

Long USDCOP

Thesis: Concerns over the upcoming Colombian election mirroring recent leftist victories in other LatAm countries like Peru and Chile will prolong COP's weakening trend in spite of economic factors (elevated commodity prices, rate hikes) that would otherwise support its strength. Election risks will likely remain elevated through at least May, possibly June, and are yet to be significantly priced in.

LatAm shifting left; comparisons to Chile, Peru

The LatAm region has been trending leftward in recent years. Continuing this trend, both Peru and Chile held elections last year in which leftists again won. This was a consequence of COVID mismanagement that exacerbated widespread poverty and economic inequality. These victories reinforce the claim that leftist policies continue to find greater appeal to LatAm electorates.

Heading into elections this year, Colombia faces a resurgence of crime, murder, and violence, systemic police brutality against protestors last year, and a pandemic that has augmented income inequality, poverty, debt, and a weak labour market for workers. These situations check many of the same boxes that have lifted other LatAm leftist candidates to victory; however, Colombia is a staunchly right wing country: leftists have never ruled, so their victory here is by no means certain.

Colombian election overview

The 2022 Colombian Elections feature four prominent parties/coalitions: the ruling right-wing Democratic Centre, the centre-right Coalition Team, the centrist Centre Hope Coalition, and the left-wing Historical Pact, and independent candidates. The three coalitions will hold primaries in March and pitch a single candidate to the general elections in May, with runoffs in June (1.A).

➤ The Centre Hope Coalition has proven largely disunited due to internal fights. Their candidates are mostly upper-class white men, who lack appeal to the lower- and middle-class voters that constitute a large part of the Colombian electorate. Additionally, their Mayor of Bogota has been largely unpopular and reflects a bad image on their coalition.

➤ The Coalition Team, meanwhile, has failed to gain popular traction for any of their candidates, and, at the same time, the incumbent Democratic Centre's candidate Zuluaga is trailing due to the unpopularity of the current president. This is all despite 35% of voters signalling intent to vote right-wing (1.B). After the primaries, this may normalise as voters align with coalitions by ideology.

➤ With weak centrist and right-wing parties, the leading candidates have emerged as the Historical Pact's far-left Gustavo Petro and the independent businessman Rodolfo Hernandez, who draws support from all ends of the political spectrum. So long as he attracts enough media, I see him as the favourite due to his appeal to key election issues and favourable/unfavourable and favourable/voter ratios (1.C).

As centrist parties consolidate behind single candidates (1.D), the run-offs are likely to be between Petro and a non-Democratic Centre candidate, which gives more unfavourable odds to a leftist victory depending on the candidate (low-to-high: Gaviria/Char/Gutierrez, Fajardo, Hernandez). However, the chance remains that Zuluaga or an unpopular Coalition Team candidate may edge out into the run-offs. Since Petro will easily secure a spot here, risks will remain elevated until the general election because of the uncertainty of who he will face. Regardless, he remains a formidable candidate to beat and will likely gain at *least* 40-45% of the run-off vote. Moreover, the general LatAm trend gives additional credence to these risks. As election risks begin to be priced into USDCOP, the currency can be expected to depreciate until at least the general election and potentially until the run-offs.

Commodities

During the recent election seasons in Peru and Chile, weaker rolling betas (2.A) and correlations (2.B, 2.C) between domestic currency in USD and future prices of copper – their primary export commodity – indicate that commodity prices played a lesser role in determining currency movements. Thus, despite strong copper prices, election concerns tempered significant, lasting commodity-price currency support. Notably, in the case of the later Chilean election, this shift occurred 2½ to 3 months in advance of the elections themselves.

Seeing as this change in the relationship between the Colombian peso and futures for its primary export commodity (petroleum) has yet to occur, we can conclude that election risks have not been significantly priced in yet. We can expect this change in the coming weeks: strong prices will fail to significantly support the currency's strength as expectations of a leftist victory remain warranted.

Rate hikes

The CBC hiked rates by 350 bps over the past six months to combat an increasing, elevated inflation rate that reached 7.2% (core: 6.4%) in December. The CBC hiked rates during the course of the elections, which failed to result in a significant strengthening of the currency (2.D).

