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Round 2!

Whilst there is little doubt that the current global economic crisis has and will remain in the spotlight for some time to come, the political environment throughout Latin America as well as the Caribbean region is fast becoming a topic for debate. For the year thus far, we have already witnessed a wave of Latin American elections and with less than two (2) months to go before 2009 comes to an end, Bolivia, Chile, Uruguay and Honduras will be heading to the polls. Indeed, by the end of 2010, Brazil, Colombia and Costa Rica will be added to this list (refer to Table 1), with all this occurring in the midst of a crisis dubbed 'the worst since the Great Depression of the 1930's'. Clearly, the public sector's role has become even more pivotal as a result of the current global crisis, and even though it may still be too premature to confirm, early indications suggest that the current recession might do more to reinforce political support for existing economic policies in much of Latin America rather than change course at this juncture.

Table 1: Last and Upcoming Elections in Latin America

Country	Last Election	Next Election
Argentina	28 October 2007	October 2011
Bolivia	18 December 2005	6 December 2009
Brazil	1/29 October 2006	October 2010
Chile	11 December 2005/15 January 2006	11 December 2009
Colombia	28 May 2006	May 2010
Costa Rica	5 February 2006	February 2010
El Salvador	15 March 2009	March 2014
Ecuador	26 April 2009	April 2013
Guatemala	9 September 2007/ 4 November 2007	November 2011
Honduras	27 November 2005	29 November 2009
Nicaragua	5 November 2006	November 2011
Panama	3 May 2009	May 2014
Paraguay	20 April 2008	April 2013
Peru	9 April 2006/4 June 2006	April 2011
Uruguay	31 October 2004	25 October 2009
Venezuela	3 December 2006	December 2012

Source: Congressional Research Service

The 25 October 2009 presidential poll held in Uruguay has been the most recent in a series of elections in Latin America. Whilst previous elections have grabbed market players' attention as new administrations were continuously sworn in, none thus far has failed to secure a first-round victory and produce an outright winner as in the case of Uruguay. Indeed, the candidate tipped to win the election, the Frente Amplio (FA) candidate Jose Mujica, fell short of the 50% support needed for the first-round victory (refer to Table 2). As a consequence of this, a second–round run-off election is carded for 29 November 2009 for the race to replace presidential incumbent Tabare Vazquez. The third placed candidate, Pedro Bordaberry of the Partido Colorado, who captured 16.7% of the 90% voter turnout, has now thrown his support behind second placed candidate, Luis Alberto Lacalle of the Partido Nacional (Blancos), who gathered 28.5% of the votes cast,.

Table 2: Presidential Election Result, %

Candidate Name	Candidate Party	Votes captured (%)
Jose Mujica	Frente Amplio (FA)	47.5
Luis Alberto Lacalle	Partido Nacional (Blancos)	28.5
Pedro Bordaberry	Partido Colorado	16.7
Other		7.3

Source: Business Monitor International

Despite his growing popularity, including the support of Uruguay's business community, it is believed that concerns over Mujica's 'leftist credentials and more informal leadership style' may have prevented him from comfortably securing the presidential seat. Nevertheless, the base scenario is for a Mujica victory later this month as the FA candidate has secured the support of key market-friendly ministers in addition to publicly stating that economic policy will be his domain. We are of the opinion that a Mujica victory, which would see him take office for a five-year term beginning March 2010, will ensure economic policy continuity which augurs well for Uruguay's long-term economic outlook. However, should there be a Blancos victory, the combination of a Lacalle presidency after the November 29 run-off and an FA dominated congress may result in a chronic policy stalemate throughout the Blancos candidate's term in office.

