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Argentina debt, Turkey uncertainty, Singapore MAS

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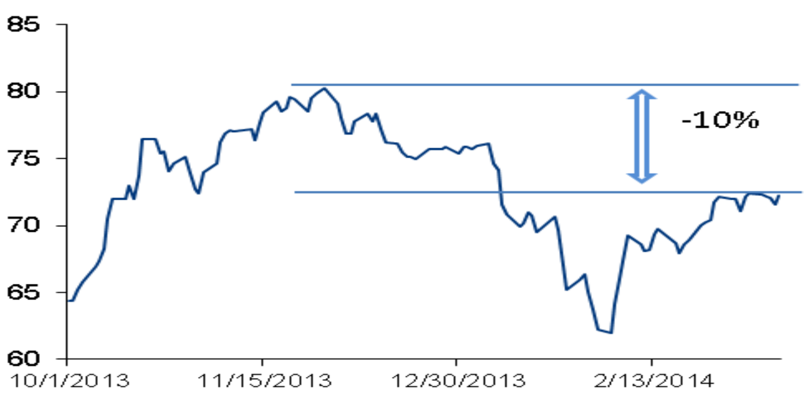
- **Action this Day**
  Today the focus will be on Argentina's fairly new inflation index and activity data out of Colombia. We forecast an increase of 3.8% mom in prices due to the peso's devaluation. In our view, the Argentine government's objective is to show a decreasing inflation rate starting in March. In Colombia, we expect an increase in retail sales (to 6.1% yoy) and IP (to 2.6% yoy) as consumer sentiment recovers and the COP depreciation supports the industrial sector. We remain bearish on COP and would look to short against BRL and MXN.

- **LatAm: Argentina - we moved Argentina from MW to OW**
  We raised Argentina debt to OW from MW. In our view, bonds will be supported by a strong harvest, a potential cut in subsidies and negotiations with the Paris Club. We like US$ Discounts. *(J.Brauer, M.Buscaglia, C.Irigoyen, S.Rondeau; page 2)*

- **EEMEA: Turkey – political uncertainty pervasive**
  The three main takeaways from our Turkey trip are: 1) we will likely have a nervous run to local elections, which may resolve very little in terms of political uncertainty; 2) approval ratings of the AKP and President Gul have declined; and 3) the private sector and policy makers do not want to think about possible downside risks to activity due to political uncertainty and hope things improve soon after the elections. *(T. Hamzaoglu; page 4)*

- **Asia: Singapore - MAS policy preview**
  We expect the MAS to maintain its current "modest and gradual" S$NEER appreciation stance, and leave the bandwidth unchanged. We see inflation taking precedence this year, given mounting pressures from wage increases, and as growth stabilizes. Accordingly, we expect S$NEER to trade largely within the upper half of the band this year. *(C. Tan, H.B. Chua; page 6)*

Chart of the Day – Argentina Discounts are 10% below November highs despite several market friendly measures



Source: BofA Merrill Lynch Global Research, Bloomberg.

See our "What's priced in" report, which derives market-implied central bank policy rate paths for 13 EMs.

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LatAm in Focus

We raised Argentina debt to OW

We tactically raised Argentina debt to overweight from market weight. Argentina has taken a series of market friendly measures since last October and managed to stabilize FX reserves. Still, bond prices are 10% below November highs. We think that bonds will be supported by a strong harvest, a potential cut in subsidies and resumed negotiations with the Paris Club. We like US$ Discounts.

Improved sentiment towards Argentina

Sentiment towards Argentina has been improving since early February (See Argentina: Carry on, 13 March 2014). The government managed to stabilize reserves and continues to take market friendly measures that put it a step closer to the international community. Recent successes include the ICSID settlement, the Repsol compensation, the release of a more realistic CPI and an attempt to negotiate with the Paris Club. Still, foreign law bonds are roughly 10% below November highs and there is substantial upside in our view.

We expect several positive developments in the coming weeks that will support bond prices. These include a positive harvest that will help building reserves, potential subsidy cuts, and continued negotiations with the Paris Club and holdouts. Accordingly, we recently moved our Argentina recommendation to overweight from market weight Argentina: move to OW 14 March 2014.

FX reserves will be supported by a strong harvest

We anticipate BCRA will likely build FX reserves in the coming weeks supported by an increase in grain exports in 2Q. Grain exports are likely to increase to more than $800mn / week in 2Q from less than $400m in 1Q. Soybean production estimates increased by at least 2mn tons and soybean prices are up 7% since 31 January, which implies an additional $2.5bn soybean exports above our initial estimate.

Subsidy cuts are on the way

The government seems determined to cut subsidies starting this year, according to statements from high-ranked members of the administration. Last week, the Chief of Staff, Capitanich, indicated that it is reasonable to gradually reduce subsidies by 2 to 2.5% of GDP in a testimony before the Senate. We think a more formal announcement regarding subsidy cuts is likely in the coming weeks. Total subsidies amounted to about 4.5% of GDP in 2013. These fiscal measures are needed to reduce the deficit and anchor inflation in the medium term, complementing the other market friendly measures.

Negotiations with the Paris Club and holdouts

The government seems determined to reach an agreement with the Paris Club. Press reports indicate that the Paris Club would agree to start negotiations with Argentina by the end of May to settle a total debt above $9bn. We expect the government to continue making progress in these negotiations, gradually improving Argentina's access to capital markets. We expect lengthy negotiations.

According to local press reports, the government is analyzing alternative proposals from international banks to negotiate with holdouts. An agreement with holdouts seems increasingly likely in the coming months in our view (though obviously the outcome is unknowable). This could reduce the downside risk in bond prices in the event of a negative court case outcome.

Strategy Recommendations, favor the Discounts

We expect Discounts to benefit the most on a price basis from positive developments we are anticipating to see in the coming weeks. We prefer Discounts over Pars or over shorter local law bonds. The Discos are more volatile and stand to gain more. In the last week, the Discos have lagged and we still see them as better value at $72.25. We believe that the Pars, at $38.75, have significant downside of as much as 30% in our view. That is based on a drop to, say $30 in the event of a technical default, where the Supreme Court does not overturn the Appeals court ruling against Argentina and the government chooses not to pay because of the ruling, rather than due to ability.

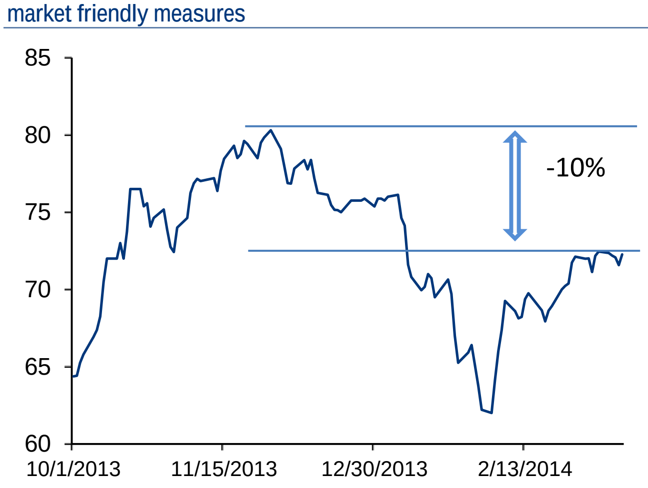
A drop of 30% on Discos would bring them to $50, which we see as low for those bonds, even in technical default. In the meantime, the Discos have higher current yield, provide a carry cushion and have greater upside in the event of a positive court ruling, in our view. Since Dec 2013, the Discos no longer capitalize, but instead pay out the entire coupon of 8.28% in cash, versus 2.5% for the Pars.