Over a similar timeframe, the BCRP has hiked rates 275 bps, facing an inflation rate of 6.43% (core: 3.83%). These rate hikes occurred after the election and – despite still being more than 6% down since the start of 2021 – the currency has recovered significantly, but not entirely, from its September lows.

In Colombia, oil subsidies have helped keep inflation significantly lower than other LatAm countries, but these subsidies are waning, the economy is growing rapidly, and a recent law was passed increasing the minimum wage by 10%. A combination of these factors is likely to accelerate BR hikes in the coming months, bringing the rate from the current 3% to 5-6% by mid-late 2022.

Due to the concurrence of anticipated future hikes with the election cycle, a case similar to that experienced in Chile is likely to occur, where these hikes fail to adequately support the currency as the market prioritises the election.

USD strength on hawkish Fed

After a hawkish turn during the recent FOMC meeting, Chairman Powell indicated that rate hikes will begin at the next meeting and net asset purchases will come to an end in early March. Powell's statements indicated that historic inflation and employment figures will be prioritised over weak omicron-related economic data at the start of this year – and he indicated that inflation could accelerate further before it recovers. Powell left open the possibility of front-loading a 50bps hike in March followed by rapid tightening with the possibility of hikes at every meeting this year. The market has fully priced in a 25bps hike in March and now indicates a ½ chance of a 50 bps move, with many financial institutions anticipating 4, 5, or 6 hikes through the end of the year. Such monetary tightening should strongly support the USD through the course of this trade.

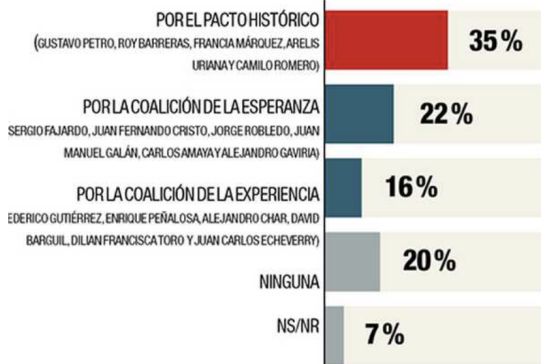
Conclusion

Election risks from the uncertainty over a leftist victory could continue until May or June and overshadow any commodity- or rate-driven support for the Colombian peso. Most of these risks have yet to be priced in. As they are, the Colombian peso can be expected to weaken. Meanwhile, a newly hawkish Fed will support USD strength with aggressive hiking and reduced asset purchasing.

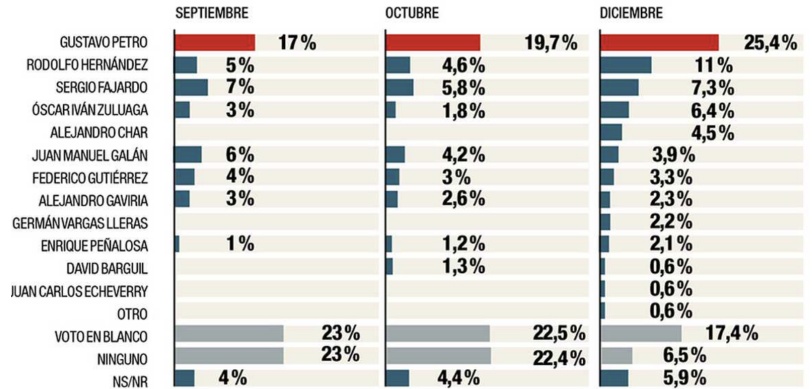
Appendix 1

A. Polls (Coalition, Candidate)

EN MARZO DEL PRÓXIMO AÑO SERÁN LAS CONSULTAS INTERNAS PARA ELEGIR CANDIDATOS PRESIDENCIALES. ¿POR CUÁL CONSULTA PIENSA VOTAR USTED?



SI LAS ELECCIONES A LA PRESIDENCIA FUERAN MAÑANA, ¿USTED POR QUIÉN VOTARÍA?



