

# Understanding what moves Colombian financial markets

Ralph Cope

# Colombia Snapshot

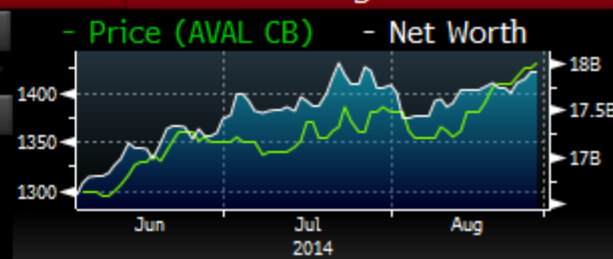
Emerging Markets		1 Year		97) Actions				World Countries Debt Monitor					
Country	Debt (MM)	USD	CDS	CMAN	Ratings	Foreign LT	Currency	USD	IR	ST	GDP	GDP	
	Debt (MM)		5 Yr	Time	Chg	S&P	Moody's	Fitch	Price	Time	%Chg	Rate	GDP YoY↑
1) Latin America													
2) Colombia	99,420		78.27	08/28	-57.84	BBB	Baa2	BBB	1925.29	08:03	-0.82	4.09	+6.40
3) Panama	12,756		78.73	08/28	-60.35	BBB	Baa2	BBB	1.0000	19:04	--		+5.80
4) Costa Rica	26,161		257.68	08/28	+13.73	BB	Baa3	BB+	539.7900	08:00	+7.92		+4.26
5) Uruguay	37,896		--			BBB-	Baa2	BBB-	23.8000	07:10	+6.46		+2.40
6) Chile	61,400		61.50	08/28	-37.50	AA-	Aa3	A+	593.65	08:02	+16.31	2.05	+1.90
7) Mexico	494,159		69.00	08/28	-59.41	BBB+	A3	BBB+	13.0895	08:03	-1.99	3.30	+1.60
8) Peru	32,346		84.63	08/28	-65.24	BBB+	A3	BBB+	2.8440	07:01	+1.28	4.68	+3.30
9) Argentina	203,567		--	08/28	-2997.97	SDu	Ca	C	8.4012	08:01	+48.41	46.88	-.20
10) Brazil	1,002,571		130.00	08/28	-73.44	BBB-	Baa2	BBB	2.2402	08:03	-5.04		-.87
11) Ecuador	19,483		--			B+	Caa1	B	25000.0	19:04	--		N.A.
12) Venezuela	97,167		1126.09	08/28	+149.14	B-	Caa1	B	6.2921	07:25	--	14.50	N.A.
13) Dominican...	14,622		--			B+	B1	B	43.4000	05:01	+0.78		N.A.

# Colombia's Richest Person

Luis Carlos Sarmiento Angulo 90) Profile 91) Actions Bloomberg Billionaires



Net Worth	Rank	Country Rank	Confidence
\$17.9B	46	1	★★★★★
Wealth Change		Background	
1D \$83.6M	.5%	Industry	Banks
YTD \$1.2B	7.3%	Source	Self-Made
3M 16.5B	18.0B	Citizenship	Colombia



- Overview
- Financial
  - Net Worth Analysis
  - Bull & Bear
  - Themes
  - Relative Value
- Personal
  - Biography
  - Milestones
  - Images
  - Possessions
- Influence
  - Relationship Map
  - Giving
  - Global Footprint

**Overview**  
Colombia's richest man controls more than a quarter of the country's financial industry through the four publicly traded banks that form Grupo Aval. The Bogota-based group has assets of \$55 billion. He also owns two closely held insurance providers that operate under the Alfa name, as well as El Tiempo, the country's largest newspaper, and Construcciones Planificadas, a commercial real estate developer.

- Intelligence**
- \* Said his empire pays as much as 3 percent of all Colombian income ...
  - \* Bought his first bank in 1971 after amassing a fortune in construction.
  - \* Building a 6.5 million square-foot office complex in Bogota.
  - \* Waged a seven-year battle to take over Banco de Bogota in the 1980s.
  - \* Likes to play Sudoku for a few minutes each day.
  - \* Oversaw construction of Colombia's biggest shopping mall in 2010.