We also prefer $Discos to EUR Discos because they have also lagged the Euros and if there is a positive Supreme Court outcome for Argentina on the pari passu case, we would expect dedicated EM accounts many of whom are underweight, would step in to buy the $Discos to bring their holdings closer to market weight. We believe the warrants are fairly priced, with significant volatility around not only the pari passu court case, but also the GDP revision coming out on March 27.

Risks

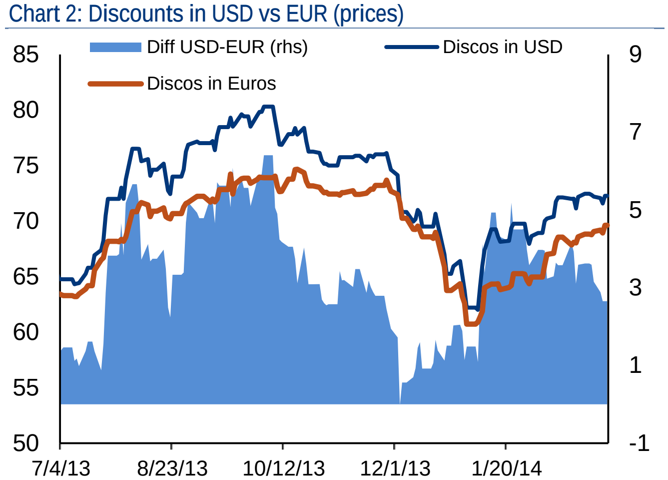
Risks include a delay in the implementation of subsidy cuts and excessively generous hikes in ongoing wage negotiations. On the supply side, we do not expect substantial supply shocks to affect the markets in the coming weeks. On the court case, plaintiffs have until March 24 to present their reply to Argentina's Cert petition (See Argentina: timing scenarios of Supreme Court actions.). We expect the plaintiffs to request a 30d extension toward the end of April to have time to address these amicus briefs. In our view, an amicus brief supporting Argentina from the US government or multilateral agency would be market positive (or negative if neither of those entities has filed a brief). A decision on whether to take the case or to request the views of the Solicitor General could be made in May/June or September.

Chart 1: Discounts are 10% below November highs despite several market friendly measures



Source: BofA Merrill Lynch Global Research, Bloomberg.

Chart 2: Discounts in USD vs EUR (prices)



Source: BofA Merrill Lynch Global Research, Bloomberg.

EEMEA in Focus

Turkey: political uncertainty pervasive

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Two days of meetings in Istanbul and Ankara left us with three main takeaways: 1) it will likely be a nervous run-up to the March local elections, which may resolve very little in terms of political uncertainty; 2) approval ratings for the AKP and President Gul have declined; and 3) the private sector and policy makers do not want to think about possible downside risks to activity due to political uncertainty and hope things improve soon after elections.

Local elections unlikely to clear political clouds

Local elections take place on 30 March and political uncertainty continues to increase. Our meetings with political parties, political analysts and think-tanks suggest local elections will resolve very little political uncertainty and that it will be a nervous run-up to the elections. There were large-scale street protests when we were in Turkey and the response of the police force was unsurprisingly harsh, suggesting patience is running thin on both sides.

The noise between the government and the Gulen movement is heating up. The rumor mill and even the governing AKP members suggest another market moving leaked wiretapping is likely just before elections, which will hurt AKP's popularity. The government appears very determined to launch an investigation against the Gulen movement, charging it as a terrorist organization, which could lead to a wave of very controversial arrests, probably right after the elections.

Popularity down, but AKP still leads the polls

The political noise has been running very high lately, mainly due to leaked wiretappings allegedly belonging to Prime Minister Erdogan and his close circle. AKP claims this situation has not affected its popularity and argues it still has 45-50% support of the voters. CHP, the main opposition party, says AKP's popularity is declining and down to 35-40% range. We met with independent pollsters who say AKP's popular support has suffered in the aftermath of corruption investigations. They also suggest the way AKP has dealt with the investigations raises concerns even among AKP voters about democratic rights, governance and, more importantly, the rule of law.

No polls have been released since the leak of the controversial wiretapping of a phone conversation allegedly between Erdogan and his son on the morning of 17 December, when the corruption investigation was launched. The standard deviation of polls is high and the average of numerous polls suggests AKP's popularity has been sliding toward 40%. The key here is likely the proportional distribution of undecided votes, although recent polls suggest leaked tapes push undecided voters toward parties other than the government.

There is another way to approximate to the AKP's popularity, in our view: Erdogan's rhetoric, assuming he knows how well AKP does the best. Erdogan had been always referring to the fact that AKP has half of the population's support, or that one in two supports AKP. Then he started referring to the 40% threshold and quickly shifted to the slightly lower benchmark of the last local elections in 2009, in which AKP received 38.8% of the votes. Last week, he suggested he will quit politics if AKP does not come out first in elections.

Note that we are probably talking about the lower bound of 35% now, as CHP is already close to 30% and AKP 42%, according to the average of recent polls.

Presidential elections no longer done deal for AKP

The presidential election is a hot topic, but discussions focus more on whether Erdogan or President Gul will run as AKP's candidate. Compared to our trips earlier this year, more AKP members in Ankara indicate the three term limit is likely to change and Erdogan will not run for presidency, though the decision will be clarified after these elections. If Gul runs, consensus believes he would win and that the status quo – Erdogan as prime minister and Gul as president – is positive for markets.

The risk here for AKP is if it loses the presidential elections to the opposition. Recent polls suggest Gul's decision to approve all the controversial laws on the Internet ban, the supreme board of judges and prosecutors, and closure of the prep schools, which are largely run by Gulen movement, were received poorly and his popularity has taken a hit.

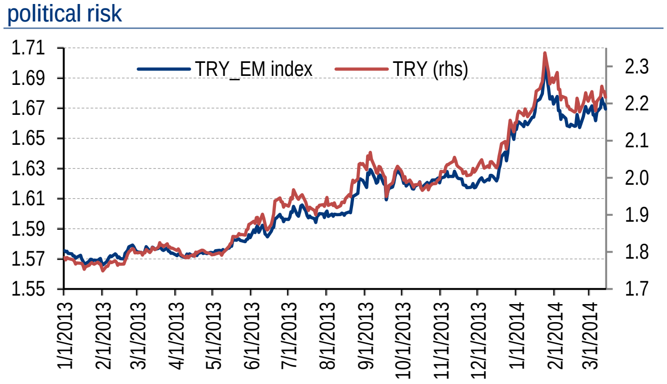
If the opposition can agree on a candidate, it seems possible the AKP could lose the presidential election in the second round (first round on 10 August, second round on 24 August). Just like the idea of a coalition government in the next parliamentary elections brings back ugly memories of the 1990s for the markets, the increase in this possibility in the aftermath of local elections will likely bring back memories of AKP's early days when its recurrent clashes with President Sezer were part of daily politics, in our view.

Private sector and policy makers hoping improvement

The private sector and policy makers do not want to think about possible downside risks to activity due to political uncertainty, and hope things improve soon after the elections, which we do not agree with. Loan growth seems to have come down sharply for consumers, while corporate loan demand remains strong, probably due to increased working capital needs. Year-to-date loan growth suggests the Central Bank of Turkey's 15% guidance may be undershot this year.