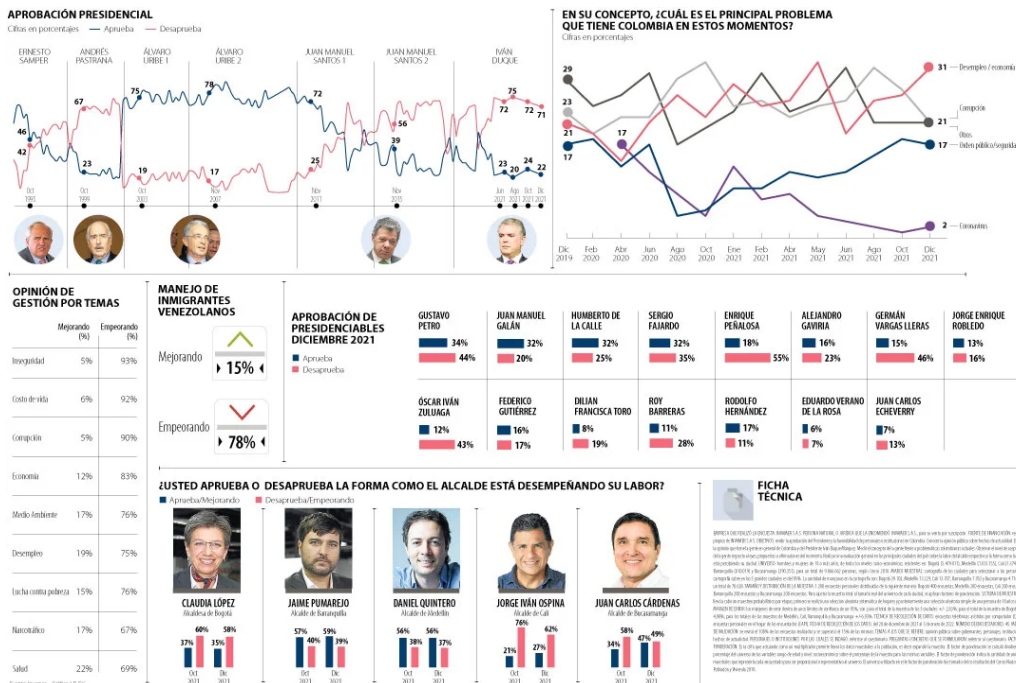
Results of the survey by the National Consulting Center for SEMANA. - Photo: WEEK

B. Electorate Ideology

¿USTED VOTARÍA POR UN CANDIDATO DE... ?



