

Markets place bet on Calderón

As the country remained on edge waiting for presidential election results, Mexican financial markets surged on news that the pro-business candidate was leading over his leftist rival.

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MEXICO CITY - Mexican financial markets surged Monday anticipating something election officials were unwilling to confirm: that fiscally conservative Felipe Calderón had won the presidency.

The nation was on edge waiting for the country's election institute to declare a winner in Sunday's vote, an announcement that could be days away.

But Mexico's stock market, currency and bonds rallied sharply on news that Calderón was leading over his leftist rival by a seemingly insurmountable 380,000 votes with more than 37 million counted.

"It seems that they're declaring him the winner," said Carlos Gonzalez, an analyst at IXE brokerage in Mexico City, referring to local markets' reaction to Calderón's lead.

Calderón and leftist Andrés Manuel López Obrador have both declared victory, but according to results from 98.01 percent of polling places, Calderón had 36.37 percent to López Obrador's 35.37 percent.

The Federal Electoral Institute, however, said the results were in no way final and that it would not declare a winner until an official tally of tens of thousands of ballot boxes that it was not even starting until Wednesday.

But markets did not share the institute's caution.

The Mexico City stock market's IPC index of 35 leading issues finished up 4.8 percent, or 914 points, to 20,060.82, its highest close since May 19.

PESO STRENGTHENS

The peso currency, a historic barometer of Mexico's economic fortunes, ended the day at 11.1055 to the dollar, strengthening 2.2 percent from Friday's close at 11.3475.

Reflecting the rally, the yield on the benchmark Mexican 10-year bond fell to 8.78 percent from 9.09 percent.

Investors see Calderón continuing the tight budgets and free-trade friendly policies of outgoing President Vicente Fox, analysts said. Both are from the conservative National Action Party.

"The results imply continuity with the current economic program and eliminate the uncertainty that a victory by the leftist candidate implied," Gonzalez said. Some investors had feared López Obrador, who promised big-ticket public-works projects as a way of creating jobs and spurring growth, would run up deficits and increase the government's role in the economy.

Many market players were taken off guard by the results, having anticipated López Obrador -- known popularly by his initials AMLO -- would win the vote, given his slight lead in preelection polls.

"There was a slight upset because we're not seeing a slight AMLO victory but instead a slight Calderón victory," said Siobhan Morden, Latin America local market strategist at ABN-AMRO in New York.

The local rally took its momentum from an upturn that began last week after the U.S. Federal Reserve raised interest rates as expected while signaling its monetary-tightening cycle may be nearing an end.

UNDER PRESSURE

Global emerging markets had been under pressure over fears the Fed would continue to hike interest rates, further cooling the economy and siphoning off investor cash.

Analysts said they thought Mexican markets would continue to rally in coming days, unless the vote trend is reversed, or the defeated candidate refuses to accept the result and triggers widespread demonstrations.

"Let's see how the loser takes it," said Gerardo Copca, an analyst with Grupo Financiero Monex in Mexico City.