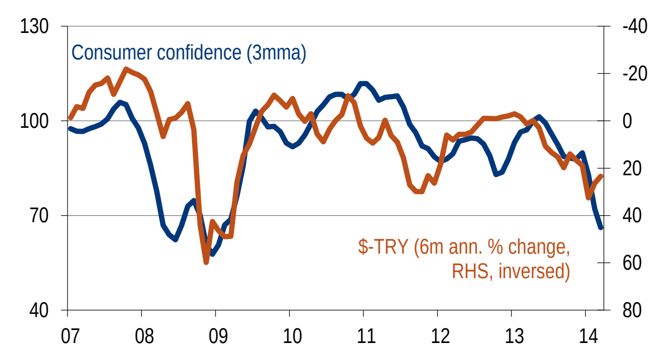
Banks think USD-TRY moving beyond 2.30 on politics and/or inflation hitting double digits will put pressure on the CBT to deliver more hikes, even if this is not the base case scenario. Unless politics really get out of hand, we do not believe the CBT needs to hike. Still, keeping ON rates in the 11.5-12.0% range suggests pressure remains on TRY bond yields to move higher.

Chart 3: TRY underperformance after CBT hike largely due to political risk



Source: Bloomberg, BofA Merrill Lynch Global Research. TRY_EM index is an index of TRY's relative performance (daily log returns) against BRL, CLP, CZK, HUF, MXN, PLN, ZAR, IDR, KRW, COP. A higher reading indicates that TRY underperformed other EM peers.

Chart 4: Weaker TRY and political noise weighs on consumer confidence



Source: BofA Merrill Lynch Global Research

Asia in Focus

Singapore: MAS policy preview

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This piece was originally published in the latest GEMs Daily – Asia Edition.

The Monetary Authority of Singapore will hold its next monetary policy meeting in mid-April (date has yet to be announced). We expect the MAS to maintain its current "modest and gradual" S$NEER appreciation (which is a 2% slope by our estimates) stance, and leave the bandwidth unchanged (at +/-2%). Previous MAS policy decisions reflect growth and/or inflation concerns. We see inflation taking precedence this year, given mounting pressures from wage increases, and as growth holds at a healthy pace. Accordingly, we expect S$NEER to trade largely within the upper half of the band this year.

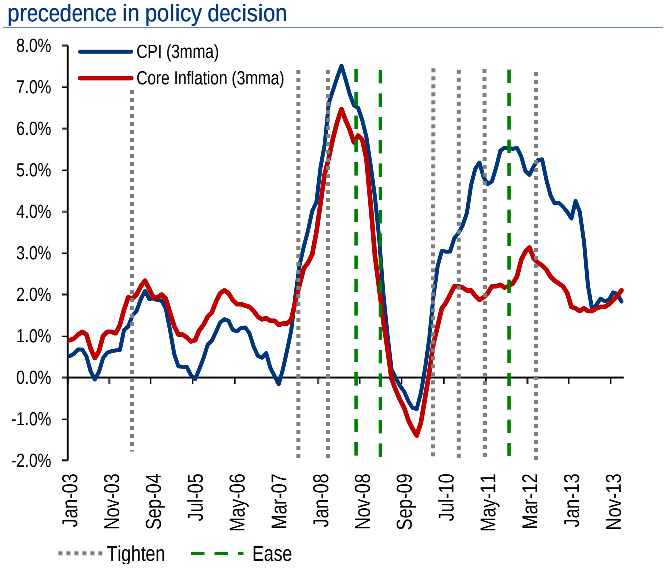
Inflation takes precedence over growth this year

Macro data turned incrementally better over the course of 2013. GDP growth accelerated from just 0.6% yoy in 1Q to 5.5% in 4Q, bringing full-year growth to 4.1%. Headline inflation decelerated to 1.5% yoy in December, as housing and transport inflation slowed. A worrying trend has emerged, however. Wages are rising more strongly given the tight labor market conditions. According to the Manpower Ministry, resident median wages (excluding CPF) rose 8.3% in 2013, up sharply from 2.6% in 2012. Unemployment rate is low at 1.8% currently. Wage cost pressures are likely to feed into inflation more decisively this year, via the labor-intensive services components. In fact, core inflation has exceeded headline inflation since December, and our economist Hak Bin Chua sees core inflation averaging a higher 2.8% yoy this year (vs 1.7% in 2013), and headline inflation at 2.7%. The MAS is forecasting both headline and core inflation to average at 2-3% in 2014.

Maintaining "modest & gradual" appreciation stance will be consistent with past MAS decisions

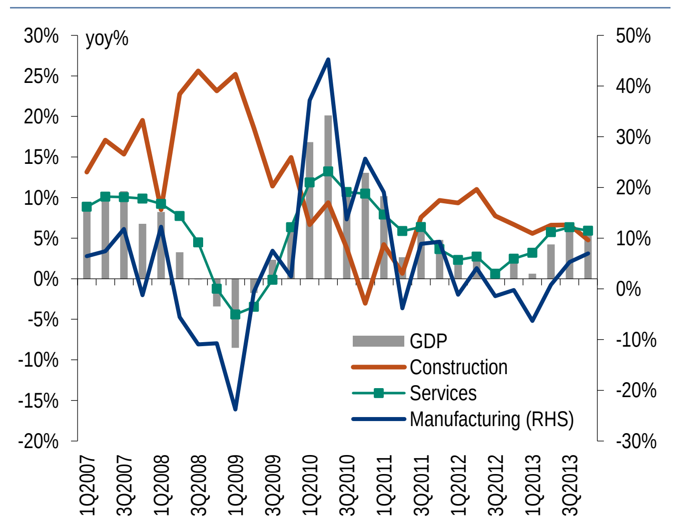
We draw on past policy stances during periods of higher core inflation, and find support for our expectation of MAS maintaining the current policy stance in April. In April 2004, the MAS tightened monetary policy to a "modest & gradual"

Chart 5: Core inflation higher and exceeding headline; likely to take precedence in policy decision



Source: BofA Merrill Lynch Global Research estimates, CEIC, MAS.

Chart 6: Growth has recovered and will hold at healthy pace



Source: BofA Merrill Lynch Global Research estimates, CEIC.

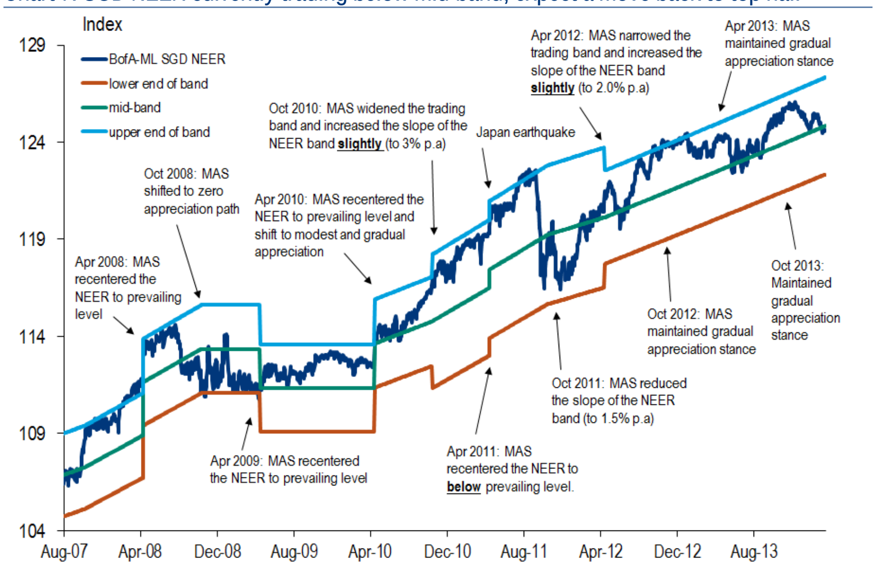
appreciation as growth recovered (post-SARS) and on risks of inflationary pressures. Core inflation was consistently above headline, and fast approaching 2%. That stance was only tightened to "slightly steeper" appreciation in October 2007 when headline and core trended much higher, to 4.1% and 2.9% respectively.

