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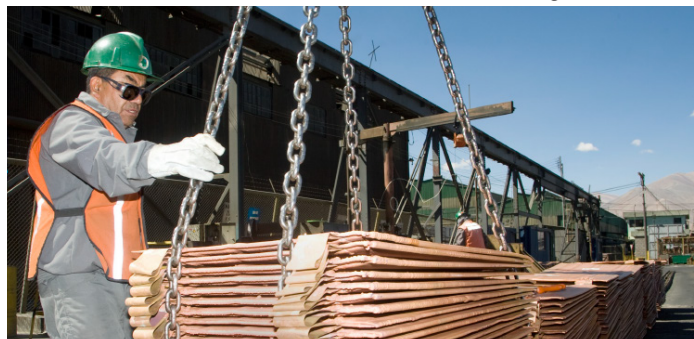
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## FEATURED Q&A

# What's the Outlook for Copper Prices & Chile's Economy?



Chile needs a rebound in copper prices in order to finance its agenda, Mining Minister Baldo Prokurica said earlier this year. A worker at state-run copper producer Codelco is pictured above. // File Photo: Codelco.

**Q** The value of Chile's copper exports fell 17 percent in September, compared to the same month last year, amid price volatility surrounding the metal, the South American country's top export product. Meantime, President Sebastián Piñera announced an expenditure increase of just 3.2 percent in next year's budget, the lowest level of public spending expansion in eight years, several months after his mining minister said a rebound in copper prices was "essential" for implementation of Piñera's government plans. What is the outlook for global copper prices in the near future, and how may this affect Chile's economy in the short and long term? How much do Piñera's proposals, including pension reforms and a student loans fund, rely on revenue from copper output? Does he have plans to diversify the Chilean economy?

**A** Marcos Lima, former executive president of Codelco and partner at CIS Consultores: "Though the sharp drop in exports in September may have been an isolated case, when it's added to a fall in the price of copper of around 10 percent compared to September last year and a decrease in production associated with the long festivities of 'Fiestas Patrias' and other factors, it's clear the future of copper prices depends, fundamentally, on what occurs in the trade war between China and the United States. In fact, with China accounting for more than 50 percent of global copper demand, it is impossible to avoid the trade war's uncertainty, despite supply and demand and the growth of the global economy showing favorable signs of higher copper prices in the near future. Speculative investment funds, very

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## TODAY'S NEWS

### POLITICAL

## Thousands of Migrants Regroup in Mexico on Journey North

The caravan of Honduran migrants crossed from Guatemala into Mexico where some splintered off. Many regrouped, however, and continued their journey north toward the United States.

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### BUSINESS

## Laub Resigns as Chief Executive of Credicorp Capital

Christian Laub is stepping down from the helm of the Peruvian financial holding company, which he has led as CEO for more than six years.

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### ECONOMIC

## Argentine Peso Not Yet Stable: Bank Chief

Guido Sandleris, who took over last month as Argentina's central bank chief, said in an interview that it is "definitely too soon" to declare the country's currency to be stable.

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Sandleris // File Photo: Argentine Government.

## POLITICAL NEWS

## Migrant Caravan Regroups in Mexico, Heads Toward U.S.

A caravan of Honduran migrants heading to the United States has regrouped in Mexico after crossing the country's southern border illegally over the weekend, The Wall Street Journal reported Sunday. Thousands of Hondurans fleeing poverty and violence in their country continued north from a town at the Mexico-Guatemala border after Mexican border officials refused to let them in on Friday and Saturday. At least several hundred returned to Honduras by bus, another group stayed to ask Mexico for asylum and others crossed into Mexico illegally. There are some 3,000 people in the new group, Agence France-Presse reported. Since the migrants began their journey from Honduras, U.S. President Donald Trump has taken to Twitter to demand that Mexico stop them from advancing to the United States. "Full efforts are being made to stop the onslaught of illegal aliens from crossing our Souther[n] Border," Trump tweeted on Sunday. "People have to apply for asylum in Mexico first, and if they fail to do that, the U.S. will turn them away." It is unclear how Mexican authorities will handle the second caravan, which arrived in Tapachula, in Chiapas State, on Sunday afternoon after a nine-hour walk. Along the way, local residents and churches handed out water, food and baby diapers, and Mexicans shouted out "Good luck! Good luck!" to the migrants passing by, The Wall Street Journal reported.

