

## Colombia: COP Thoughts

- Some stylized facts about the COP

I wanted to share with you some stylized facts about the recent behaviour of the exchange rate in Colombia, that although nothing really new, I think it's worth highlighting.

Between 2010 and 2017 correlation between COP and oil prices was ~88%, which means that trade COP was similar to trade oil. (Chart 1)

However, as of 2018, or even a bit earlier, this high correlation was lost and oil prices were no longer significant to anticipate COP behaviour (the correlation fell to less than 20%). (Chart 2)

The natural questions would be: i) what happened? And ii) if oil prices are no longer key, is there other asset that can explain COP behaviour?. The answer to the two questions, I think, is quite complicated, however from the macro perspective, there are some stylized facts that may be relevant: First, oil prices in 2018 hovered around government's projections (or even a bit higher), which brought calmness to market participants and made oil prices to stop being the reference, or measurement of government vulnerability. In other words, oil prices during 2018 ceased to be relevant for fiscal sustainability. This helps to explain the decoupling between COP and oil prices.

Second, external noise due to geopolitics and populism, and uncertainty around FED normalization, led to the large portfolio managers pondering much more the global geopolitics when it comes to taking risk decisions. Thus, for example, the first half of last year, Colombia benefited from a new pro-market government, moving away from what could be happening in the neighborhood (Brazil, Mexico, Argentina...). However, in the second half of the year COP depreciated on the back of more complicated than expected government start, and calmer international environment (especially in the region).

Thus, it seems that since last year the political risk factors, both domestic and external, have been much more relevant than the fundamental conditions or the dependence of commodities. In this way, the variable that can help explain the COP in the short term would be a country risk measure such as CDS 5Y (although not very liquid).

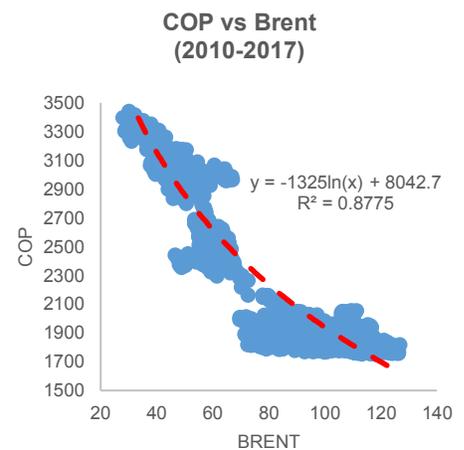
Chart 3 shows that for at least the last 13 months, the behaviour of the CDS 5Y has been highly correlated with the COP movements. We could think that this relationship will continue in the near future.

If the above is true, how could the COP projections be this year? I believe that despite all the external volatility of last year, Colombia risk was not significantly affected (see Chart 4).

### CONTACTS

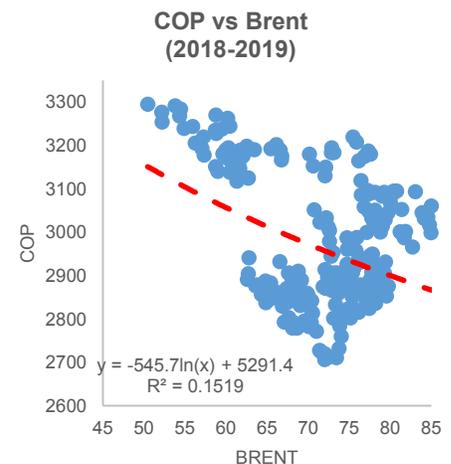
**Sergio Olarte, Senior Economist**  
57.1.745.6300 (Colombia)  
Scotiabank Colombia  
[olarteas@colpatria.com](mailto:olarteas@colpatria.com)

Chart 1



Sources: Bloomberg, Scotiabank.

Chart 2



Sources: Bloomberg, Scotiabank.

In addition, with the Financing Law noise behind us (without saying that it was good, but it will increase the tax collection), better economic activity conditions, the possible sale of Ecopetrol and also the possibility that this company gives greater dividends to the government this year, fiscal risks are easing (at least in the short term).

Additionally, Wednesday's impressive demand (of more than 6 times bid-to-cover) for Colombia's external bonds, shows that foreign appetite for Colombian debt continues. Therefore, although we should continue to expect significant volatility, the COP seemed at levels close to the short-term equilibrium and we do not think it will have much trend this year, only volatility, ending the year around 3120.

	Moody's	S&P	Fitch
Argentina	B2	B	B
Brazil	Ba2	BB-	BB-
Colombia	Baa2	BBB-	BBB
Chile	A1	A+	A
Mexico	A3	BBB+	BBB+
Turkey	Ba3	B+	BB

Chart 3

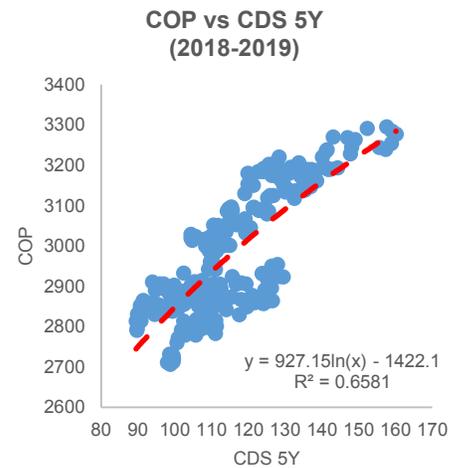
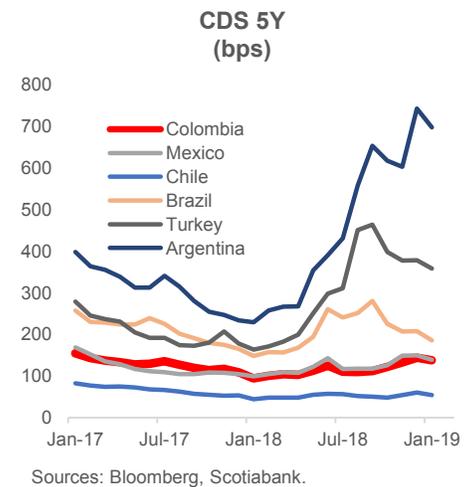


Chart 4



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.