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Peru's Bonds Jump as New President Vows to End Political Chaos

- Andean nation's dollar bonds poised for a weekly advance
- Boluarte seeks national unity after Castillo's impeachment

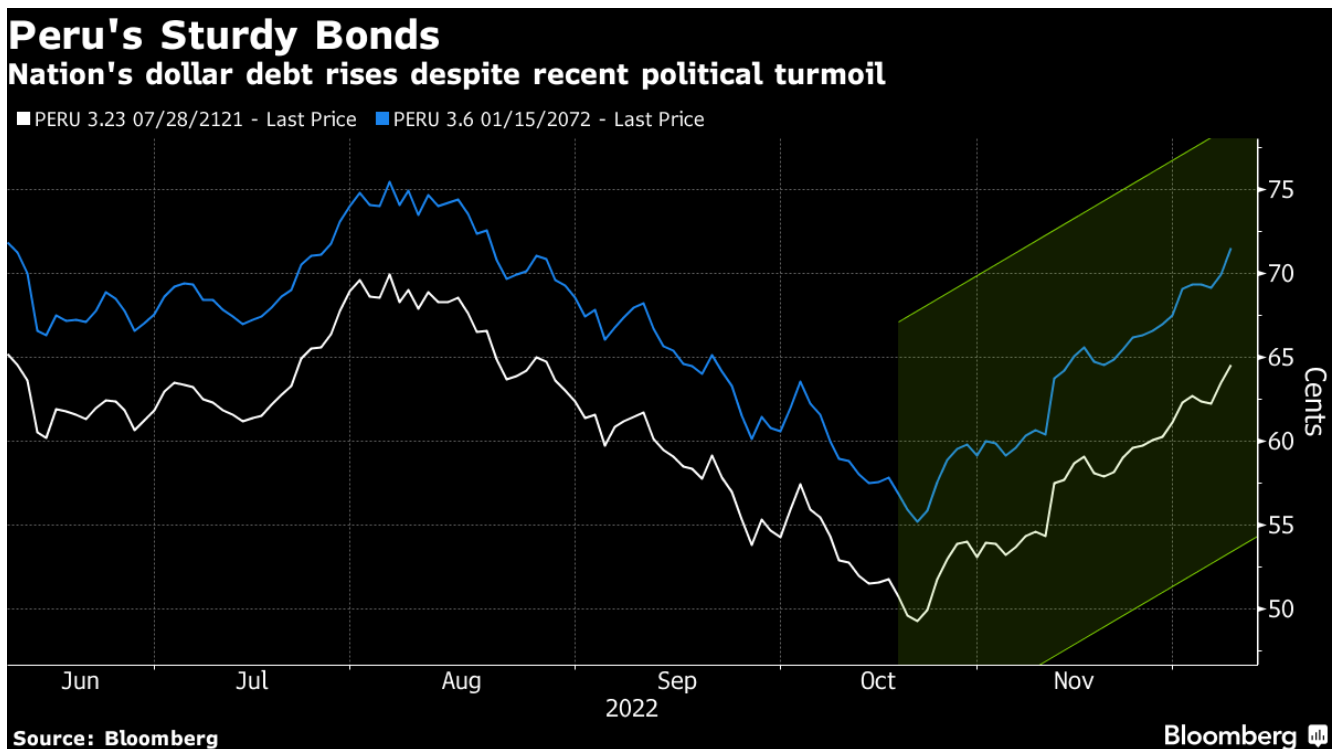
By Leda Alvim

(Bloomberg) -- A new president in Peru is spurring optimism among investors hoping fiscal strength can re-take center stage and sustain further gains in the country's bonds.

The Andean nation's dollar notes headed for a weekly gain as former President Pedro Castillo was impeached and arrested, and Dina Boluarte took over. The bonds due in 2072 are up more than 2 cents so far this week to their highest since August. And with local markets closed for a holiday, the sol remains one of the best-performing currencies in emerging markets this year.

"People are looking at underlying fundamentals in the country and seeing that the political instability is not having a massively negative impact on fiscal accounts or on external accounts," said Sarah Glendon, a senior analyst at Columbia Threadneedle Investments in New York.

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Bond investors have favored the country's debt for its ample foreign reserves and robust fiscal backdrop, despite

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the government's history of instability. Boluarte, Peru's first female head of state and Castillo's former vice president, is the country's sixth president in four years.

But the newest leader has vowed to name a cabinet that represents "all democratic forces" and asked for a "truce" in the political infighting to be able to govern and have a "viable country." She also pledged to fight the "shameful" corruption that afflicts the country and denounced an earlier attempt by Castillo to dissolve congress.

The nation's dollar debt, meantime, has risen. Bonds due in 2072 climbed this week to 71.6 cents, on pace for the biggest weekly gain in a month. Notes maturing in 2051 are also up more than 2 cents over the period to the highest since mid-August. The extra yield investors demand to hold the nation's bonds over US Treasuries is at about 1.9 percentage points, the lowest in the region after Chile and Uruguay.

With the cloud of Castillo's impeachment lifted and the prospect of a protracted crisis averted, the question for investors is whether Peru can enter a period of relative stability.

"We could say that Peruvian institutions and rule of law prevailed," said William Snead, a strategist at BBVA in New York. "The main issue has been the political impasse and the negative impact that it could have in economic growth down the road. From the fundamental side, I remain positive."

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Greater legislative support, however, could lead Boluarte to try to relax the country's fiscal constraint, potentially resulting in larger deficits and weakening one of the nation's key anchors, Barclays Capital Inc. analysts Alejandro Arreaza and Juan Prada wrote in a note. Even so, it would take time for markets to actually price in any potential deterioration.

"In Peru, it's like people have become numb to political noise," said Zulfi Ali, a money manager at PGIM Fixed Income. "It's more like a shock that happens – and then the market gets immune to it."

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