

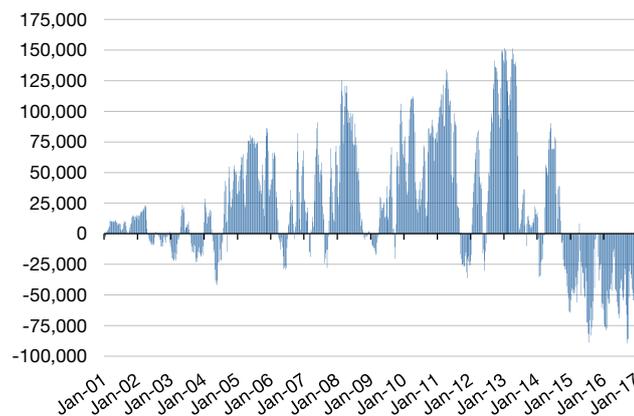
For institutional investor, qualified investor and investment professional use only. Not for retail public distribution.

February 2017

It is fair to say the Mexican peso (MXN) is somewhat unloved at present. Chart 1 shows the speculative positioning at the Chicago Mercantile Exchange (CME) for the week ending January 27th. As can be seen in the chart, the currency is currently 'enjoying' some of the biggest net speculative short positioning it has ever known.

The currency fell almost 12% in the immediate aftermath of Trump's victory and, from that point, proceeded to decline another 5% to an all-time nadir of just under USD22 on January 19th, before seeing a mild recovery. From our perspective, it is possible that this fall indicates the sale of positions held by other types of market participants, in addition to speculators. We suspect that these liquidations, coupled with continued pressure from speculators in a market with very thin liquidity, are what produced the downward move in MXN valuation.

Chart 1. MXN speculative positioning (ag USD) at the CME



We do not consider ourselves contrarian investors by identity, but in this instance we cannot justify going with the grain. Given the extent that flows have reached, we believe it is likely that positioning is now very clean. Moreover, with the trade balance – and consequently the current account – starting to improve and the Central Bank finally intervening, it has become much more difficult for the MXN to weaken any further in our view.

Some are understandably concerned about the rising animosity between Presidents Trump and Nieto. Although it was not a good sign that the latter cancelled his planned visit to the US, the fact that the two presidents held a relatively constructive call after the cancellation did something to help alleviate the situation. We therefore believe that the pattern of events so far cannot justify the belief that high tariffs (i.e. much more than 10%) will be imposed on Mexico in the near term.

There is also a more structural reason why the MXN could continue its recovery. Chart 2 shows the evolution of the different components of Mexico's balance of payments (BOP), as well as the

country's accumulation of reserves. Between Q1 2011 and Q2 2014, portfolio flows moved noticeably higher, while the rest of the BOP's components did not experience drastic changes in aggregate (the increase in FDI being neutralized by a decrease in the current account balance).

Over this same period, it can be observed that foreign reserves increased steadily (from roughly USD95bn to USD195bn). This implied to us that, when portfolio capital was flowing into Mexico, the Central Bank responded by buying the USD to prevent the currency from appreciating.

Chart 3 provides further evidence for this theory. It can be observed that, over the same period as Chart 2, USMXN traded at an average of 12.92. In late 2014, the currency pair experienced a breakout, with the cross moving up meaningfully as portfolio inflows were collapsing.

We believe that the main reason for this move – which continued up to 18.36 by the end of Q2 2016 – was driven by the fact that, despite the portfolio inflows collapsing, the Central Bank did not meaningfully sell down the USD reserves that it had previously built up. We can see this in Chart 2 where, although portfolio inflows experienced a quarterly decrease from USD 17.2bn in Q2 2014 to USD4.1bn in Q2 2016, reserves barely fell. This means that, today, the Central Bank retains significant fire power to potentially halt the MXN's decline.

