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Peru Early Election Call Welcomed as Protests and Risks Remain

By Leda Alvim

(Bloomberg) -- Wells Fargo welcomed President Dina Boluarte's call for early elections in 2024 in Peru, but warned that medium to longer-term risks to political stability remain.

- Boluarte said she will seek to bring elections forward by two years. She has also imposed a state of emergency across the country following protests over the weekend
 - Read more: Peru's President Calls for Early Elections as Chaos Spreads
- "If current demonstrations persist or intensify, we would turn a little more pessimistic on PEN in the short-term as well," FX strategist at Wells Fargo Brendan McKenna wrote
 - "At the same time, early elections mean a lot of new candidates will jump into the mix and start campaigning. One of the concerns is there is no clear front runner for the presidency, and I wouldn't be surprised if Castillo 2.0 type of candidate appeared and gathered momentum ahead of the election."
- There will be "strong headwinds" ahead, Esteban Tamayo, an economist at Citigroup Inc., wrote in a note Monday, adding that he doesn't expect the relationship between Congress and the executive branch to improve "materially"
 - Notes that Alex Contreras' appointment as finance minister will keep both fiscal and monetary policy under market friendly leadership, and it should reduce the "perceived risks of strong changes in macro management"
 - Read more: Ex-Central Bank Economist Named Peru's New Finance Chief
 - "Headline risk of early elections and votes of confidence remains, but the fact that economic policy leadership is market friendly should allow the economy to operate despite the political noise," Tamayo wrote
- For Daniel Rico, a FX strategist at RBC Capital Markets, the call for early elections is "the right thing to do," keeping the overall look for markets in 2023 "fairly stable"
 - "Offshore investors will continue to buy soberanos and long term dollar debt, as duration starts to become attractive in 2023. The political outlook limits any fiscal spending and strong institutions will provide stability to the credit rating outlook," Rico said
- The call for early elections should bode well for a smoother political transition, said Ramiro Blazquez, head of research and strategy at BancTrust
 - "An abatement of political noise should have a moderate positive impact on bond prices but unless Peru eliminates the deep-rooted sources of political instability, I think that the country is headed for a de-rating," he said
- If protest become more violent and potentially reach the capital, CIBC strategist Luis Hurtado says he doesn't rule out USD/PEN reaching the 4.0 mark

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