## Assange Sues Ecuador Over New House Rules

Julian Assange, who has taken refuge at the Ecuadorean embassy in London for six years, is suing the South American country's government, El Universo reported Friday. Assange's lawyer, Baltasar Garzón, arrived in Quito to file

suit against Ecuador's foreign minister, José Valencia, and attorney general, Íñigo Salvador, for "violating [Assange's] fundamental rights and freedoms" after the embassy on Oct. 13 imposed new rules regarding the WikiLeaks founder's visitation rights, communications and even care of his cat. Ecuador granted Assange, who was avoiding extradition to Sweden for questioning regarding rape allegations that have since been dropped, political asylum in 2012. He still faces a charge in Britain for skipping bail and is wanted by U.S. officials in connection to leaking classified government documents on his website and alleged involvement in Russian interference in the U.S. presidential election in 2016, USA Today reported. The South American country has toughened restrictions after President Lenín Moreno came into power in May of last year, including banning Assange's access to the Internet in December. The new rules limit his visitors and communication and force Assange to clean his bathroom and take better care of his pet cat, El Universo reported. A domestic Ecuadorean court will hear the case this week.

## ECONOMIC NEWS

## Too Soon to Declare Stability in Argentine Peso: Bank Chief

It is "definitely too soon" to declare that Argentina's peso has returned to stability, the country's new central bank chief told the Financial Times in an interview published today. "The global financial storm sometimes quiets down, then it regains force and that could happen [again]," Guido Sandleris, who became the head of the central bank last month, told the newspaper. The peso has strengthened 10 percent against the U.S. dollar since Argentina put in place a new program backed by the International Monetary Fund. In late September, the IMF agreed to increase its credit line to Argentina to approximately \$57 billion over three years. That was about \$7 billion more than the lender had announced in June. At the time the

## NEWS BRIEFS

## Brazilians Take to Streets in Competing Rallies For, Against Bolsonaro

Tens of thousands of Brazilians rallied across 15 of the country's states on Sunday in support of far-right presidential candidate Jair Bolsonaro, the Associated Press reported. A day earlier, anti-Bolsonaro Brazilians came out to protest the front-runner's candidacy, shouting "ele não," or "not him." The rallies came one week before the runoff between Bolsonaro and Workers' Party candidate Fernando Haddad, who is trailing the former army captain in the latest polls.

## Chilean Court Orders Church to Pay Men Allegedly Abused by Priest

Chile's Court of Appeal has ordered the archbishop's office in Santiago to pay a total of \$650,000 to three men who have alleged that they were sexually abused by a priest, Fernando Karadima, La Tercera reported Sunday. A three-judge panel accepted the appeal for "moral damages" against the Catholic Church for covering up the incidents, the newspaper reported. A lower court previously rejected the case citing a lack of evidence, Reuters reported.

## Mexico's Banorte Reports 26% Increase in Profit for Third Quarter

Mexico's Banorte reported a net profit of 7.82 billion pesos, or \$417 million, in the third quarter, a 26 percent increase from the same period a year ago, Reuters reported Friday. Moreover, the Mexican bank said consumer credit and demand for autos and housing boosted its loan portfolio by 25 percent, in comparison to the third quarter last year, to 751.7 billion pesos. It was the first report that included the results of Grupo Financiero Interacciones, which Banorte acquired earlier this year.

September deal was announced, Argentina had already received \$15 billion in loans and would have access to another \$19 billion by the end of 2019, Bloomberg News reported. In return for the bailout, Argentine President Mauricio Macri and Sandleris had to agree to step up budget savings and also freeze the country's supply of money in order to fight inflation. The South American country's monthly inflation rate stood at 6.5 percent in September, the Financial Times reported. Sandleris told the newspaper that the central bank has a "sad record" and must rebuild its credibility. "Confidence and credibility are two things that are very delicate ... They break very easily and are difficult to rebuild," he said. Argentina's peso and the Brazilian real are the only two emerging market currencies that have strengthened against the dollar over the past two weeks. The peso was at nearly 42 to the dollar before the implementation of the country's economic plan. It has since strengthened to about 26.50 per greenback. [Editor's note: See related [Q&A](#) in the Oct. 15 issue of the Advisor.]