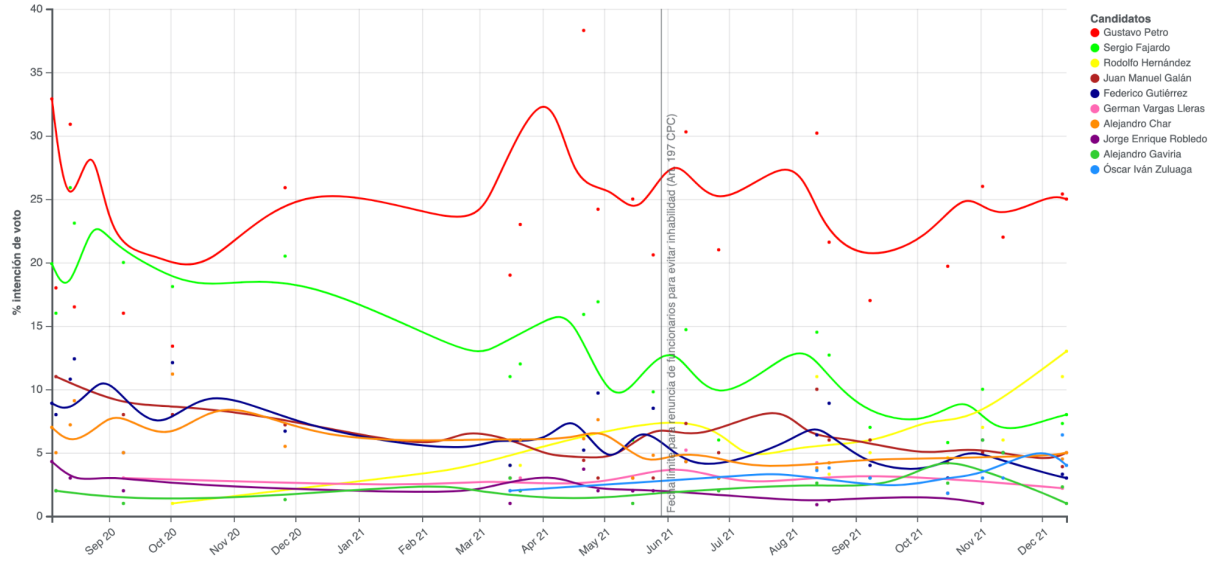
C. Candidate Favourability & Key Issues



Appendix 1 (cont.)

D. Additional Polling Data

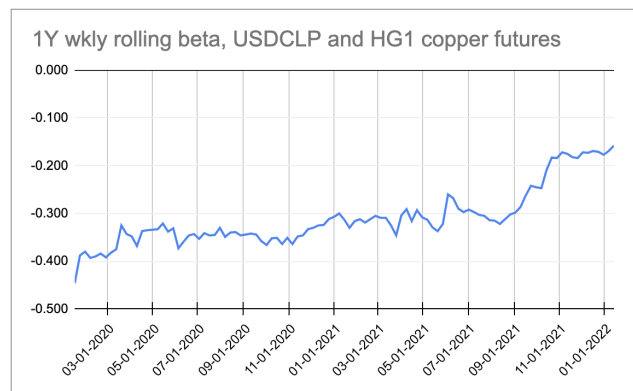
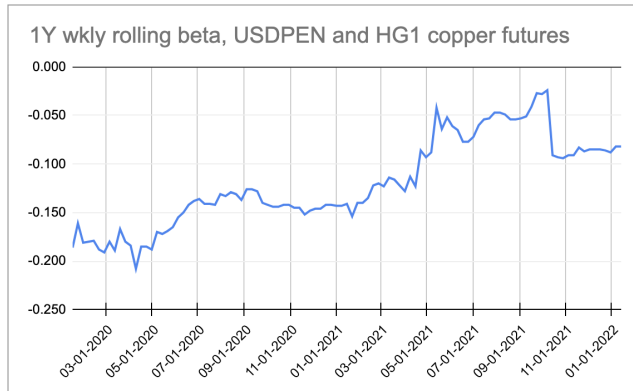
Antes de la oficialización de candidaturas [\[editar\]](#)



