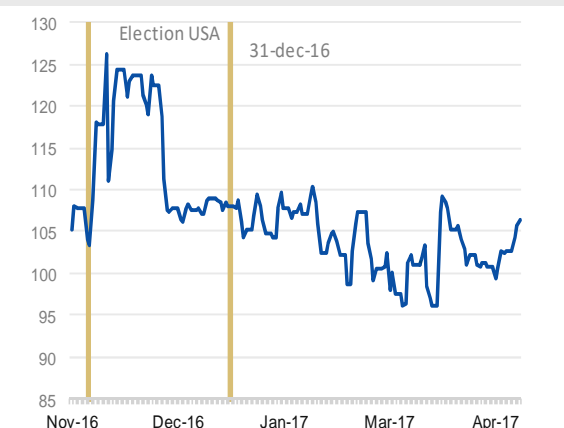


6. Positive tone of financial markets at the beginning of the year

Assets showed a slight improvement in the first quarter, but we foresee an adjustment going forward

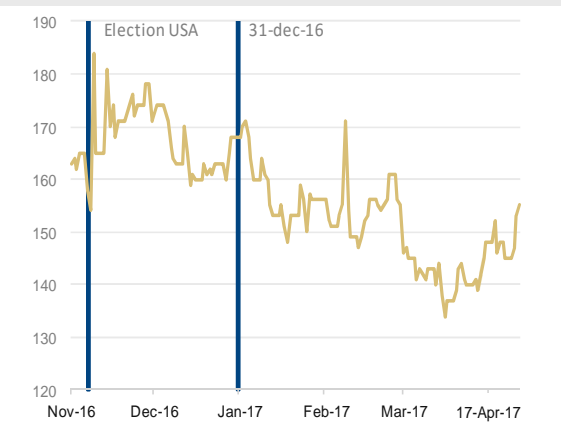
So far this year local financial markets have performed well. After the first results of the US elections came through, tension arose in local financial markets, but these soon dissipated. Country risk indicators for Peru, as well as the CDS Peru at 5 years and the EMBIG-country were better before the US elections. Accordingly, so far this year the former has fallen by 2% while the second has dropped by 8% (see Figures 6.1 and 6.2).

Figure 6.1. CDS-Peru at 5 years (basis points)



Source: Bloomberg and BBVA Research

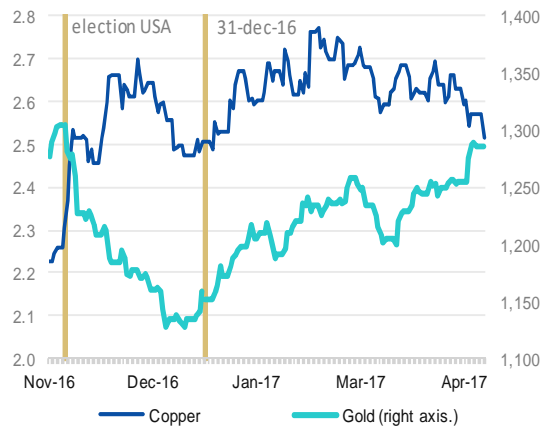
Figure 6.2. EMBIG-Peru (basis points)



Source: Bloomberg and BBVA Research

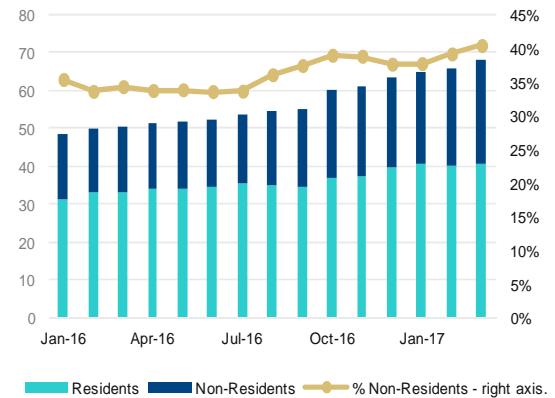
In line with this, local assets and the Peruvian currency appreciated in the first quarter. This took place in a context in which China has maintained solid growth, expectations of extreme scenarios arising from policies that may be adopted by the US government have moderated, the prices of metals Peru exports (such as gold and copper) have remained at high levels (see Figure 6.3), favouring the improvement in the balance of trade. The gradual monetary adjustment in the most developed economies has also continued to whet a strong appetite for Peruvian financial assets, such as sovereign bonds, among others (see Figure 6.4). These factors have seen the yield of these sovereign bonds fall, returning to their pre-US election levels (early November, see Figure 6.5), whereas the USD to PEN (Peruvian sol) exchange rate has been pushed downward.

Figure 6.3. Raw material prices: copper and gold (USD/pound and USD/troy ounce)



Source: Bloomberg and BBVA Research

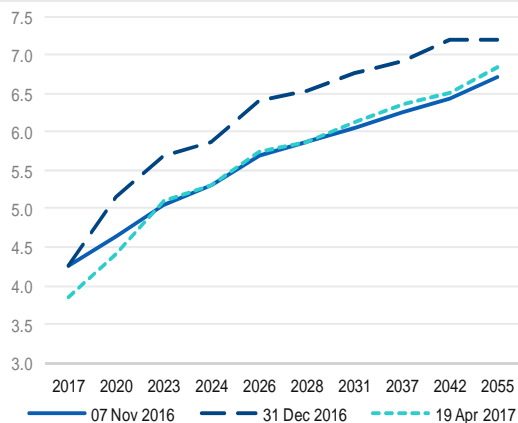
Figure 6.4. Holding of sovereign bonds according to investor origin (PEN thousands of millions)



Source: Bloomberg and BBVA Research

We forecast that the exchange rate will tend to adjust upwards in the coming months, perhaps more clearly in the second half of the year. This will happen within a context in which the difference between interest rates in Peruvian soles and interest rates in dollars will tend to fall. We foresee the central bank of Peru cutting back on its monetary policy rate (see Section 8 for greater detail) while the FED will continue to raise its rates. Depreciation of the local currency will, however, be limited, because this reduction in rate difference will be tempered by the improvement in the balance of trade. Consequently, our baseline scenario provides for an exchange rate to close the year of 3.35 to 3.40 Peruvian soles per dollar (see Figure 6.6).

Figure 6.5. Yield curve of sovereign bonds (%)



Source: Bloomberg

Figure 6.6. Projection of the USD PEN exchange rate (Soles per Dollar)



Source: Central Reserve Bank of Peru and BBVA Research

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