Furthermore, healthy growth provides room for the MAS to keep policy at the current stance, so as to deal with the inflationary pressures. Our economist forecasts 3.2% GDP growth this year, still healthy but slowing from 4.1% in 2013. He sees a reduction in sensitivity to a pick-up in global growth, given domestic labor constraints. The US recovery is also seen to be less import intensive (see Asia: Elusive Export Recovery). Our forecast is nevertheless in line with MAS' GDP growth forecast range of 2-4% this year. The MAS sees growth being underpinned by sustained growth momentum in advanced economies. Manufacturing and trade-related services will be the key beneficiaries. However, the MAS acknowledges downside risks from a quicker-than-expected pace of QE tapering and a sharper-than-expected China slowdown.

Bias for S$NEER to trade above the mid-band

The S$NEER dipped below the mid-point of the policy band since the beginning of March, and is now trading around 0.2% below the band. While the SGD appreciated against the greenback during the period (on weak US data), a strong rally in the IDR, EUR, AUD and THB led to weaker S$NEER. We think the recent weakness may not be sustainable, and recommend positioning for a move back within the top half of the policy band. We see the MAS having an implicit preference for a stable to stronger NEER this year, so as to have some flexibility to manage inflationary pressures. We are forecasting USDSGD at 1.27 at the end of this year.

Chart 7: SGD NEER currently trading below mid-band; expect a move back to top half



Source: BofA Merrill Lynch Global Research estimates, Bloomberg

News and Views

Asia

China: PBoC widened yuan band to 2%

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The PBoC announced over the weekend that the yuan-dollar (CNY/USD) daily trading band will be widened to 2.0% from 1.0%, effective from March 17. The previous band widened took effect on 16 April 2012 when the band was widened from 0.5% to 1.0%..

- **Two-way fluctuations will be the norm**: The band widening strengthens the PBoC's signal that the one-way position in CNY gain is over, and we should expect more CNY/USD volatility going forward. In the PBOC's own words, two-way yuan fluctuation will become the norm. A more volatile CNY/USD without trend appreciation will deter hot money inflow and perhaps will result in some unwinding of previous inflow. However, it should not be a big worry as China's has a massive US$4.0tn FX reserves, 20% reserve requirement ratio (RRR) and only 67% loan-to-deposit ratio. If capital outflows risks the stability of interbank liquidity, the PBoC has a big room to inject liquidity including cutting RRR. So the only thing we need here is a more flexible PBoC. Chinese exporters will overall benefit from the band widening which sends strong signal of the end of one-way appreciation of CNY/USD. Note last year CNY appreciated around 6% against its basket, putting big pressure on Chinese exporters.

Indonesia: PDI-P announces Joko Widodo as candidate

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On Friday, PDI-P announced that leader Megawati Sukarnoputri has nominated Jakarta Governor Joko Widodo (Jokowi) as its presidential candidate. Opinion polls continue to rank Jokowi as the favorite in the race. The latest survey from Indo Barometer, conducted 14-25 February, shows Jokowi leading with 34.8% of vote, followed by Prabowo with 17.4% and Bakrie 12.5%.

- **Positive:** The announcement comes as a surprise after months of uncertainty about whether Megawati would run or make a "sacrifice" and nominate Jokowi. Markets are reacting positively. The immensely popular Jokowi will likely win the race. Jokowi gained popularity following his term as mayor of Solo and has done well so far as Jakarta's governor. He is widely believed to be able to inject drive and clarity into the government system. CSIS' survey in November showed PDI-P's electability will be reinforced at the April legislative elections if Jokowi was nominated. PDI-P could win 40% of parliamentary seats at the upcoming elections. Currently, the party only controls 94, or 17%, of the total seats.

Indonesia: BI sees 1Q GDP growth at 5.8%, CA deficit below 2%

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Last Friday, Bank Indonesia Deputy Governor Perry Warjiyo said growth will likely come in at about 5.8% yoy in 1Q and that 2Q growth will likely remain strong on election spending. BI expects the 1Q current account deficit below 2% of GDP, and the 2Q CA deficit above 3% of GDP on an interim dividend payment.

- **Neutral:** We expect the CA deficit to widen in 1Q from 2% in 4Q last year, largely because of the stricter ore export policy. We will await February trade data to get a better sense of the impact. Exports fell 5.8% yoy in January as ore shipments plunged, bringing the trade balance to a $431mn deficit.

Singapore: low unemployment, better local employment growth

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The Manpower Ministry released its labor market report last Friday. The unemployment rate remained low at 1.8% in 4Q and averaged 1.9% in 2013. Employment creation remained high at 136,200 (+4.1% yoy) in 2013 and was driven by locals totaling 82,900 jobs (+4% yoy). Foreign employment gains slowed, adding just 53,300 jobs (+4.2% yoy) last year versus 70,400 (+5.9% yoy) in 2012. Excluding construction and foreign domestic workers, the growth in foreign employment in 2013 was only 16,800 (+2.3% yoy), half of 2012's 32,200 (+4.6% yoy). Growth of real median monthly income (including employer CPF contributions) for full-time employed Singaporeans strengthened to 4.6% in 2013 from 1.2% in 2012.

- **Neutral:** Job creation is strong and surveys indicate strong hiring intentions in 1H 2014. However, the labor market is becoming increasingly tight. We expect wage pressures will intensify this year, especially given further foreign labor tightening measures (higher levies, stricter DRCs) due to come into effect this year and in 2015. We see headline inflation averaging a higher 2.7% this year, up from 2.4% in 2012, as firms pass on wage cost increases to consumers.

EEMEA

Poland: low CPI confirms dovish stance

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February inflation came in below expectations with CPI at 0.1% mom and 0.7% yoy, compared to consensus at 0.8% yoy.

- **Dovish:** The print reinforces our view of no change in the policy rate before 2015. With inflation expected to remain below the 2.5% target center until 2016, the need for significant hikes is minimal. We reiterate downside risks to the 75bp hikes we have priced in for next year.

UAE: Dubai refinances US$20bn Abu Dhabi debt

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The Abu Dhabi Department of Finance and Central Bank of the UAE announced the signing of an agreement between the Dubai and Abu Dhabi governments to refinance a US$10bn loan, while the Central Bank of the UAE also signed an agreement for re-discounting of US$10bn in bonds issued by the Dubai Government. The facilities were maturing this year, and have been extended by five years renewable, with a revised fixed interest rate of 1%.

- **Positive:** This announcement is in line with our view and was anticipated and priced in. We have suggested Dubai will appropriately manage its upcoming 2014 US$20bn related-party debt. This should prove supportive for sentiment and reaffirm the strong ties to Abu Dhabi at the sovereign level, in our view. The Dubai sovereign may also thus come to market opportunistically to pre-finance the rollover of its 2014 EMTN maturities.