## BUSINESS NEWS

# Laub Resigns as Chief Executive of Credicorp Capital

Peruvian financial holding company Credicorp Capital's chief executive, Christian Laub, resigned from his post after more than six years



Laub // File Photo: Credicorp Capital.

with the firm, El Comercio reported Friday. The move came as Credicorp seeks to expand its wealth management brand across other

## FEATURED Q&A / Continued from page 1

vulnerable to the trade war's uncertainty, are affecting short-term copper prices. However, we can't forget that Chile's budget calculates fiscal revenue using long-term prices, which an expert panel conservatively estimated would undergo a slight increase. This in turn implies more revenue coming from the copper industry, regardless of what happens to the metal's price over the next year. Nevertheless, expenditures will be financed more by a hike in trend GDP growth than by copper, another variable that influences budget estimates. The biggest concern for the future of the copper industry in Chile has to do with a drop in ore grades and the absence of new mines, which implies more investment without correlating production increases. This will result in no significant increases in tax revenues for the country, except if there is a new boom in copper prices, which is not expected at present."

**A** **Jorge Heine, former ambassador of Chile to China, India and South Africa, and a public policy fellow at the Woodrow Wilson International Center for Scholars in Washington:** "There is a close correlation between the price of copper and Chile's economic growth. At the height of the commodity's boom from 2010 to 2013, Chile did very well, growing at over 5 percent. Growth dropped off sharply between 2014 and 2017, as the bottom fell out of the copper market. With the rise of the price of copper late last year

and early this year, the assumption was that President Piñera would benefit as much from it in his second term (2018-2022) as he did in his first (2010-2014). The first half of this year seemed to bear this out, with growth of

“No major plans to diversify the economy are in the offing.”

— Jorge Heine

4.2 percent in the first quarter, 5.3 percent in the second quarter and 4.8 percent in the first half overall. Yet, the fall in the copper price since then (largely due to the U.S.-China trade spat) has changed this. Projections now are of a price of \$2.95 per pound for 2018, \$2.85 in 2019 and \$2.80 in 2020, well below earlier ones (and far from the nearly \$4.50 per pound at its earlier peak). The result has been a relatively restrictive fiscal budget for 2019. Although Chile's public debt is low (25 percent of GDP), there is no appetite to increase it. With the average monthly pension being paid to male beneficiaries by the private pension system at 150,000 pesos (a little more than \$230) in 2018, in a country with a high cost of living, pension reform is urgent, and a bill may soon be submitted to

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countries in Latin America. "Credicorp has strengthened its regional model and is now in a new stage of consolidation and integration with its Peru wealth management business, which brings along structural changes that will allow us to continue bolstering the service offering for all the clients in Chile, Colombia and Peru," the financial company said in a statement after announcing Laub's resignation in a regulatory filing, CityWire reported. Eduardo Montero, who currently serves as Credicorp's wealth management head, will replace Laub when the

changes take effect on Jan. 1. The firm had undergone structural changes last year, merging the wealth units of Credicorp and of its sister bank Banco de Crédito del Peru, or BCP, into a single division to bring BCP's advisory business to Colombia and Chile, the wire service reported. Montero, who previously led BCP's \$11 billion advisory wing, was named head of the combined unit last July. Mariano Baca, who currently manages BCP's corporate banking unit, will take Montero's place, according to a spokesperson for Credicorp, CityWire reported.

## FEATURED Q&amp;A / Continued from page 3

Congress. No major plans to diversify the economy are in the offing.”

**A** **Andrés Rebolledo, former director of Chile's general directorate of international economic relations and former minister of energy of Chile:**

“The global economic scenario has changed as a result of U.S. President Donald Trump's measures. Globalization is suffering a rollback, as 'Brexit' and the emergence of far-right forces in our region show. Global economic principles have been weakened, and international economic cooperation has been put in doubt. The trade war has escalated, with the biggest fear being that it will expand to other aspects such as industrial politics and technological development. In this dispute, there are many losers, and Chile is one of them, since its economic model, based on open trade, greatly depends on international markets and China (25 percent of its exports and 7 percent of its GDP). Chile could be caught in the crossfire of the two superpowers, with regrettable consequences. In fact, the latest adjustments to world growth have already discounted up to 10 percent from the forecasts made in the beginning of the year, with uncertainty hitting international copper demand. It is likely that natural resources will again gain strategic importance, and for this reason, Chile must address the challenge of

boosting production while diversifying its exportable offer, which is still concentrated in a few products and companies, with more urgency. Four percent of all exporting companies represent 90 percent of the total export value, and only 1.8 percent of small enterprises are able to export. In this context, Chile at present has a historic opportu-

“Chile could be caught in the crossfire of the two superpowers, with regrettable consequences.”

— Andrés Rebolledo

nity for its future economic development. We must undertake all public and private actions possible to take advantage of our copper and lithium within the current global context of energy transition toward cleaner energies and electric transportation. To do this, we must develop new productive capacities in sectors with greater added value and greater incorporation of technology.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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