

Subject: [/] DB Morning Overview
From: Martin Zeman [REDACTED]
Date: Fri, 22 Sep 2017 09:00:10 -0400
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Classification: Public

Paul – we send this morning piece below to a list of our mainly LatAm clients every morning. Would you like to be on this?

Martin

Classification: Public

DB the WORLD

- DB Reid - This week has been, and still is, all about (arguably) the three most powerful women in the world.
- DB Giacomelli - EM Daily - Turkey Trip Notes: In search of non-decelerating growth rate of stimulus - We spent two days earlier in the week in Ankara and Istanbul, meeting with the Central Bank of Turkey (CBT).
- DB Agarwal - Corporate Credit - EM Chartbook - Regional strategy and Picks & Pans - We turned neutral on EM corporate credit in our last chartpack on June 21, a bit too early on hindsight.

DB LATIN

- Brazil/ DB Faria/ Brazil Update - Inflation Report reinforces benign inflation scenario - Inflation Report suggests further easing and long period with low interest rates.

INDEX PERFORMANCE (USD)

1D Chg %

YTD Chg %

Yesterday's 10 BEST

Ticker

Price

% Chg

Yesterday's 10 WORST

Ticker

Price

% Chg

Argentina Merval

0.6

33.6

Banco de Chile

BCH US

92.4

4.6

Credito Real

CREAL* MM

1.8

-3.7

Brazil BOVESPA

-0.8

30.0

GOL S.A.

GOL US

22.4

3.8

MercadoLibre

MELI US

281.9

-2.9

Chile IPSA

0.2

36.6

LATAM Airlines Group S.A.

LTM US

14.4

2.9

Chedraui

CHDRAUIB MM

2.1

-2.7

Colombia IGBC

-0.9

12.8

Santander Chile

BSAC US

30.2

2.0

Natura

NATU3 BS

10.3

-2.6

Mexico IPC

-0.7

28.6

Banco do Brasil

BBAS3 BS

11.3

1.9

Vale

VALE UN

10.3

-2.5

Peru IBVL

0.2

20.0

Femsa

FMX UN

99.4

1.7

CBD-GPA

PCAR4 BZ

24.9

-2.1

Venezuela BVC

0.0

1243.2

Bladex

BLX UN

29.0

1.1

Wal-Mart de Mexico

WALMEX* MM

2.3

-2.1

Azul S.A.

AZUL US

28.9

1.0

Cia Hering

HGTX3 BS

9.2

-2.0

Bancolombia

CIB US

46.5

0.8

Liverpool

LIVEPOLC MM

8.5

-1.9

Embotelladora

AKO/B UN

27.9

0.6

Grupo Bimbo

BIMBOA MM

2.4

-1.9

GLOBAL CREDIT STRATEGY - Early Morning Reid

[Jim Reid, London]

The Euro II analyst survey is live and we would really appreciate your support if you value our work. Please see the attached link for instructions as to how to vote. Many thanks for your support. http://pull.db-gmresearch.com/p/1-DA8B/287530201/JR_II_Voting_Guide.pdf ***

Another reminder that on Monday we published our annual long-term study entitled 'The Next Financial Crisis'. In the report we look at the frequency of financial crises and shocks through history and speculate as to where the next crises may originate. Please see the report for more details. It should be in your mail box at around 11am BST Monday morning. Also this week we have Macro Bites - '2017: Markets won't always be like this' and our latest credit strategy update - 'Is Carry still King?'

Happy Friday and it's the dreaded weekend of non stop twin care to look forward to with in addition yet another 2 year old's birthday to attend. So far my wife and I are detecting an arms race in 2 year old birthday parties with each one having more spent on it. What started out with a few cheese

and pineapple sticks has graduated to trampolines, bouncy castles and gift packs for the kids to take away. In response we won't be holding a 2 year old birthday party. I'd rather the kids (and parents) are impressed with our efforts when the kids are old enough to remember. Extravagance at this age seems like you're peaking too early and is a bit wasted!!!

It doesn't feel like this week has reached its peak yet. This week has been, and still is, all about (arguably) the three most powerful women in the world. Yellen was certainly on the hawkish side on Wednesday and now we have a big Mrs May speech on Brexit today ahead of Mrs Merkel's re-election vote on Sunday.

EMERGING MARKETS DEBT STRATEGY - Turkey Trip Notes: In search of non-decelerating growth rate of stimulus

[Drausio Giacomelli & Team]

Turkey Trip Notes: In search of non-decelerating growth rate of stimulus

We spent two days earlier in the week in Ankara and Istanbul, meeting with the Central Bank of Turkey (CBT), the Ministers in charge of economy management, politicians, local banks, economists, political analysts, and international organizations. We returned with three key take-aways: Sustaining a competitive economic (5%) and employment growth rate is the top priority for authorities; CBT now defines its 'forward guidance' as 'tight for longer'; and Targeted macro backdrop and the underlying policy mix, with less focus on quality of growth hint that the authorities are already in the election mood.

We believe the authorities are wary of consequences of overly stimulating economy via fiscal and credit impulse given adverse side effects in terms of upward pressure on bond yields due to excessive roll-over rates, overly leveraged banking system in TRY terms as well as high and sticky inflation. Such demand boost, by nature, is also not sustainable for long. This is why probably policymakers are inclined to shift to a decelerating (or non-accelerating) rate of impulse creation in the coming period. Finding the optimal path for stimulus is however a tricky task. High-interest-rate environment in Turkey is likely to stay with us for some time due to structural and cyclical factors currently at play.

