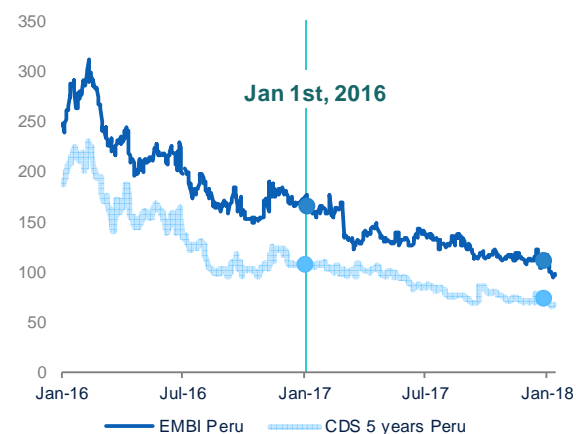


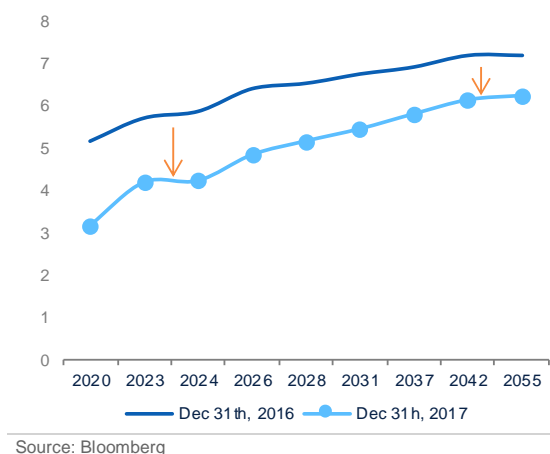
## 6. Financial markets: assets continue to perform well, albeit with bouts of short-term volatility

In the last quarter of 2017 Peruvian financial assets continued to strengthen, not without some short-lived upsets, such as the one caused at year-end by the motion to impeach the president, which to many people's surprise did not succeed in the end. The annual evaluation was also positive: risk indicators declined even further (the EMBI for example decreased by 35%; see Figure 6.1), yields demanded on sovereign debt securities declined (by between 100 and 200 basis points; see Figure 6.2), Peruvian companies plucked up the courage to increase their debt issues in the international markets (even issuing in domestic currency; see Table 6.1), and equities gained (stock indices for some sectors rose by more than 25%; see Figure 6.3).

**Figure 6.1** Risk indicators  
(basis points)



**Figure 6.2** Yield curve for sovereign bonds (%)



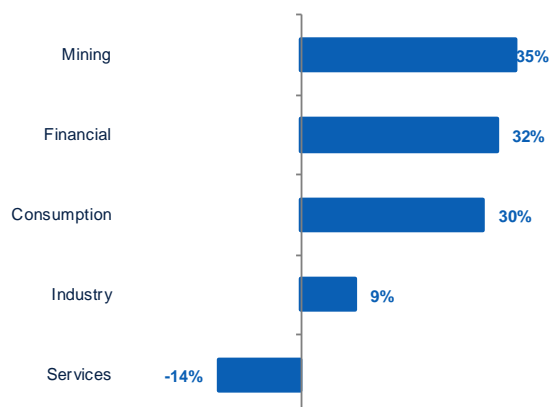
This good performance took place in an environment of abundant global liquidity, expectations that the central banks of the most developed economies will withdraw monetary stimulus measures but only gradually and with forewarning, increased export prices that strengthened the external accounts and continuing solidity of the public finances.

**Figure 6.3** Bond issues by Peruvian companies in the international market, 2017

	Issue month	Amount (mills. US\$)	Term (years)	Rate (%)
<b>Non-financial sector</b>		<b>3840</b>		
Private		1840		
Orazul	April	550	10	5.6
Cerro del Águila	August	650	10	4.1
San Miguel Industrias	September	300	5	4.5
Fenix Power Perú	September	340	10	4.3
Public		2000		
Petróleos del Perú	June	1000	15	4.8
Petróleos del Perú	June	1000	30	5.6
<b>Financial sector</b>		<b>1522</b>		
Private		918		
Intergroup	October	300	10	4.1
Banco de Crédito del Perú <sup>1</sup>	October	618	3	4.9
Public		605		
Fondo Mivivenda <sup>1</sup>	February	455	6	7.0
Fondo Mivivenda	February	150	7	3.5
<b>Total</b>		<b>5362</b>		