Chart 2. Mexico Reserves and Balance of Payments components

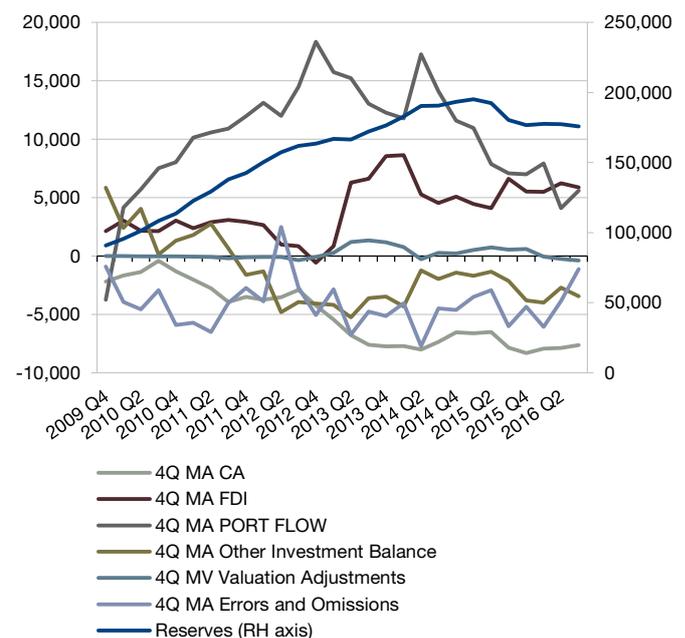
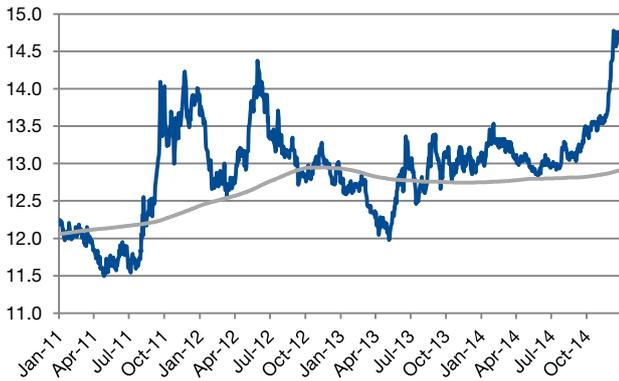


Chart 3. USDMXN and 4-yr moving average



In summary, when we look at Mexico today, we see a current account which has recently bottomed (Q2 2016), portfolio flows at levels we last saw in 2010 and a Central Bank which is beginning to intervene in the FX market by selling some of its USD reserves. In our view, it is difficult to see how this combination leads to further MXN depreciation, and instead indicates that it may cause appreciation.



**Guillermo Ossés**

Head of Emerging Markets Debt Strategies

Guillermo Ossés is the Head of Emerging Markets Debt Strategies for Man GLG ('GLG'). Prior to joining GLG Guillermo was a Managing Director and Head of Emerging Markets Debt Portfolios at HSBC Asset Management with responsibility for all global emerging markets debt portfolios. Prior to joining HSBC in January 2011, Guillermo was a senior emerging markets fixed income portfolio manager at PIMCO from 2006-2011. Prior to PIMCO Guillermo was responsible for proprietary trading and market making of emerging markets currencies at Barclays Capital (2000-2006). Guillermo also held a trading position in Latin American Local Markets at Deutsche Bank (1997-2000). He began working in the investment industry in 1995 and holds an MBA from the MIT Sloan School of Management. He received a B.A. from Universidad Catolica de Cordoba in Argentina.

**IMPORTANT INFORMATION**

This material represents an assessment of market and political conditions at a particular time and is not a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This presentation has been prepared based upon publicly available information and sources, believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied, is made that it is accurate or complete. The opinions expressed herein are subject to change without notice and neither the author nor Man Group is under any obligation to inform recipients when opinions or information in this report changes. This document is for the use and consumption of the recipient only and may not be printed, sold or circulated or distributed without the written consent of Man Group. Forward-looking statements in this newsletter are not predictions and may be subject to change without notice. Neither Man Group nor any of its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information included in this presentation.

All investments involve risks including loss of principal. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting.

This information is communicated and/or distributed by the relevant GLG or Man entity identified below (collectively the 'Company') subject to the following conditions and restriction in their respective jurisdictions.

This material represents an assessment of market conditions at a particular time and is not a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular security.

