

World-Beating Currency Has RenCap Double-Checking Its Math (1)
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By Christine Jenkins

(Bloomberg) -- Colombia's currency is the world's top performer in the early days of 2018, and Renaissance Capital is forecasting more gains ahead for what it sees as one of the best bets in emerging markets.

The peso has rallied 3 percent this month following a lackluster 2017 that left it almost unchanged and toward the bottom of the pack for developing-nation currencies. It closed at 2,887 per dollar Thursday, its strongest level since May, amid gains in oil, the country's biggest export. The peso slipped 0.4 percent Friday to 2,899 per dollar as of 9:28 a.m. in New York.

Even so it's almost 40 percent undervalued in a real effective exchange rate model, according to Charles Robertson, the global chief economist at RenCap in London, who said the dramatic difference had him double-checking his worksheets.

According to his calculations, the peso should have ended last year near 1,780 per dollar, a level it last traded at in early 2013 before selling off amid the decline in oil prices.

"It's clearly overshot," Robertson said in an interview.

"It just seems to be offering increasing amounts of value based on this real effective exchange rate model. I think it's been overlooked for a long time."

RenCap is wildly bullish on the peso relative to most analysts surveyed by Bloomberg, who have a median forecast for the currency to end the year at 3,000 per dollar. With its recent gains, it's already topped all but the most optimistic forecasts for the first quarter.

Robertson says the rally should continue.

"This currency does look like a really good value for investors with a medium-term horizon," he said.

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