BlueLine
ASSET MANAGEMENT

MONTHLY LETTER I **September** 2019

Monthly results. The Blue Alpha fund showed positive returns in September, much explained by the performance in our rates desk (42.12%) and by the effectiveness of our equity desk (28.4%) that, despite the market moving sideways, was able to generate alpha with a bottom up stock picking strategy. The fx desk showed a small loss of 7.31 and the remaining of the result is explained by other costs (36.8%). The positive result in September, amid volatility reduction, resulted in an elevated sharpe of 2.28.

International. Except for the FX, all markets showed a positive performance in September, recovering from losses in August that happened amid a scalation of trade war. tensions between China and the US. September´s improvement happened on the back of three factors: i) the second 25bps rate cut delivered by the FED in 10 years; ii) the 10bps monetary easing from ECB and the reactivation of the quantitative easing (QE) program in the order of $20 bn Euros; (iii) some relief in the trade tensions between the US and China. With this, there was a recovery in mostly asset markets around the globe. The exception was in the fx markets, given this is the market that is the mostly impacted by the trade war. We are far from reaching a final solution for this trade problem, despite the momentary relief.

Brazil. The biggest piece of news in Brazil was a more dovish stance from BCB. By cutting 50bps, taking the interest rate to 5.5%, hinting a new cut in October and lowering its inflation forecast for the upcoming years, the COPOM shows the market that we will reach lower interest rate levels than previously expected. Our understanding is that the economic conditions given by growth, the output gap and inflation support a more dovish stance from the BCB. Certainly, real assets are the biggest beneficiary of this new scenario and we are searching for an equity portfolio as well as adding some long/short positions. The steepness of the intermediary part of the curve still prices in elevated risk premia, which is an opportunity for our rates desk. In fx, we think that long dollar positions against other currencies that are more exposed to trade war conflicts make the most sense for now.

LatAm

In Mexico, the recent inflation numbers associated to a relatively more dovish stance from BANXICO supported a new 25 bps rate cut in September. The news came from two members of the board that voted for a more aggressive 50bps rate cut. The interest rate curve already prices in the current easing cycle will deliver rates around 6.5%, but we believe that with low inflation, relatively stable peso and subdued economic growth rate can go even lower. Uncertainties regarding Pemex were partially alleviated with a capital injection in the company, suggesting a rating downgrade is not imminent. The MXN should not suffer with the current easing cycle, however the current dollar global trend is not supportive for the MXN. The most interesting bet now is still to receive rates in the intermediary part of the curve.

In Chile, the central bank (BCCH) cut another 50bps and the market has already priced additional 30 bps in rate cuts. The momentary cooling off in the trade war removes a bit the pressure on the BCCH about the Chilean peso. We think the trade war is far from be solved and we still like long dollar positions against the Chilean peso.

In Colombia, the central bank kept rates stable in September after 17 meetings in a row. Global deceleration could favor future cuts in the Colombian curve if it was not the large current account deficit. The Colombian peso didn´t appreciate this month despite the spike in oil prices after the Middle Eater conflicts. Nonetheless, higher oil prices are supportive of the fiscal accounts in the country, reducing chances of a sovereign downgrade. We remain with no clear view on Colombia.

In Argentina, the country lost $6bi in international reserves this month. The debt restructuring and the introduction of capital controls, even though they look like inevitable now, don´t support a clear view on Argentina´s path after the election. Capital controls make the fx market to behave in an artificial way. Blue Chip Swap (BCS), an instrument of exchange rate swap, that considers bonds in pesos and dollars, has already priced in a much more depreciated fx rate. The liquidity in the NDF market is almost gone amid fears about fixing fx rates. We remain with a negative view in Argentina awaiting for the election outcome in October 27th.

In Peru, a political turmoil is underway. The political institution there resembles a presidential system with a hint of parliamentarism. President Martín Vizcarra sent to Congress a bill willing to bring forward the general elections in the country. A constitutional commission decided to shelve this bill and the President asked for a confidence vote to Congress. With the perception that the vote was lost, the President dissolved the Congress and called for new elections. Growth, that was already running below potential, should suffer even more with this political noise. We didn't have a clear view of opportunities in Peru and now with this additional political uncertainty, we remain with a no position stance.

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