Note that of all the tranches of the US$20bn Dubai related-party debt were extended for five years at 1%, in one go. We had thought the various refinancings could be dealt in a staggered fashion at maturity date (ie the UAE Central Bank tranche in February, and the Abu Dhabi Department of Finance/Abu Dhabi banks in November). Although the extension is for five years, versus the rumored 10 years previously, the official announcement and its mentioning of the Dubai Expo 2020 makes it amply clear in our view that a further extension is in the cards, given that the newly extended facilities will essentially mature close to the Dubai

Expo 2020 itself. Last, given the original related-party debt was priced at 4% interest and the subsequent decrease in credit risk and borrowing costs for Dubai, we had anticipated a drop in the associated interest rate for the facilities. This is positive and should support a decrease in interest costs and subsequent fiscal savings (a maximum of US$600mn annually or c0.6%of GDP) for the sovereign.

Separately, note that the announced upcoming IPO of the shopping mall and retail unit of Emaar Properties is positive for Dubai sovereign and Dubai Inc. credits. Emaar expects to raise AED8-9bn from the sale (US$2.2-2.45bn) and will redistribute the majority as dividends to shareholders. Given that Emaar is 31% held by ICD (Dubai's SWF), this represents a cUS$750mn windfall dividend that ICD could choose in turn to upstream to the sovereign for distribution to weak Dubai Inc. entities through the Dubai Financial Support Fund (DFSF), in our view.

Ukraine: Russian forces move outside Crimea to seize gas facility

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Russian forces backed by helicopter gunships and armored vehicles took control of a village Strilkove and a gas facility on the territory of Ukraine, about 10 kilometers north of the border between Crimea and the Kherson region yesterday. An unnamed Russian official said the incursion had been made to guard against "terrorist attacks."

- **Negative:** Note that Crimea receives its entire energy from Ukrainian mainland and that was a preventative strategic move from Russian forces to maintain control over gas supplies. It is too early to consider it the beginning of the Russian invasion in eastern Ukraine, in our view.

Ukraine: Crimea's referendum

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Crimea is most likely to vote to join Russia at the referendum, as 95.5% of votes were to join Russia after half of voted was counted. Final results should be available within a couple days but can be announced earlier, even on Monday, according to some officials. Note that the referendum today offered people two options to vote for: (1) unifying Crimea with Russia as a part of the Russian Federation; (2) restoring the 1992 constitution and the status of Crimea as a part of Ukraine.

- **Negative:** We maintain the view that Russia will likely retain Crimea and might accept it as a part of Russia eventually. At the same time, Russia is unlikely to rush decisions on accepting Crimea as Russia's region (subject), as we see Russia potentially using Crimea as a good bargaining tool in broader negotiations regarding Ukraine's future and as a potential response to any future economic sanctions from the US and EU

Ukraine: Russia vetoes UN Security Council resolution

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At the United Nations, Russia vetoed a Security Council resolution declaring the referendum illegal, as expected. Note that China abstained in a sign of Moscow's isolation on the issue. Pro-U.S. members sponsored resolution knew that Russia would use its veto, but they put the resolution to a vote Saturday morning to show the strength of opposition in the 15-member Security Council to Moscow's takeover of Crimea. The final vote was 13 members in favor, China's abstention, and Russia as a permanent council member casting a veto.

- **Negative:** Putin said that Crimea`s referendum complies with international law, according to press. Therefore, diplomatic disputes over Crimea are likely to continue for a prolonged period, in our view, as Crimea would be recognized by Russia, and not by other states. The EU and the US already said that they consider the referendum illegal

Serbia: election results

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Serbian Progressive Party declares victory after parliament elections. Progressives won 49% of vote with 62% of votes counted, according to press, making progressives having about 160 of parliament's 250 seats. Socialist Party is in second place with 14%. New government is likely to be formed by May 1, Progressive Party leader Aleksandar Vucic tells journalists in Belgrade.

- **Positive:** As we expected, early elections would increase SNS representation in the parliament. We see more positive prospects in Serbia and believe that this year opens a window of opportunities to push long-awaiting reforms after the elections.

Latin America

Brazil: resilient start for retail sales in 2014

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The Brazilian Central Bank's (BCB) index of economic activity (IBC-Br) increased 1.26% mom in January, up from a 1.4% mom decrease in December. The result was above our 1.1% mom forecast and the market's 0.9% mom. The result reflects the strong upside surprises in industrial production and broad retail sales following the slump in December. The economic activity growth trend (as measured by the 3m moving average) is -0.47%, down from -0.09% in December, and year-over-year growth accelerated to 0.93% from 0.71%.

- **Positive:** The strong activity print for January adds upside risks to our 1.8% yoy growth forecast for the quarter, though we believe momentum should fade. Retail sales continue to grow at a more moderate pace than before, with credit growth decelerating, high indebtedness and the ongoing decline in consumer confidence. Industrial production continues to post volatile results and should be affected by declining auto exports, which are already down 22.8% yoy in the first two months of 2014, due to the significant ARS devaluation. Inventories also grew again at the margin.

  Adding to that, industrial production and retail sales come from significant declines in December, which should have played some base effects in this month's print. Also, the downward revision in December's data offsets this month's gains somewhat and should reduce this year's carry-over.

  An eventual upward revision in 1Q growth would mean a lower print in 2Q, so we remain comfortable with our 1.6% GDP growth forecast for 2014.

Peru: Growth decelerates to 4.2%

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January economic activity grew by 4.2%yoy (E:4.9%, BAML:4.0%). Despite high mining (5.6% yoy) and finance (13.9%yoy) sector growth, growth decelerated strongly under poor manufacturing (0.42% yoy), agriculture (2.0% yoy) and construction (3.2% yoy) performance. This was the lowest growth print since May of 2013.

- Slowing: Performance is consistent with our expectation that per capita income growth will decelerate to 4.1% this year on a structural decline in trend growth.

