

Insight

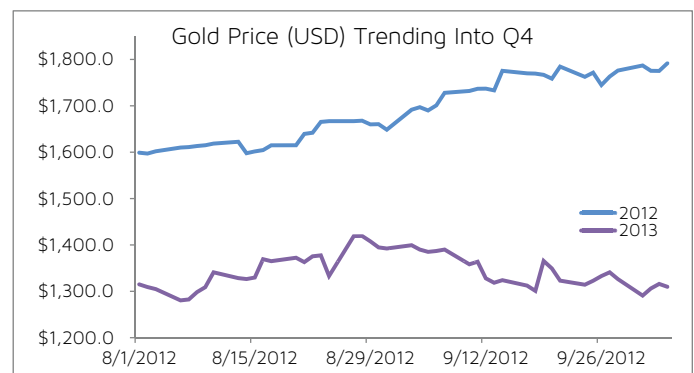
Banco de Credito, the largest bank in Peru, recently forecasted a 6.5% GDP expansion for the fourth quarter of 2013. Growth, according to the bank, has been led by an increase in the domestic demand of sectors such as construction, commerce, and services. Peruvian domestic demand is estimated to grow 6.8% over the year, serving as a critical contributor to strong GDP performance in the future. Additionally, Juan Carlos Odar, head of economic studies for the bank, noted that positive performance out of the mining sector could help to reach fourth quarter GDP forecasts for 2013. Construction has been one of the strongest at 12.95% growth from January to July of this year, and additional production reports will be released next week detailing sector performance for September.

Private investment projects valued at more than 45 billion USD are planned over the next two years, according to the Peruvian Finance Minister, Luis Miguel Castilla. Castilla noted, "More than 20 major projects have been unlocked and there is a large private investment portfolio which will be materialized not just in Lima, but several regions." Continued investment interest bodes well for Peru, especially during a time in which uncertainty surrounds the U.S. Fed in terms of their next move. If Peru maintains this private interest while attracting both portfolio and direct investment, there is strong evidence supporting the growth rates forecasted for Q4.

Commodities

The mining sector continues to be a focus for the government as President Ollanta Humala expects 12% annual growth over the next 3 years. Additionally, mining exports are expected to increase 5 billion USD annually, reaching 30 billion USD by 2016. With such predictions, the mining sector will play a major role in encouraging additional infrastructure projects, both local and national, while furthering Peru's development.

Gold prices have begun to settle around 1,300 USD as uncertainty surrounds the issue of when the U.S. Fed will begin tapering its stimulus, a topic of conversation that will continue into 2014. This small decline in gold prices over the past week may spur some additional purchases out of the Chinese market as an increasing middle class looks to store their wealth in the metal. Similar conditions are occurring in India as the Indian wedding season is about to begin, which will increase purchases out of the long-time world leader in gold consumption. This year, however, presents a different scenario as the government has imposed import restrictions and has a depreciating currency, making the precious metal significantly more expensive. Increases in import taxes from India were put in place in response to their current-account deficit being at a record high.



Outside of seasonal conditions that influence price, recent forecasts for the Chinese economy predict a 7.5% growth in GDP for 2013, down from 7.75% in July. With China being such a strong influence on world prices for metal

commodities, this decrease in growth forecast may weigh on commodity prices. On the other hand, a reduced growth forecast for China should not impact gold miners in Peru as gold consumption out of the Asian country is projected to overtake India as the world's largest consumer of the metal by the end of the fourth quarter. If India and China continue current consumption patterns during the fall season, Peru's 6.5% GDP growth forecast for the fourth quarter maybe a modest estimate.

Monetary Policy

International reserves hit 66.7 billion USD as of October first, 2.71 billion USD more than at the end of 2012. The Current account level of Peruvian international reserves are 33% of the country's GDP, more than 19 months of imports, and equivalent to 6 times the amount of short-term external debt.