

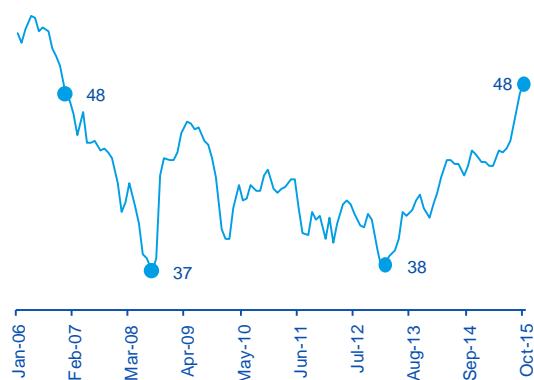
4 Less depreciation of the PYG, with bouts of volatility

The average dollar exchange rate at the end of the month in November was USD/PYG5,636, implying a cumulative 21% depreciation compared to the level at the end of last year. Such pressure is attributable to the international environment (Fed rate normalisation, uncertainty over Brazil, China and Europe, among others) and this is expected to persist over the remainder of 2015. It should be noted that in the context of further deterioration of the PYG and expectations of a higher international interest rate in the future, there has been an increase in the dollarisation of foreign currency bank deposits, which reached 48% of the overall deposits figure in October (see Figure 4.1), and which is the highest level since the latter part of 2006.

As per the above, our current dollar exchange rate forecast for the PYG at the end of 2015 is USD/PYG5,750, which is higher than had been ventured in July (USD5,400). From here on out, we foresee the PYG exchange rate depreciating at a far slower pace as it reflects the weakening of fundamentals (a fall in the terms of trade and a weakening of the fiscal position), in a scenario in which the exchange rate has already to a large extent priced in the expected Fed rate hike. The PYG's dollar rate should thus skirt USD/PYG6,000 at the end of 2016 (see Figure 4.2).

Figure 4.1

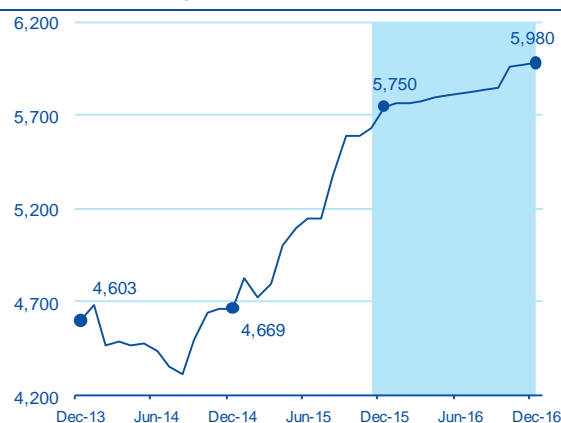
Dollarisation of deposits (%)



Source: BCP and BBVA Research

Figure 4.2

Nominal exchange rate (USD/PYG)



Source: Bloomberg and BBVA Research

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