

Peru: Buy Soberanos '31s

- ▶ **Additional stimulus in the US would be supportive for Soberanos**
- ▶ **Locally, sound fiscal numbers supports local rates too**
- ▶ **We recommend investors to buy Soberanos '31s**

Trade #110: Buy Soberanos '31s (indicative levels)

Position	Instrument	Entry Level	Target	Stop
Buy	Soberanos '31s	5.23%	5.00%	5.40%

Source: HSBC, Bloomberg

Global backdrop and sound fiscal numbers are supportive for local rates

Additional monetary stimulus in the US will likely favor carry trades again. Also, we believe countries like Peru, which have shown some resilience to the global economic slowdown, along with sound fiscal accounts, will be beneficiaries of the "low for longer" core market yield backdrop. Moreover, Peru has been upgraded one notch to "BBB" by Moody's and Fitch recently. Local rates in Peru have rebounded from the lows in recent weeks on the back of the US Treasury sell-off. Looking ahead, if the Federal Reserve delivers another round of stimulus, we expect Soberanos rates to drop to recent low levels again.

Soberanos '31s looks attractive on the curve

We recommend investors to buy Soberanos '31s with target at 5.00% and stop at 5.40%. We enter this trade at 5.23%. Soberanos '31s have underperformed the '20s and '42s (the 10y and 30y benchmark bonds) in the last two months. Since the beginning of the US Treasury sell-off in mid-July, the '31s have sold off by 25bp, the '20s have rallied 11bp and the '42s widened only 10bp. Thus, we believe there is more room to tighten in the 20y sector of the curve. We see two risks to our trade: 1) a deterioration in social unrest related to new mining projects and 2) a deterioration of US Treasuries in a context of high foreign participation in the Soberanos market. Yet, we believe that many of these risks are already incorporated in current yields of the '31s as they trade 50bp above the lows.

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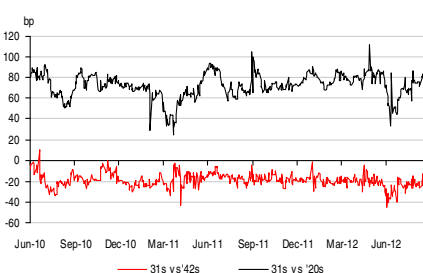
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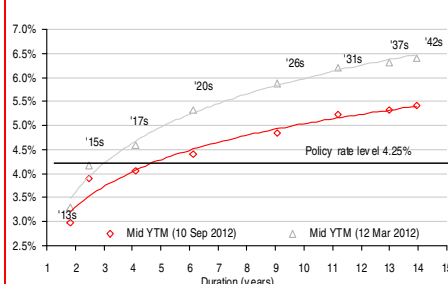
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Figure 1. Soberanos 'vs '20s and the '42s



Source: Bloomberg

Figure 2. Soberanos '31s cheap on the curve



Source: Bloomberg

Disclosure appendix

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