1/ Issues in PEN. Source: Central Reserve Bank of Peru

**Table 6.1** Sector stock market indices, 2017 (Measured in PEN, change % YoY)



Source: Lima Stock Exchange

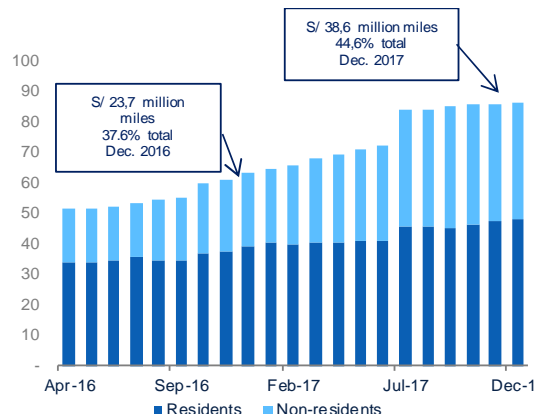
These factors also favoured the appreciation of the Peruvian currency (PEN). It strengthened by 4% during the year despite the central bank's interventions with various instruments including direct purchases of foreign currency in the market (see Figure 6.4), which amounted to just over US\$5 billion over the course of the year.

**Figure 6.4** Exchange rate and direct purchases of dollars by the central bank in the market (PEN per USD; US\$ millions)



Source: Bloomberg and Central Reserve Bank of Peru

**Figure 6.5** Holdings of sovereign bonds by non-resident investors (billions of soles (PEN))



Source: MEF

Two of the main mechanisms through which downward pressure on the USDPEN exchange rate found expression in 2017 were the trade surplus - which increased by US\$1.9 billion in 2016 to US\$5.8 billion last year according to our estimates - and the inflow of capital. As regards the latter, it is interesting to note that there was great appetite on the part of non-resident investors for sovereign bonds: their holdings of these securities increased in 2017 by the equivalent of more than US\$7 billion (see Figure 6.5), many of those purchases possibly not being hedged against

currency risk bearing in mind that banks sold dollars in the forward market in the same period (without delivery) for just US\$1.4 billion.

The trade surplus and the influx of capital to acquire private and public Peruvian financial assets will be maintained in 2018, although they will be more moderate. This moderation is explained by the fact that we foresee China's growth losing some of its dynamism, metal prices starting to soften and monetary policy in the more developed economies gradually tightening. Assuming that the central bank will remain active in the domestic market, we estimate that the exchange rate will end 2018 at a not far level from the previous year (around 3.24 or 3.25; see Figure 6.6). The moderation of the trade surplus and of capital inflows to acquire financial assets will continue beyond this year, so that the national currency will show a certain tendency to depreciate in 2019.

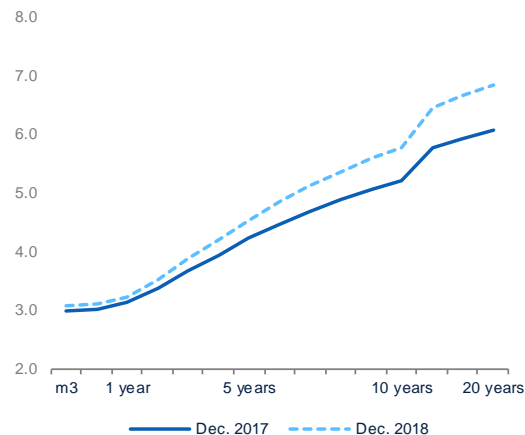
We should mention that our baseline scenario projecting macroeconomic variables is consistent with an increase in 2018 in the returns demanded on sovereign bonds. Compared with those observed towards the end of last year, the increases in returns demanded will be limited in the very short tranches, more related to monetary policy (which still has space in which to cut rates), whereas in the longer tranches there could be increases up to 80 basic points. Thus the yield curve will steepen (see Figure 6.7).

**Figure 6.6** Exchange rate projection (PEN/USD)



Source: Bloomberg and BBVA Research

**Figure 6.7** Yield curve for sovereign bonds\* (%)



\*Projection carried out using the Affine methodology (dynamic factor model), based on Nelson, C. and Siegel A. F. (1987): "Parsimonious Modeling of Yield Curves", Journal of Business 60 (4), pp. 473-789. Source: Bloomberg and BBVA Research

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