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Surfing the Shockwaves of Financial Trouble

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Carlos Macias
September 19, 2008

Tensions on the floor of Brazil's Bovespa on September 15. (AP Images)

Wall Street plunged into crisis mode this week as the fourth largest U.S. investment bank Lehman Brothers filled bankruptcy on Monday, followed by rescues for Merrill Lynch and AIG. Other heavyweights like Morgan Stanley and Washington Mutual seek buyers to help steer them to safer waters. The U.S. government **pledged $180 billion as a lifeline for banks** to borrow at affordable rates. As Wall Street drama unfolded, the effects rippled across the globe. How were the losses felt across the Western Hemisphere?

The shockwaves emanating from Wall Street reached Latin America's largest stock market Bovespa in São Paulo, where on September 17 that market reached its lowest point of the year, dropping 6.7 percent. Stock markets in Mexico, Argentina, and Chile **suffered losses** ranging from 3 to 5 percent while local currencies reached record lows against the dollar. *Clarín* spells out how the financial crisis **might affect 10 key sectors** in Argentina's economy, highlighting that the drop in the price of bonds has strained cash from banks, making lending more expensive and less accessible for consumers. Peru's Bolsa de Valores de Lima registered a **slightly better performance** at the beginning of the week, with only 0.5 percent decline but also found itself coping with a weaker sol while waiting for Peru's Central Bank to intervene and deter further devaluation.

Colombia also faces challenges. *Semana*'s Economic Editor Gloria Valencia explains that **economic uncertainty looms** and more market corrections should be expected. Devaluation of the peso against the dollar and consecutive losses in its stock market throughout the week represent short-term consequences while for coming years some worries remain, reports Valencia. Governments finance their debt from market capitals; attaining funds for the 2009-10 budgets will become difficult due to constricted cash flow. Latin American countries should also **brace for a drop in commodities' prices combined with a reduction in exports**, which translates to less income. In addition, less money available in the market means less foreign direct investment for countries like Brazil, explains Vitoria Saddi in RGE Monitor.

Canada **serves as a bright spot in the hemisphere**, according to an analysis in the *Globe and Mail*. The country's banks avoided the subprime mortgage mess and their investment banks have enough collateral to back up their operations. The cost of borrowing money remains cheaper than in the United States and Europe and Canada's stock market appears healthy despite world financial turmoil.

Despite the initial repercussions of Wall Street's convulsions, by the end of the week Bovespa **experienced a surge** on news of U.S. bank bailouts. During the week, to placate investors' nervousness, officials in Brazil, Mexico, Argentina, and Chile **emphasized that sound economic foundations in the region** had helped minimize the effects of the global economic slowdown.

Upcoming Programs

Oct 16 — **Book Launch: *The Dictator's Shadow: Life Under Augusto Pinochet*** New York

Oct 29 - Oct 30 — **Terrapin: Private Banking Latin American Conference 2008** Miami

Calendar and Registration

Past Programs

Sep 25 — **Cristina Fernandez de Kirchner, President of Argentina** New York

Sep 24 — **Álvaro Uribe Vélez, President of Colombia** New York

Sep 23 — **Private Dinner for Martín Torrijos, President of Panama** New York

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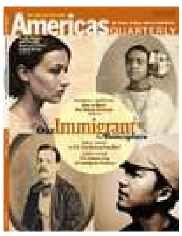

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These countries find themselves better prepared to weather a U.S. economic storm than in the past, reports Bloomberg.

Latin American economies could look to new market opportunities with China, India, and Japan, among others. From November 20 to the 23, Peru **hosts the 2008 Asia-Pacific Economic Cooperation Summit**, offering an opportunity to bolster interregional trade and economic ties. *Latin Business Chronicle* reports that, in addition to trade with Asian countries, **bilateral trade in the region is on the rise**, counteracting the effects of lower commodity prices and Wall Street's thunderous losses.

AS/COA **hosts several Latin American presidents** as they travel to New York City to participate at the United Nations General Assembly.

Send questions and comments for the editor to: ***ascoa.online@as-coa.org****.*

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