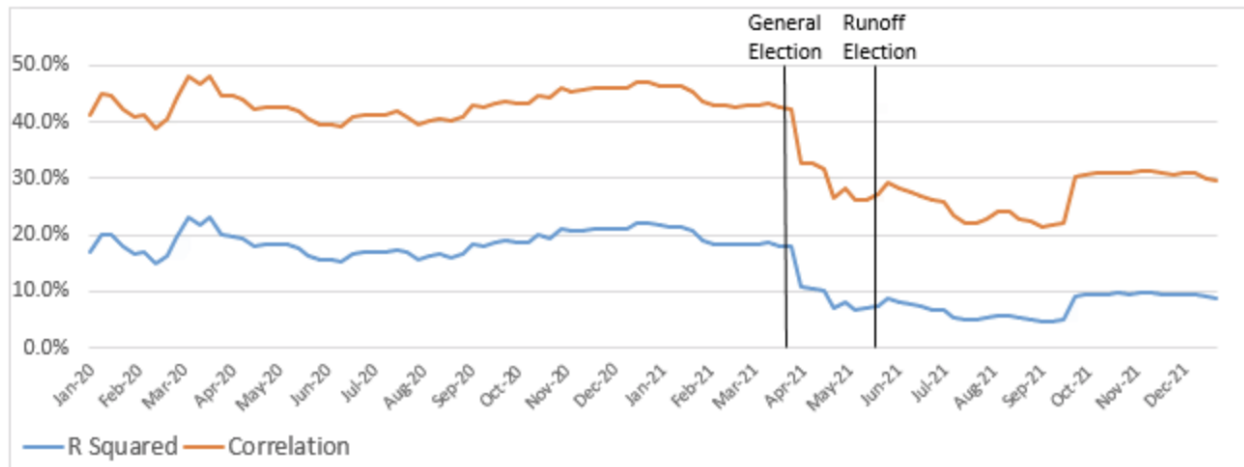
Fecha de publicación de encuesta	Tamaño de muestra	Alejandro Char	Alejandro Gaviria	Ángela Robledo	Camilo Romero	David Barguil	Dilán Francisco Toro	Enrique Peñafores	Federico Gutiérrez	German Vargas Lleras	Gustavo Petro	Humberto de La Calle	Juan Carlos Echeverry	Juan Carlos Pinzón	Juan Manuel Galán	Jorge Enrique Robledo	Luis Pérez	María Fernanda Cabal	María Lucía Ramírez	Miguel Ceballos	Oscar Iván Zuluaga	Paloma Valencia	Rodolfo Hernández S.	Rodrigo Lara	Roy Barreras	Sergio Fajardo	Simón Gaviria	Tomás Uribe	Otros	Blanco	NS/NR	Margen de error	
13-12-2021	1230	5%	1%	-	-	-	2%	-	3%	-	23%	-	-	-	5%	-	-	-	-	-	4%	-	13%	-	-	8%	-	-	4%	18%	8%	2,8%	
11-12-2021	4093	4,5%	2,3%	-	-	0,6%	-	2,1%	3,3%	2,2%	25,4%	-	0,6%	-	3,9%	-	-	-	-	-	6,4%	-	11%	-	-	7,3%	-	-	-	17,4%	5,9%	1,5%	
05-12-2021	1200	-	-	-	-	-	-	-	11,4%	-	22,1%	-	-	-	-	-	-	-	-	-	12,7%	-	13,8%	-	-	18,9%	-	-	-	-	1,2%	-	
		-	-	-	-	-	-	-	14%	-	23,6%	-	-	-	12%	-	-	-	-	-	15,7%	-	13,5%	-	-	-	-	-	-	1,2%	-		
		-	5,7%	-	-	-	-	-	15,9%	-	27,2%	-	-	-	-	-	-	-	-	-	15,6%	-	14,4%	-	-	-	-	-	-	-	1,1%	-	
12-11-2021	1069	-	5%	-	1%	1%	-	2%	5%	-	22%	3%	1%	-	5%	1%	1%	4%	-	-	3%	-	6%	-	5%	-	-	-	19%	7%	11%	3%	
02-11-2021	1200	-	6%	-	-	-	1%	3%	6%	-	28%	-	-	-	5%	-	-	4%	-	-	3%	-	7%	-	10%	-	-	-	11%	9%	9%		
16-10-2021	2012	-	2,6%	-	-	1,3%	-	1,2%	3%	-	19,7%	-	-	-	4,2%	1,8%	-	3,2%	-	-	1,8%	-	4,6%	0,9%	0,6%	5,8%	-	-	-	-	22,5%	4,4%	
08-09-2021	2019	-	3%	-	-	-	-	1%	4%	-	17%	-	-	-	6%	-	-	4%	-	-	3%	-	5%	-	7%	-	-	-	-	23% ⁸	4%	2,4%	
19-08-2021	1367	4,2%	-	-	1,2%	-	-	-	8,9%	-	21,6%	1,6%	-	-	6,0%	1,2%	-	1,4%	-	-	3,8%	-	3,3%	-	-	12,7%	-	-	-	7,1%	10,8%	4,4%	2,5%
13-08-2021	1008	3,8%	2,6%	-	-	-	-	3,5%	6,4%	4,2%	20,2%	4%	0,5%	-	10%	0,9%	-	-	-	0,1%	3,6%	-	11%	-	-	14,5%	-	-	-	-	4,6%	4,4%	
26-06-2021	2077	3%	2%	-	-	-	-	4%	3%	2%	21%	-	-	-	5%	-	-	-	-	-	-	-	-	-	-	6%	-	-	-	26%	24%	2,4%	
10-06-2021	1945	4,3%	-	-	-	-	-	-	4,9%	5,2%	20,3%	6,2%	-	-	7,3%	-	-	-	-	-	-	-	-	-	-	14,7%	-	3,3%	4,2%	14,3%	5,2%		
25-05-2021	1480	4,8%	-	-	-	-	-	-	8,5%	-	20,6%	2,3%	-	2,8%	3%	2%	-	-	-	-	-	-	-	-	-	9,8%	-	2%	8,3%	20,4%	15,8%		
15-05-2021	2001	3%	1%	1%	-	-	1%	2%	2%	2%	22%	-	-	1%	3%	2%	-	-	5%	-	-	-	-	-	-	6%	-	3%	-	25%	17%		
28-04-2021	1370	7,6%	-	-	-	-	-	-	9,7%	-	24,2%	2,3%	-	2,8%	3%	2%	-	-	6,9%	-	-	-	-	-	-	16,9%	-	4,2%	-	-	11,3%		
21-04-2021	1008	6,1%	-	-	-	-	-	-	5,2%	-	28,3%	4%	-	1,3%	4,4%	3,7%	-	-	11,8%	-	-	-	-	-	-	15,9%	-	4,6%	-	4,6%	-	5%	
23-03-2021	4435	6%	2%	-	-	-	4%	-	6%	3%	23%	-	-	2%	6%	2%	-	-	9%	-	-	1%	4%	-	12%	1%	2%	3%	8%	12%			
16-03-2021	1200	6%	3%	1%	-	-	1%	1%	4%	2%	19%	3%	-	-	3%	1%	-	-	3%	-	2%	-	4%	-	11%	-	-	9%	5%	13%	2,8%		