Relatively better-than-expected economic data in the United States has raised speculation that the worst of the global downturn is over with the economy recovering on the back of aggressive monetary and fiscal stimuli. However, with global credit conditions still expected to remain tight in the medium-term, foreign direct investment into Uruguay, a key driver of growth over the past couple of years, is expected to be subdued. The Uruguay economy posted tepid growth in the second quarter with overall growth for 2009 at a revised 0.5% up from the previous 0.2% contraction forecast. Growth is estimated at 2.2% and 2.4% in 2010 and 2011 respectively led by renewed domestic demand. Further to this, Brazil, Uruguay's largest export market, has emerged from its recession in the second quarter which can translate into an improvement of Uruguay's terms of trade. This however, may be tempered as energy prices rebound given the fact that Uruguay imports all of its oil.

Uruguay's annual rate of inflation held steady in October at 6.5% as the consumer price index fell by 0.01% month-on-month, within the central bank's 3%-7% inflation target. Going into 2010, the rate of consumer price inflation is projected to remain close to or slightly above the upper-end of the target range largely 'owing to firm real wage growth, strengthening domestic demand and higher average commodity prices.' With inflationary risks anticipated to remain on the upside, the Central Bank is expected to pursue a more restrictive monetary policy in 2010, in line with the general view for emerging market economies going forward.

On account of relatively weaker global and domestic demand, the first seven months of 2009 saw export earnings and import spending decline to the tune of 15% and 28% respectively on an annual basis. For the remainder of 2009, the fall in exports should moderate 'owing to growth in crop exports' with a similar trend in imports as domestic demand recovers somewhat. With the fall-off in imports outpacing that of exports, the current account deficit is projected to narrow by an overall 0.2% of GDP in 2009. However, with a widening external deficit estimated in 2010, reserve levels are projected to decline to some extent after posting strong growth in 2009, up USD1.7 billion in the first nine months of the year.

The adverse effects of the global economic crisis, particularly in emerging markets, have been reflected in the broad-based revisions of economic outlooks and downgrades of sovereign credit ratings for the mid-2008 to present period. Indonesia and Panama are among the very few economies which have withstood the global recession admirably: the outlooks on these countries' credit ratings were revised upwards to positive from Standard and Poor's (S&P) ratings service in late October and early November of this year. On top of emerging markets' economic weakness, in the context of the global downturn, the political environment is adding to the pressures facing these counties' credit ratings. Whilst the revised positive outlook in both Panama and Indonesia was attributable partly to a 'stronger political environment', back in May 2009, the sovereign credit rating in El Salvador was downgraded further to junk-grade status to 'BB' subsequent to the March 2009 elections which resulted in a change in government and is evident of the paramount importance of a strong political framework towards an economy's economic outlook.

With that said, a Mujica victory should ensure 'that Uruguay's policy mix will largely remain in line with the core economic outlook for steady economic growth.' On 7 September 2009, S&P affirmed its 'BB-' foreign sovereign credit ratings with a stable outlook on Uruguay citing 'a smooth transition into the new administration – given Uruguay's solid political institutional framework.' In this context, given the fiscal prudence and the continuation of market-friendly practices, we are of the opinion that there will be minimal impact on the direction of macroeconomic policy as a result of the elections outcome and believe that it will be a non-credit event.

FINANCIAL & ECONOMIC INDICATORS

As at 12 November, 2009

Exchange Rate/US$	Closing Value	Previous Week
Yen	90.37	90.71
Euro	1.49	1.49
Jamaica	89.29	89.25
Guyana	204.90	204.70

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	76.94	79.62
Natural Gas (US$/mmbtu)	3.24	4.30
Gold (US$/Troy Ounce)	1,103.80	1,090.30

Eurobond Indices (As at 12-11-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	8.94
JP Morgan EMBI+ (Basis points)	304
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	32.67

Policy Interest Rates (%)	Closing Value	Previous Week
United States	0.12	0.13
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	8.75	8.75
Trinidad	6.25	6.25
Jamaica	12.50	12.50
Barbados	2.50	2.50

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	0.06	0.04
US 10-Yr Treasury	3.45	3.53
3-month UK Libor	0.61	0.61
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	9.04	8.60
TT 90-day T-Bill	1.40	1.40
Jamaica 90-day T-Bill	16.21	16.21
Barbados 90-day T-Bill	3.48	3.48

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com