

Colombia... back on track

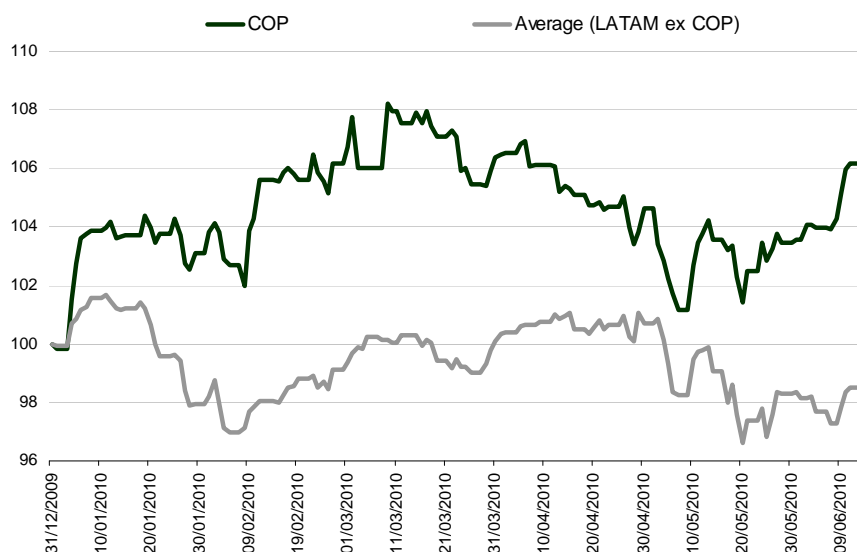
The election is as good as over and the economy is back on track

June 2010 - Author: Lewis Jones, Fund Manager

Recently, Colombia's presidential election has been dominating headlines about the country, as the largely ignored economy quietly surges ahead in the background. It is now very likely that former defence minister, Juan Manuel Santos, will win as voters opt for a continuation of President Uribe's economic and social reforms. The wide margin of the first round result, while not an outright majority victory, belied pre-election polls which showed surprisingly strong support for the Green Party's candidate, Antanas Mockus. This is positive news for investors given the Uribist majority in congress, which should be able to continue to push through economic reform and the lower risk of a change in market friendly government policy.

As for the economy, we remain bullish on the prospects for COP and local TES rates. The peso has been the best performing currency versus the US dollar year to date (as at 14th June 2010), buoyed by strong FDI and export related flows. Exports have been recovering from the massive politically driven drop in shipments to Venezuela as surging Asian growth fuels demand for commodities. China has now overtaken Venezuela to become Colombia's second biggest export buyer and has grown from 2% of total exports last year, to 10% now. April's figures show total exports jumping more than 40% year on year, although from an admittedly low base.

Latin American Currency Performance in USD



Source: Bloomberg, Rexiter

Domestically, things are also improving and demand is starting to show signs of recovery. The export sector has been underpinning employment and monetary policy is still very expansionary. Most recently, the central bank reduced the policy rate to 3% with a 50 basis point cut in April. This is on top of a well capitalised banking sector that is well positioned and eager to resume credit growth to consumers and mortgage borrowers. This recovery however should not add significantly to inflationary pressures this year as the output gap is wide enough to offset the increase in demand.

2011 is when things should get a bit more interesting and it remains to be seen whether or not the authorities will act to reign in monetary and fiscal policy as the recovery becomes more self-sustaining. Until then, we still see some upside to the peso to levels around 1850 COP/USD, coupled with strong demand for the local TES curve which should support rates.