**Wealth Rankings**

Global	46
Americas	28
Colombia	1
Industry	7
Gender	39

- 100) News**
- |      |  |     |       |
|------|--|-----|-------|
| 101) | AUERBACH GRAYSON: LATAM Daily Morning Note 08-26-14: (Grupo Exi  | AGC | 08/26 |
| 102) | MORE: Aval to Sell Stock Overseas Before Year-End, Chairman Says | BFW | 08/25 |
| 103) | *GRUPO AVAL CHAIRMAN SARMIENTO ANGULO SPEAKS IN BOGOTA           | BN  | 08/25 |
| 104) | Aval Sees Growth in Central America Deals, Colombia Credit Cards | BN  | 04/24 |

Responsible for this profile: BLAKE SCHMIDT 55-11-3017-4809 {bschmidt16@bloomberg.net}

# But I want to understand...

- **What factors drive the Colombian peso**
- **What factors drive the prices and yields of Colombian bonds**
- **What factors drive the prices of Colombian stocks**

# Why do I want to know this?

If I understand what drives these markets, I am in a better position to make investment decisions

**WHO WANTS TO BE COLOMBIA'S  
2<sup>RD</sup> RICHEST PERSON????**

# Lets first look at Latin America in General

**Between 2009 and 2013,  
which country delivered the  
best bond returns in Latin  
America in US dollars??**

# Look Carefully

1) Settings      2) Actions      Page 1/64      Comparative Return

Range 07/29/2009 - 03/05/2013      Period Daily      No. of Period 1315 Day(s)

Security	Currency	Price Change	Total Return	Difference	Annual Eq
1. COLOM10.375 01/28/33 Co		34.67%	67.84%	-8.42%	15.46%
2. MEX 6.750 02/06/24 Corp		38.85%	76.26%		17.04%
3. VENZ 9.250 09/15/27 Corp		47.84%	122.52%	46.26%	24.86%



# How is it possible.....

**That Venezuela, under the leadership of one of the most anti capitalist, anti market leaders of the 21<sup>st</sup> century delivered the best bond returns???**



# The answer.....

Investing is fundamentally a relative game. Investors did not buy Venezuelan bonds between 2009 and 2013 because they LOVED Venezuela.

They bought Venezuela because they **could not find a better return** somewhere else.

**Everyone is looking for returns, and  
the first place they look is in the  
developed world**

# Yields are low and even negative in the Developed World

Custom										97) Settings		World Bond Markets		
91) Bonds										92) Spreads		93) Curves		
Maturity 2 Year										Data Range 3 Months				
Country	CMI	Security	Price	Chg	Yield↑	Chg	Yield	Low	Range	High	3M Chg			
1) Canada		CAN1 08/01/16	99.802	-0.016	1.105	+9		1.049		1.140	+5.6			
2) United Kingdom		UKT4 09/07/16	106.300	-0.015	0.842	-1.5		.639		.924	+20.0			
3) United States		T 0 1/2 08/16	100-00	--	0.500	--		.379		.555	+12.5			
4) Italy		BTPS 2 1/4 16	103.210	+0.020	0.352	-1.5		.258		.767	-40.9			
5) Spain		SPGB 3 1/4 16	105.010	+0.025	0.213	-1.9		.107		.707	-49.9			
6) Sweden		SGB3 07/12/16	105.246	-0.035	0.170	+1.4		.156		.537	-34.8			
7) Japan		JGB 0.1 09/16	100.069c	+0.038	0.065	-1.9		.051		.084	-1.3			
8) Denmark		DGB2 1/2 11/16	105.445	+0.020	0.024	-1.2		-.006		.113	-4.4			
9) France		FRTR 0 1/4 16	100.530	+0.010	0.012	-.5		.012		.185	-15.9			
10) Belgium		BGB2 3/4 03/16	104.300	+0.010	0.001	-1.1		-.002		.148	-13.9			
11) Netherlands		NETHER0 04/16	100.000	+0.015	--	-.9		-.012		.119	-12.1			
12) Finland		RFGB 1 3/4 16	102.825	+0.015	-0.001	-1.2		-.028		.073	-8.1			
13) Germany		BK00 09/16/16	100.055	+0.010	-0.027	-.5		-.039		.059	-8.4			
14) Switzerland		SWISS 2 10/16	104.405	+0.005	-0.086	-.5		-.190		-.043	+7.2			

# But they are also low in emerging markets.....in US dollars

Custom		97) Settings		World Bond Markets											
91) Bonds		92) Spreads		93) Curves											
Maturity 2 Year		Data Range 3 Months													
Country	CMI	Security	Price	Chg	Yield↑	Chg	Yield	Low	Range	High	3M Chg				
1) Colombia (USD)		COLOM 8.7 16	109.815	-0.010	1.798	-.6		.305		2.072	+19.7				
2) Indonesia (USD)		INDON 6 7/8 17	112.581c	-0.010	1.738	-.1		1.004		1.917	+73.1				
3) Brazil (USD)		BRAZIL6 01/17	110.720	-0.105	1.385	+3.7		1.347		1.495	N.A.				
4) Philippines (U...)		PHILIP8 3/4 16	116.262c	-0.187	0.885	+7.2		.545		.920	+38.7				
5) Mexico (USD)		MEX 11 3/8 16	121.550	+0.050	0.672	-3.5		.259		.862	+12.6				
6) Peru (USD)		PERU 8 3/8 16	112.950	+0.205	0.545	-12.6		.545		1.066	-2.5				