Data Preview

	NYT	Country	Data/Event	For	BofAMLe	Cons.†	Previous	Comments
Monday, 17 March								
✪	0:00	Japan	Tokyo's condominiums for sale (yoy)	Feb	n.a.	n.a.	6.1%	
✪✪	4:00	Turkey	Unemployment rate	Dec	10.1%	n.a.	9.9%	We expect the unemployment rate increases on seasonality.
✪	4:30	Hong Kong	Unemployment Rate	Feb			3.10%	
✪	7:00	Brazil	FGV Inflation IGP-10 (mom)	Mar	1.25%	--	0.30%	We expect the IGP-10 to increase 1.25% mom in March from 0.30% mom in February. The sharp rise reflects the recent readings in producer prices, led by a substantial increase in wholesale agricultural inflation. Consumer prices should also start to reflect this, with food inflation for the consumer accelerating. With this result, the IGP-10 should increase to 6.65% yoy from 5.57% yoy.
✪✪	9:00	Poland	Core CPI (yoy)	Feb	1.10%	1.0%	n.a.	
✪✪	9:00	Poland	Current account (€)	Jan	-440mn	-790mn	-843mn	
✪✪✪	15:00	Argentina	National Urban CPI mom	Feb	3.80%	--	3.70%	Prices continued to edge up in February due to the peso's devaluation. Private sector estimates, which are restricted to the Buenos Aires metropolitan area, point to a 4.3% mom increase in February. We think INDEC will release an inflation print near 3.8% mom, sending annual inflation to 33% yoy. In our view, the government's objective is to show a decreasing inflation rate starting in March.
✪	17:00	Colombia	Retail Sales yoy	Jan	6.1	5.80%	4.10%	Retail sales will continue indicate a demand recovery, driven by the recovery in consumer sentiment. The Fedesarrollo Index of consumer confidence increased to 26.6 in January, the highest level since June 2013, while retail confidence rose to 24.0, the highest level since 2012. Consumption growth will continue under still resilient terms of trade.
✪	17:00	Colombia	Industrial Production yoy	Jan	2.60%	1.00%	1.50%	Industrial production should increase 2.6% in January as the recovery from last year's lows continues. Exchange rate depreciation has helped large swathes of the industrial sector recover some competitiveness, although contraband imports from Venezuela are taking a toll.
✪✪✪	20:30	Australia	RBA Minutes (March Board meeting)					There are no expectations for the RBA to shift from a neutral bias. Any comments on the AUD and investment outlook will be the key focus.
✪✪	--	Philippines	Overseas Remittances	Jan			9.10%	
✪✪	-	Romania	Current account (€)	Jan	-158mn	n.a.	-1505mn	Romania's current account decreased substantially in 2013 and is expected to stay low at 2.1% of GDP in 2014.
Tuesday, 18 March								
✪✪✪	7:30	Chile	GDP yoy	4Q	2.70%	2.80%	4.70%	We expect the BCCh to report a 2.7% yoy GDP increase in 4Q, leaving 2013 GDP growth at 4.03% yoy, in line with growth rates implied by the IMACEC (GDP monthly proxy). More importantly, the GDP breakdown will bring more information to assess the strength of domestic demand.
✪✪	7:30	Chile	Current Account Balance	4Q	-2,563	--	-3,440	We expect the BCCh to post a US$2.6bn current account deficit in 4Q after the US$3.4bn deficit in 3Q, mainly explained by the trade balance recovery in 4Q. With these numbers, the current account deficit will reach US$9.2bn in 2013, which represents an imbalance of approximately 3.3% of GDP.
✪✪✪	8:00	Turkey	CBT rates decision	-	10.00%	n.a.	10.00%	We see CBT remaining on hold for the rest of the year, unless the political crisis intensifies significantly.
✪✪	9:00	Poland	Average gross wages (yoy)	Feb	3.10%	3.1%	3.4%	
✪✪	17:45	New Zealand	Current account balance (NZ$bn)	4Q			-NZ$4.8bn	
✪✪✪	19:50	Japan	Merchandise trade balance (JPY bil, nsa)	Feb	-564.1	n.a.	-2791.7	
✪✪✪	19:50	Japan	Exports (nsa, yoy)	Feb	11.0%	n.a.	9.5%	We expect exports to be on a gradual recovery trend.
✪✪✪	19:50	Japan	Imports (nsa, yoy)	Feb	6.0%	n.a.	25.1%	We expect the trade deficit to narrow as imports decrease month-over-month.
✪	20:00	Australia	DEEWR internet vacancies (mom%)	Feb			1.4%	
✪✪	-	Russia	Industrial production (yoy)	Feb	0.0%	0.5%	-0.2%	Weak investment should continue to constrain IP, with base effect as the main support factor.

Wednesday, 18 March								
✪	0:30	Japan	All industry index (sa,mom)	Jan	n.a.	n.a.	-0.1%	
✪✪	1:30	Japan	Department store sales (yoy)	Feb	n.a.	n.a.	2.9%	
✪✪✪	04:00	South Africa	CPI (yoy)	Feb	5.9%	n.a.	5.8%	We expect a 1.1% mom increase in February to push headline inflation up a notch to 5.9%. The +36c/l petrol price increase in February is likely to add 0.1pp to headline CPI. We see food increasing further to 5.1% yoy on unfavorable base effects. Services inflation is likely to decline a notch to 5.9%, helping to keep core inflation unchanged at 5.3%.
✪✪	7:00	South Africa	Retail sales volume (yoy)	Jan	5.0%	n.a.	3.5%	We look for a 0.2% mom decline in January to push year-over-year growth up to 5.0% given favorable base effects. Our forecast would leave January spending 1.3% higher than the 4Q average after a 1.2% qoq gain last quarter. We expect households to come under increasing pressure this year as the repo rate rises to 7.00% by 1Q 2015, although these effects are likely to lead through, only with a lag. For now, upper income households are likely to help offset weakness at the lower end, in our view.
✪	7:00	Brazil	IGP-M Inflation 2nd Preview	Mar	--	--	0.24%	
✪✪	9:00	Poland	Industrial production (yoy)	Feb	6.3%	6.0%	4.1%	
✪✪✪	17:45	New Zealand	GDP (qoq%)	4Q			1.4%	Manufacturing and retail growth will support a solid GDP increase in the quarter, despite a pullback in construction due to softer activity in non-residential construction.
✪✪✪	17:45	New Zealand	GDP (yoy%)	4Q			3.5%	
✪	--	Philippines	Balance of payment	Feb			-4480.0	
Thursday, 20 March								
✪✪✪	10:00	Mexico	Aggregate Supply and Demand	4Q	--	0.40%	1.50%	For 4Q13, we expect weak private consumption and private investment due to the bad mood created by future taxes increases and the problems in the construction sector that affected investment in 2013. However, we expect strong public consumption and investment due to the recovery of government spending.
✪✪✪	12:00	Colombia	GDP yoy	4Q	4.40%	4.60%	5.10%	Coincident growth indicators do not provide a clear-cut picture of the evolution of growth in Colombia. Retail sales ended 4Q last year at 5.0%, not very different from that of the previous two quarters (5.1% and 4.9%). Industrial production finally came into positive territory in 4Q, but remains anemic, as did import growth. Our coincident indicator index of activity, which does a good job of predicting quarterly GDP, reached 4.4% in 4Q, suggesting the economy would decelerate to growth below potential in the next quarterly release.
✪✪	15:00	Argentina	Trade Balance	Feb	$875mn	--	$35mn	We forecast INDEC posts a US$875mn trade surplus in February. While grain and oilseed exports increased 99.4% yoy due to the agreement between grain exporters and the government to sell US$2bn in February, car exports recovered moderately to 5.1% yoy (after an average fall of 16.4% yoy in the past four months). February imports would have been contained through higher controls and restrictions.
✪✪✪	10:00	Mexico	Aggregate Supply and Demand	4Q	--	0.40%	1.50%	For 4Q13, we expect weak private consumption and private investment due to the bad mood created by future taxes increases and the problems in the construction sector that affected investment in 2013. However, we expect strong public consumption and investment due to the recovery of government spending.
✪✪	3:00	Japan	Convenience store sales (yoy)	Feb	n.a.	n.a.	-0.1%	
✪✪✪	4:00	Taiwan	Export Orders	Feb	12.30%	10.50%	-2.80%	We expect Jan-Feb export orders to grow 3.8% yoy, same as the growth in 4Q13. However, we may witness downside surprises as Taiwan remains at risk of negative spillovers from China's structural slowdown, while the recent developed market demand recovery may be offset by ongoing emerging market weaknesses as well as the severe cold winter in US.
✪✪	4:30	Hong Kong	Consumer Price Index	Feb			4.60%	
✪✪	8:00	Russia	Real wages (yoy)	Feb	3.0%	2.6%	2.5%	We expect the structurally tight labor market to continue to support wage growth.
✪✪	8:00	Russia	Retail sales volume (yoy)	Feb	3.0%	2.5%	2.4%	The Olympics should deliver a slight boost to sales due to tourist flows.
✪✪	8:00	Russia	Fixed capital investment (yoy)	Feb	-4.0%	-4.0%	-7.0%	The tight money market and deteriorating sentiment should continue to weigh on investment.
✪✪	8:00	Russia	Unemployment rate	Feb	5.6%	5.7%	5.6%	We expect the labor market to stay tight despite seasonality on structural supply limitations.
✪✪	9:00	Poland	Central Bank's minutes	-	-	-	-	
✪	17:00	New Zealand	ANZ Job advertisements (mom%)	Feb			2.8%	
✪	17:45	New Zealand	Net migration (No.)	Feb			3090.0	
✪	20:00	New Zealand	ANZ Consumer confidence index	Mar			133.0	
✪	22:00	New Zealand	Credit card spending (mom%)	Feb			1.0%	