Russia in pictures: Steady as she goes

Russian economy beat market expectations to grow by 2.5% YoY in Q2, the

highest growth in 14-quarters as compared to 0.5% YoY in the previous quarter. August data shows Russia is doing fairly well, but it is too early to call that 2Q performance can extend into 3Q. Inflation surprised on the downside in August; likely to continue to decelerate. The CBR decided to cut the key policy rate by 50bps to take rate to 8.50% in September. The Finance Ministry approved federal draft budget for 2018-2020 that should be welcomed by investors.

CORPORATE CREDIT - DB Agarwal - EM Chartbook - Regional strategy and Picks & Pans

We turned neutral on EM corporate credit in our last chartpack on June 21, a bit too early on hindsight. Our view was driven mainly by valuation. To be clear, we were not negative and thought spreads would be range bound, making credit largely a carry play. However, since then, spreads are ~20bp tighter, with higher beta components such as HY (vs. IG) and Latam outperforming - Figure 1. This was mainly on account of positive EM growth, a low rates environment, weaker dollar, stabilising China macro, higher commodities, etc. Markets shrugged off political noises in many parts of EM and heavy supply was quite well absorbed. With 3 months to go for the year, we don't have much incentive to turn constructive again, instead opting to stay in the neutral/carry camp. Again, we are not negative and not calling for a material widening in spreads. As fundamentals stay supportive and technical backdrop is strong, spreads could remain tight. A key driver for EM will obviously be rates. Lower for longer is now a consensus view (and we are in this camp), hence the risk is perhaps to the downside.

LATAM

BRAZIL

BRAZIL UPDATE - DB Faria - Inflation Report reinforces benign inflation scenario

Highlights: Inflation Report suggests further easing and long period with low interest rates

The IPCA-15 rose 0.11% in September, in line with our forecast of 0.10%

Job creation was slower than expected in August

Inflation Report reinforces benign inflation scenario: The BCB published its quarterly Inflation Report, extending the forecasting period by five quarters up to the fourth quarter of 2020. The Report's passive inflation forecasts assumed a SELIC overnight interest rate at 7.0% at the end of 2017 and 2018 and 8.0% at the end of 2019 and 2020. This scenario included FX at BRL3.20/ USD for end-2017, BRL3.30/USD for end-2018, BRL3.40/USD for end-2019 and BRL3.45/USD for end-2020. In this scenario, the passive IPCA forecast fell to 3.2% from 3.8% for 2017 and to 4.3% from 4.5% for 2018. The passive IPCA forecast for 2019 and 2020 were 4.2% and 4.1%, respectively. We note that the inflation targets for the next years will be: 4.5% for 2018, 4.25% for 2019 and 4.0% for 2020. Thus, according to this scenario, inflation would not exceed the target until 2020.

The BCB forecasts assumed 'some normalization of food prices' - whose large deflation has significantly contributed to lower headline inflation this year. Moreover, the forecasts took into consideration that 'the process of structural reforms, such as the fiscal reforms and the recent approval of measures in the credit area [i.e. the TLP interest rate] contribute to the gradual reduction in the structural rate of interest.' The BCB raised its forecast for GDP growth this year to 0.7% from 0.5% and forecasts 2.2% growth for 2018.

As usual, the Inflation Report presented alternative scenarios for inflation. Maintaining the same path for the SELIC rate (i.e. an increase to 8.0% in 2019 and 2020) but assuming a stable FX at BRL3.10/USD, the BCB forecast IPCA inflation of 4.1% for 2018, 3.9% for 2019 and 3.9% for 2020. In this scenario, inflation would remain below the target until 2020. The bottom line, in our opinion, is that, assuming FX stability, the inflation forecasts suggest that the SELIC rate could fall to 7% or maybe even less and stay low for a long period after the BCB concludes the easing cycle.

The Inflation Report repeated the COPOM communiqué and minutes: 'For the next [COPOM] meeting, provided the baseline scenario evolve as expected, and taking into account the stage of the monetary easing cycle, at this time the Copom views a moderate reduction of the pace of easing as appropriate.' Moreover, 'the Committee foresees a gradual phasing out of the easing cycle.'

We expect the COPOM to cut the SELIC rate by 75bps to 7.50% at the next meeting in October and are keeping our terminal rate forecast unchanged at 7.0% for now. However, we believe that the risk is strongly tilted towards lower interest rates, especially considering our inflation forecast of 2.8%

for 2017 is even lower than the BCB's passive inflation forecast of 3.2%.

The IPCA-15 rose only 0.11% in September: The IPCA-15 consumer price index rose 0.11% in September, down from 0.35% in August, and in line with our forecast of 0.10%. As expected, the continuation of strong deflation of food prices offset an increase in transportation costs. Food prices fell 0.94% (vs. -0.65% in August), housing costs rose 0.26% (vs. 1.01%, due to lower pressure from electricity prices), home appliances inched up 0.04% (vs. 0.21%), apparel climbed 0.31% (vs. -0.29%), transportation surged 1.25% (vs. 1.35%, led by fuel and air travel), healthcare increased 0.10% (vs. 0.73%), personal expenses rose 0.45% (vs. 0.34%), education increased 0.09% (vs. 0.19%) and communication fell 0.18% (vs. -0.32%). In 12 months, the IPCA-15 decelerated further to 2.56% from 2.68% in the previous month. We expect the IPCA to rise only 0.05% this month and have cut our 2017 IPCA forecast slightly to 2.8% from 2.9%.

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