

# Mexico Peso Falls on Concern Swine Flu to Deepen Economic Slump

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## Mexico Peso Falls on Concern Swine Flu to Deepen Economic Slump

By Valerie Rota



April 27 (Bloomberg) — Mexico's peso sank to the lowest level in almost three weeks against the dollar on concern an outbreak of the deadly swine flu will deepen the country's recession.

The peso depreciated as much as 3.5 percent, the steepest intraday slide since Nov. 5, and was 2.6 percent lower at 13.6978 per dollar at 8:18 a.m. in New York. The decline was the biggest among 176 currencies tracked by Bloomberg worldwide.

The flu outbreak may reduce demand for pesos from tourists and curb consumer spending at restaurants, theaters and other venues where crowds gather, said Gerardo Margolis, a vice president for emerging markets at TD Securities Inc. in Toronto. The virus may have claimed more than 100 lives so far in Mexico, Health Minister Jose Cordova said.

The spread of the swine flu "has an immediate economic impact and investors will be cautious," Margolis said. "There will be a drop in consumption and tourism and that affects the currency."

Tourism attracted \$13.3 billion into the economy last year, making it Mexico's third-largest source of foreign currency behind oil exports and remittances from Mexicans living abroad. Private consumption accounts for about 50 percent of total demand for goods and services in Latin America's second-biggest economy.

The peso earlier touched 13.8250, the weakest since April 7. The currency depreciated 1.6 percent last week after the government first disclosed deaths tied to the virus and as faster inflation fueled speculation the central bank will slow the pace of interest-rate cuts.

### IMF Credit Line

The epidemic trimmed the peso's second straight monthly advance. It has climbed 3.3 percent this month following a 7.6 percent advance in March, gains that were sparked in part by the government's decision to seek a \$47 billion credit line with the International Monetary Fund and tap a \$30 billion swap line with the Federal Reserve.

The currency had tumbled 32 percent in the six months ended Feb. 27 as the global financial crisis sparked an exodus from emerging-market assets.

Stocks declined around the world today, while the yen, dollar and Treasuries gained as the swine flu outbreak spread. Spain reported its first case today, while six people in Canada contracted the virus and more cases are likely, government officials said. New Zealand said as many as 13 students who recently visited Mexico may have swine flu.

Mexico's Bolsa stock index has risen 0.9 percent this year while the yield on the government's benchmark peso bonds due in 2024 dropped 28 basis points, or 0.28 percentage point, to 7.98 percent.

#### Yield Spreads

The extra yield investors demand to own Mexican bonds instead of U.S. Treasuries rose by 6 basis points, or 0.06 percentage point, to 3.26 percentage points today, according to JPMorgan Chase & Co.'s EMBI+ Index.

Mexico's Finance Minister Agustin Carstens said "there's no doubt" the outbreak will reduce economic output and that the virus has a "high potential for disruption." The government doesn't yet know the extent of the impact, he said at the IMF's spring meetings in Washington.

The government earlier this month forecast the economy will shrink 2.8 percent this year, the first contraction since 2001, as the U.S. recession curbs demand for Mexican exports and slows dollar flows from remittances, foreign direct investment and tourism.

The outbreak "comes at a very bad time," said Benito Berber, an economist at RBS Greenwich Capital Markets in Greenwich, Connecticut. He predicted the peso will drop to 14 per dollar over the next two weeks.

#### Bars, Theaters Closed

UBS AG downgraded Mexican stocks to "underweight" from "top pick" on concern the country's economic outlook may worsen because of the swine flu.

Workers at Sony Corp. and Samsung Electronics Co. have been told not to travel to Mexico, officials at the companies said. Japan, Malaysia and Singapore are screening passengers at checkpoints for fever.

Mexico's President Felipe Calderon declared a swine-flu emergency on April 25, giving him powers to order quarantines and suspend public events in the nation, where more than 1,300 patients have been hospitalized with flu-like symptoms.

The government has requested the closure of bars, movie theaters and churches in the capital to fight the outbreak while stopping short of ordering workplaces shut to ease the swine flu's impact on the economy. It has closed schools in Mexico City and the states of Mexico and San Luis Potosi until May 6 and has canceled government activities that draw crowds.

#### **'Lot of Jitters'**

The number of deaths from Mexico's flu outbreak has risen to 103, Health Minister Cordova said. Not all deaths have been confirmed to be caused by swine flu, he said.

In the U.S., 20 people have confirmed cases of swine flu linked to the Mexican virus, and the acting head of the Centers for Disease Control and Prevention said officials expect more severe infections to begin showing up. The World Health Organization called the outbreak a "public health emergency of international concern."

"We don't know what the magnitude of the flu outbreak will be," said Mario Copca, a currency strategist at Metanalysis SA in Mexico City. "This is going to fuel a lot of jitters."

No foreign government has banned travel to Mexico, Economy Minister Gerardo Ruiz said on April 25. Hong Kong officials advised citizens against unnecessary travel to Mexico.

Russia suspended imports of all meat from Mexico, the Philippines ordered a ban on imports of pork and hogs from the Latin American country, while South Korea is boosting quarantines on pig and pork imported from Mexico.

"We may start seeing an impact on exports," said Margolis at TD Securities. "That could also hurt the currency."

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