Friday, 21 March								
✪✪	5:00	Malaysia	Consumer Price Index	Feb	3.4%		3.40%	Inflation probably held at 3.4% in February, the same as January. A dry spell could have lifted food prices, while higher global oil prices may have impacted transport costs. The government's "price reduction campaign" in early February may have contained food price increases.
✪✪	8:00	Brazil	IBGE Inflation IPCA-15 (mom)	Mar	0.75%	--	0.70%	The IPCA-15 should increase 0.75% mom in March from 0.70% mom in February. The acceleration reflects the recent pick-up in food inflation for the consumer, which we expect to remain substantial following the jump in wholesale agricultural prices. Some pressures in the transportation segment are also expected. With that, the IPCA-15 is expected to move to 5.92% yoy from 5.65% yoy in February.
✪✪	8:00	Brazil	IBGE Inflation IPCA-15 (yoy)	Mar	5.92%	--	5.65%	
✪✪✪	10:00	Mexico	Retail Sales yoy	Jan	1.44%	--	2.20%	We expect retail sales to increase 1.44% yoy in January, its third consecutive increment in annual terms. The January release will be below December 2013's 2.2% yoy, mainly due to the impact of higher taxes, but above 2013's retail sales growth rate of -0.03% yoy.
✪✪✪	11:00	Mexico	Overnight Rate	21-Mar	3.50%	3.50%	3.50%	We expect Banxico to keep the rate at 3.5% for the third consecutive meeting. Headline inflation above 4% prevents a cut. A negative output gap for most of 2014, core inflation currently below 3% and well anchored medium-term inflation expectations prevent a hike. We expect a statement balanced between concerns about growth and inflation.
✪✪	15:00	Argentina	Industrial Production yoy	Feb	--	--	-2.60%	We expect INDEC post's fragile industrial performance in February after six months of slowdowns. Though real VAT collection remained strong in February (8.1% yoy) and there were three more working days than in February 2013, a contraction in cement production (-4.4% yoy in February) and sluggish automobile production (+0.1% yoy in February) point to weak industrial output.
✪✪	15:00	Argentina	Current Account Balance	4Q	-$2,484mn	--	-$1271mn	We forecast INDEC reports a current account deficit of US$2,484mn in 4Q, as the trade surplus weakened by year-end. With this number, the country will end 2013 with a US$5.4bn deficit after the US$0.1bn surplus in 2012. In our view, the year-over-year deterioration of the current account balance can be explained by the energy trade deficit widening in 2013 and increased tourism outflows, a side effect of the price distortions created by the introduction of FX restrictions.
✪✪	-	Venezuela	Venezuela Crude Oil Basket	21-Mar	--	--	--	
✪✪✪	-	Colombia	Overnight Lending Rate	21-Mar	3.25%	3.25%	3.25%	The majority of the board appears to believe Colombia should hold off on rate hikes for now, particularly with headline and core inflation indicators in the lower range of the band. We expect a stalemate regarding rate changes will prevail to the end of 2014, with rate hikes not beginning until 2015. We do not expect the board to renew its FX intervention program as it expires, given the weakening of the peso and the increase in reserves over the duration of the program.
✪	--	Hong Kong	BoP CA Balance	4Q			33.55	

Notes: [†]Bloomberg consensus; ✪ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; saar = seasonally adjusted annualized rate; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year.
Source: BofA Merrill Lynch Global Research, Bloomberg, Central banks * denotes previous month

