

Emerging Market Rates Strategy

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Market environment

JP Morgan's Government Bond Index Emerging Market (GBI-EM) Global Diversified Index was up strongly in September (+3.39%) as US bond yields declined and the USD weakened. The strength was evident across all regions, with Central and Eastern Europe lagging slightly due to softer currency performance. On a country level, South Africa, Brazil and Thailand were the star performers.

Performance

The strategy performed adequately during the month, capturing 142 basis points of these returns. The strategy benefitted once again from being long Turkey FX, which gained on the back of very high implied yields and the Central Bank of Turkey's commitment to keeping interest rates high until inflation starts to come down, and the rally in Colombian rates. These returns were supported by long rates positions in countries like Mexico and South Africa, and in the euro area. This was somewhat offset by a short position in Chile rates, and the hedging of USD risk via short positions in the Australian dollar and the euro.

Performance contributors

- Long Turkey FX
- Long Colombia rates
- Long EUR front end rates

Performance detractors

- Short Chile Rates
- Short Australia FX
- Short EUR FX

Outlook

Growing evidence of a moderation in inflation in both EM and developed markets (DM) has ensured that the strategy remains long rates in both DM and EM economies. Expectations of resilient growth have kept the strategy long EM FX, and the USD risks are hedged by shorts in DM currencies such as the EUR, AUD and CAD and lower-yielding EM currencies such as China's CNY/CNH. However, positioning has been reduced given imminent risks stemming from the US election.



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