use BlueLine's expertise to generate alpha via stock picking, building up a portfolio and extracting positive results in the equity book even with the adverse scenario for risky assets and with losses in the Bovespa index.

Global Markets. External markets were more positive until the FED's meeting in July. The FED delivered the 25 bps rate cut, the so-called "mid cycle" or "insurance" cut. This indicates that the FED is looking more to the local economic development (that is indeed doing well) than to the rest of the world. At the same time, the trade war tensions worsened with the increase of import's tariffs from both parts. This dispute between the two biggest economies of the world is here to stay and will impact negatively the markets in the short and medium run.

Brazil. The positive view with respect to Brazil didn't change. The agenda of reforms that is moving to the right direction amid interest rate cuts are supportive of growth ahead. The least affected asset class was equities, while the BRL lost 8% in the month, which it seems overstated. A currency war intensifies the risk of the RMB depreciation, which should impact emerging market's currencies. The fx market rallied 30 bps in the January 2023 maturity, impacted by the fx depreciation. In September, our strategy is to focus in alpha generation in equity, receiving local rates and looking for protection in currencies that are more exposed to the economic deceleration in China.

LatAm

In Mexico the central bank finally delivered the 25 bps cut, taking rates to 8%. It was a coherent move given the recent economic deceleration in Mexico, lower inflation and the rate cut delivered by the FED in July. Mexico is one of the countries that can benefit from the increase in tariffs between the US and China as it can become a cheaper substitute for China to the US. We are monitoring any development in terms of foreigner investment in Mexico's energy market. This could be a game changer for the country in the second half of this year. We like to receive rates and we like the currency, but we remain negative equities and on the CDS.



In Chile, the currency has deteriorated, following the deceleration in China, the widening current account deficit and the lower interest rates. Our focus in Chile remains in the currency, as rates don't show an opportunity.



In Colombia, we remain worried with the widening current account deficit that, despite the peso depreciation, is still at uncomfortable levels, above 4% of GDP. Ironically, the deficit has deteriorated at the margin with better growth that pushed up imports. At the same time, export volumes and oil prices have come down. The external account's position should keep the COP under pressure. Differently from Chile, where the central bank is not concerned with the currency as inflation is running below the target, in Colombia inflation is reaching the upper bound of the central bank's inflation target which, along with the widening current account deficit, has made BanRep to move back and forth with the decision to cut rates.



In Argentina, we remain concerned, as we said in the last two letters. The primary election results point to a victory of the coalition formed by Alberto Fernandes and Cristina Kirchner, which raises social and economic risks. The most important thing is the definition of an economic team, permanent or a transition one, that would give credibility to Argentina to negotiate with external creditors the necessary conditions to bring market access back to the country. This could avoid an even deeper recession. We remain with no exposure to Argentina.



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