GEM TradeBook

Trade	Trade dates	Prices	Target/Stop	Notional*	Rationale	Risks
EMFX						
China: Buy 3x12m USDCNH forward points	(O): 28-Feb-14 (E): 04-Jun-14	(O): 320 (C): 414	(T): 650 (S): 170	100	Depressed CNH forward points due to structured product hedging but medium term CNY outlook remains main driver.	Easing action from PBOC putting downward pressure on 12m points.
Brazil: Sell USD/BRL 3m NDF	(O): 24-Feb-14 (E): 27-May-14	(O): 2.3975 (C): 2.3644	(T): 2.2000 (S): 2.5000	5	We hedge the Jan15x17 steepener by selling USD/BRL. Recent rally in BRL has underperformed vs flatteners.	Change in the correlation between the currency and the slope.
China: Buy 12m USD/CNH ATMF Put	(O): 21-Feb-14 (E): 17-Feb-2015	(O): 1.04% (C): .75%	(T): 2.00% -	100	Largest weekly rise observed in USDCNH since September 201. Medium term appreciation of CNY.	Bad surprise on CA data. Putting USD/CNH at risk.
China: Buy 12m sell 3m USD/CNH ATMF Put	(O): 21-Feb-14 (E): 5-May-14	(O): .52% (C): .56%	(T): 1.30% -	100	Largest weekly rise observed in USDCNH since September 201. Medium term appreciation of CNY.	Bad surprise on CA data. Putting USD/CNH at risk.
Long 1m USDRUB Call	(O): 22-Jan-14 (E): 24-Feb-14	(O): 34.10 (C): 36.64	- -	10	Seasonal improvement of trade and CA balances.	Weak HSBC PMI data early February. Little improvement in trade and CA balances.
Philippines: Short 3m Offshore PHP Forward	(O): 20-Jan-14 (E): 21-Apr-14	(O): 45.34 (C): 44.76	(T): 46..80 (S): 44..60	20	Reduced carry incentive for inflows and potential inflation risks.	Higher inflows and lower than expected inflation data.
Thailand: Short 3m Offshore THB Forward	(O): 20-Jan-14 (E): 22-Apr-14	(O): 33.22 (C): 32.27	(T): 34..50 (S): 32..50	20	Political uncertainty in Thailand with downside implication for growth.	Increasing CA surplus due to higher export demand and higher tourist receipts.
Long MYR 6m Straddle vs. Short 6m KRW Straddle	(O): 29-Nov-13 (E): 4-Jun-14	(O): 3.2645 / 1072.5 (C): 3.2801 / 1072.78	- -	10	Structural divergence in volatility due to greater bond flow in SE relative to NE.	Local shocks on KRW currency.
Short JPY/KRW 6m NDF	(O): 29-Nov-13 (E): 29-May-14	(O): 10.50 (C): 10.58	(T): 9.95 (spot) (S):10.80 (spot)	15	Current account divergence and normalization in JPY/Asia regional crosses.	Reverse in cyclical trend.
LDM						
Thailand: Pay 5y THB IRS	(O): 13-Mar-14 (E): 17-Mar-19	(O): 2.98% (C): 2.96%	(T): 3.20% (S): 2.87%	47	We move our previous 3y receiver to a 5y receiver as we expect curve to steepen after en of easing cycle.	Further rate cut from BoT
Colombia: Receive 1y IBR	(O): 11-Mar-14 (E): 11-Mar-15	(O): 3.82% (C): 3.82%	(T): 3.50% (S): 4.00%	2	Bond/swap spread suggests that bonds are cheap relative to swaps. The 2y5y swap slope is too flat.	Higher inflation leading to more hawkish central bank policy.
Colombia: sell TES 2024 x 5Y CCS spread	(O): 11-Mar-14 (E): 11-Mar-19	(O): 220.00 (C): 221.20	(T): 150.00 (S): 250.00	16 x 25	Too many hikes are priced by the market, while we expect the CB to remain on hold until 1Q15 given low inflation.	Increase in US rates volatility due to sharp improvement in US data or uncertain Fed action.
Malaysia: Receive 5y NDIRS	(O): 07-Mar-14 (E): 07-Mar-19	(O): 4.01% (C): 4.00%	(T): 3.81% (S): 4.15%	42.3	Market pricing fewer hikes as CB keeps a largely neutral stance. Fiscal consolidation to support mid to back-end rates	NFP announcement
South Africa: Long R2023 FX hedged	(O): 05-Mar-14 (E): 28-Feb-23	(O): 8.41% (C): 8.38%	(T): 8.00% (S): 8.76%	10	NT downside in SA rates due to increasing interest in 10y bonds from SA fund manager survey and weak US data.	Negative shock on current account
Mexico: Buy UDIBONO 2016, pay 2t TIIE	(O): 03-Mar-14 (E): 01-Mar-16	(O): 325.00 (C): 318.43	(T): 375.00 (S): 290.00	90 x 110	Based on our forecasts, inflation breakeven would be higher than currently priced.	Decline in headline inflation. Policy rate cut in Mexico. Increase in US short-term real rates.
Thailand: Pay 5y IRS	(O): 26-Feb-14 (E): 28-Feb-19	(O): 115.00 (C): 140.00	(T): 3.21% (S): 2.91%	22	Risk-reward favors higher rates in Thailand	Lower than expected inflation. Dovish Central Bank action.
Brazil: Jan15xJan17 CDI steepener	(O): 24-Feb-14 (E): 02-Jan-15	(O): 8.42% (C): 8.35%	(T): 150.00 (S): 85.00	130 x 39	Risks are biased toward a steeper yield curve.	Change in the correlation between the currency and the slope.
India: Pay 2y NDOIS	(O): 24-Feb-14 (E): 25-Feb-16	(O): 2.84% (C): 2.84%	(T): 8.62% (S): 8.30%	82.2	RBI) emphasis to core CPI, robust wage growth and tight liquidity ahead of March tax payment.	Deterioration of short-term growth and fiscal outlook.
Korea: Pay 3y IRS	(O): 14-Feb-14 (E): 19-Feb-17	(O): 2.50% (C): 2.45%	(T): 3.04% (S): 2.75%	85.00	Swap rates too low given Bank of Korea neutral bias.	Change in the BoK tone.
Thailand: Pay 3y IRS	(O): 04-Feb-14 (E): 06-Feb-17	(O): 12.35 (C): 15.32	(T): 2.90% (S): 2.50%	70.00	Risk premium of Thailand local rates is very low. Risk of liquidity tightening.	Further unexpected monetary easing.
HK: receive 3y IRS vs US	(O): 17-Jan-14 (E): 17-Jan-17	(O): 3.47% (C): 3.25%	(T): -17.00 (S): 28.00	140 x 140	Expect the outperformance of HK rates to continue further.	Liquidity outflow from HK during bouts of risk aversion toward HK/China assets.
Korea: Receive 10y IRS	(O): 07-Jan-14 (E): 07-Jan-24	(O): 32.00 (C): 15.59	(T): 3.20% (S): 3.65%	25.00	To reduce pay position into MPC.	BoK more hawkish than expected.
Thailand: long 5y bond vs IRS	(O): 16-Dec-13 (E): 18-Dec-18	(O): 18.00 (C): 30.75	(T): 5.00 (S): 48.00	30.00	Bond-swap spread at depressed level and foreign flow improves.	Early than expected QE taper or political situation worsens.
China: 1s5s steepener	(O): 29-Nov-13 (E): 29-Nov-14	(O): 8.89% (C): 9.08%	(T): 55.00 (S): .00	310 x 63	Increasing term-premium, increasing bond supply and interest rate liberalization.	Change in interest rate or FX policies.
India: Buy 7y IGB, FX hedged	(O): 29-Nov-13 (E): 10-Dec-20	(O): 187.00 (C): 91.78	(T): 8.25% (S): 9.25%	0.48	Expect liquidity to normalize in India.	Poor domestic macro data.
Korea: Buy 1yx10y ATM Forward payer swaption	(O): 15-Nov-13 (E): 15-Nov-24	(O): 86.00 (C): 95.50	(T): 300.00 (S): 120.00	7.05	We like owning volatility in Korea rates.	Higher global risk appetites.
Colombia: 2y5y flattener	(O): 10-Apr-13 (E): 10-Apr-15	(O): 10.25 (C): 0.00	(T): 35.00 (S): 150.00	52 x 22.3	Curve is record steep in last two years. Portfolio inflows outlook after cut in taxes to foreign investors and QE in DMs.	Main risk is a deepening of the current monetary easing cycle.
Korea: sell 1y1y vs buy 2y1y payer swaptions	(O): 20-Apr-12 (E): 20-Apr-14	(O): 2.98% (C): 2.96%	- -	10.00	Weaker US macro data and Euro concerns favor receiving rates, but KRW rates to fall slowly.	If 1y1y bounces a lot more than 2y1y. Keep in mind that the 2y1y vs 1y1y spread is narrow.
EXD						
Venezuela: Buy V22 vs. V27 steepener	(O): 11-Mar-14 -	(O): 192.00 (C): 142.44	(T): 120.00 (S): 220.00	10 x 8.12	We expect slope to steepen with positive FX news. V22s are lagging and have more upside than similar bonds.	Challenges in the implementation of the SICAD II.
Venezuela: Buy Ven 25s, sell P22s and P37s barbell	(O): 21-Feb-14 -	(O): 100.00% (C): 103.32%	(T): 105.00% (S): 95.00%	10 x 3.3 x 6.7	Ven25s became relatively cheap with respect to P37s and P22s after the recent selloff.	Default risk.
Venezuela: Buy $10mn Ven 14	(O): 21-Jan-14 -	(O): 100.00% (C): 100.41%	(T): 108.00% (S): 96.00%	10	Higher uncertainty about the magnitude of policy measures and the size of the devaluation.	Default risk.
Venezuela: Buy $10mn Ven 16, short $3.6mn Ven 27	(O): 21-Jan-14 -	(O): 100.00% (C): 99.25%	(T): 110.00% (S): 95.00%	10 x 3.6	Higher uncertainty about the magnitude of policy measures and the size of the devaluation.	Default risk.
Sell 5y Brazil CDS, sell Brazil '21s	(O): 31-Jul-12 -	(O): 94.00 (C): 91.50	(T): 50.00 (S): 125.00	9.2 x 5	The CDS-bond basis was exceptionally wide in LatAm and is now approaching the tight side. But the 1m carry and roll are 5bp so we are holding the trade.	In a credit fear scenario, CDS would widen more than bonds.
Sell 5y Brazil vs Mex CDS protection	(O): 06-Jan-14	(O): 34.00 (C): 24.75	(T): -30.00 (S): 50.00	10x10	Mexico CDS is pricing in too many upgrades; Brazil too many downgrades, in our view. Expect spread to contract.	Risks: EM deteriorates significantly or Brazil deteriorates more, that Brazil may underperform.

Notes: For guidelines see GEMs TradeBook, 16 Dec 2011. Trade Dates: O=Open, E=Expiry; Prices: O=Open, AO=Adjusted, C=Current; Target/Stop: T=Target, S=Stop. *US$mn. Source: BofA Merrill Lynch Global Research, Bloomberg

Options Risk Statement

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We, Alberto Ades and Jane Brauer, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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