Opinions expressed are those of the author and may not be shared by all personnel of Man Group plc ('Man'). These opinions are subject to change without notice, are for information purposes only and do not constitute an offer or invitation to make an investment in any financial instrument or in any product to which the Company and/or its affiliates provides investment advisory or any other financial services. Any organisations, financial instrument or products described in this material are mentioned for reference purposes only which should not be considered a recommendation for their purchase or sale. Neither the Company nor the authors shall be liable to any person for any action taken on the basis of the information provided. Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities. This material is proprietary information of the Company and its affiliates and may not be reproduced or otherwise disseminated in whole or in part without prior written consent from the Company. The Company believes the content to be accurate. However accuracy is not warranted or guaranteed. The Company does not assume any liability in the case of incorrectly reported or incomplete information. Unless stated otherwise all information is provided by the Company. Past performance is not indicative of future results.

Financial indices are shown for illustrative purposes only and are provided for the purpose of making general market data available as a point of reference. An index is a statistical measure that shows changes in the economy of financial markets and may serve as a benchmark against which economic and financial performance of an investment is measured. An index is not available for direct investment, and its performance does not reflect the expenses associated with the management of an actual portfolio. All investments involve risks including the potential loss of principal.

Unless stated otherwise this information is communicated by GLG Partners LP, One Curzon Street, London W1J 5HB. Authorised and regulated in the UK by the Financial Conduct Authority.

**Australia:** To the extent this material is distributed in Australia it is communicated by Man Investments Australia Limited ABN 47 002 747 480 AFSL 240581, which is regulated by the Australian Securities & Investments Commission (ASIC). This information has been prepared without taking into account anyone's objectives, financial situation or needs.

**European Economic Area:** Unless indicated otherwise this website is communicated in the European Economic Area by Man Solutions Limited which is an investment company as defined in section 833 of the Companies Act 2006 and is authorised and regulated by the UK Financial Conduct Authority (the "FCA"). Man Solutions Limited is registered in England and Wales under number 3385362 and has its registered office at One Curzon Street, London W1J 5HB, England. As an entity which is regulated by the FCA, Man Solutions Limited is subject to regulatory requirements, which can be found at <http://register.fca.org.uk>.

**Germany:** To the extent this material is used in Germany, the communicating entity is Man (Europe) AG, which is authorised and regulated by the Liechtenstein Financial Market Authority (FMA). Man (Europe) AG is registered in the Principality of Liechtenstein no. FL-0002.420.371-2. Man (Europe) AG is an associated participant in the investor compensation scheme, which is operated by the Deposit Guarantee and Investor Compensation Foundation PCC (FL-0002.039.614-1) and corresponds with EU law. Further information is available on the Foundation's website under [www.eas-liechtenstein.li](http://www.eas-liechtenstein.li). This material is of a promotional nature.

**Hong Kong:** To the extent this material is distributed in Hong Kong, this material is communicated by Man Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong. This material can only be communicated to intermediaries, and professional clients who are within one of the professional investor exemptions contained in the Securities and Futures Ordinance and must not be relied upon by any other person(s).

**Liechtenstein:** To the extent the material is used in Liechtenstein, the communicating entity is Man (Europe) AG, which is regulated by the Financial Market Authority Liechtenstein (FMA). Man (Europe) AG is registered in the Principality of Liechtenstein no. FL-0002.420.371-2. Man (Europe) AG is an associated participant in the investor compensation scheme, which is operated by the Deposit Guarantee and Investor Compensation Foundation PCC (FL-0002.039.614-1) and corresponds with EU law. Further information is available on the Foundation's website under [www.eas-liechtenstein.li](http://www.eas-liechtenstein.li).

**Switzerland:** To the extent this material is distributed in Switzerland, this material is communicated by Man Investments AG, which is regulated by the Swiss Financial Market Authority FINMA.

**United States:** To the extent his material is distributed in the United States, it is communicated by GLG, Inc. and is distributed by Man Investments, Inc. ('Man Investments'). Man Investments is registered as a broker-dealer with the US Securities and Exchange Commission ('SEC') and also is a member of the Financial Industry Regulatory Authority ('FINRA'). Man Investments is also a member of the Securities Investor Protection Corporation ('SIPC'). GLG, Inc. is registered with the SEC as an investment advisor. GLG, Inc. and Man Investments are members of the Man Investments division of Man Group plc. The registration and memberships described above in no way imply that the SEC, FINRA or the SIPC have endorsed GLG, Inc., or Man Investments. Man Investments, 452 Fifth Avenue, 27th fl., New York, NY 10018

US/GL/I/W