Appendix 2

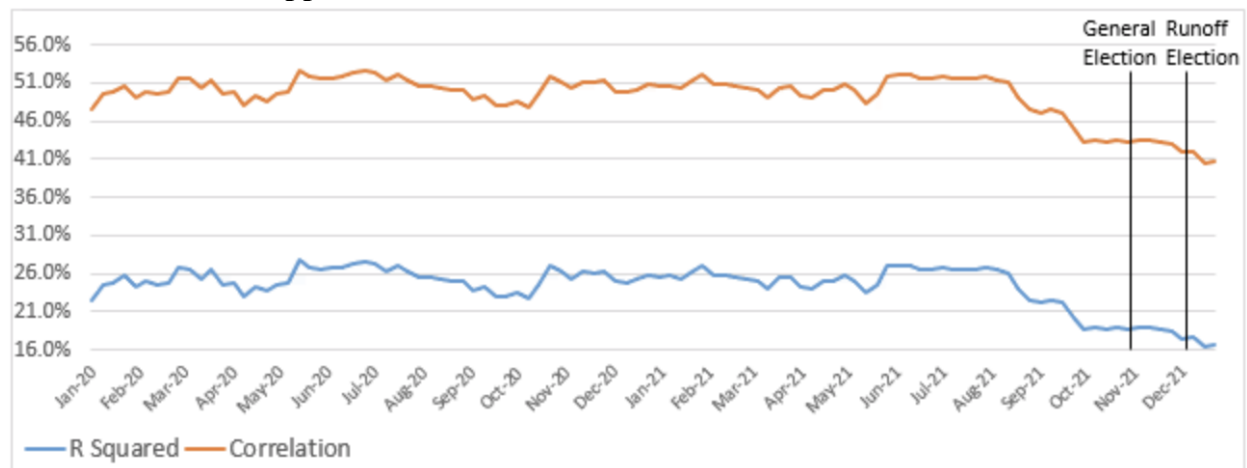
A. Rolling betas between USDPEN, USDCLP and copper futures



B. USDPEN, HG1 copper futures



C. USDCLP, HG1 copper futures



D. USDCLP and the Chilean key rate