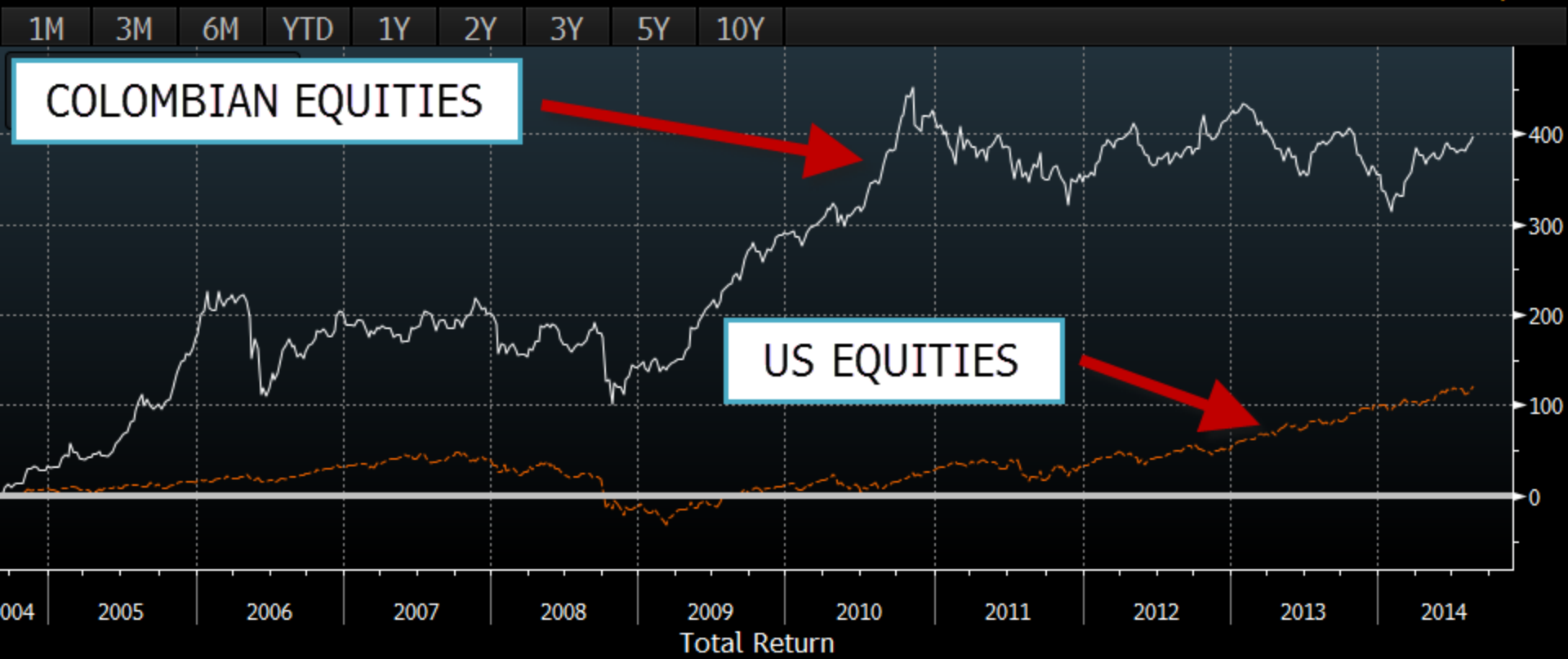
# But how about local currency??

Emerging (Local)		97) Settings		World Bond Markets											
91) Bonds		92) Spreads		93) Curves											
Maturity	10 Year	Data Range										3 Months			
Country	CMI	Security	Price	Chg	Yield↑	Chg	Yield	Low	Range	High	3M Chg				
								◆ Avg ● Now							
1) Brazil		BNTNF10 01/25	947.529	+1.330	11.216	-1.7		11.216		12.285	-89.5				
2) Russia		RFLB 7 08/23	85.244	-0.287	9.700	+5.0		8.290		9.840	+107.0				
3) India		IGB 8.4 07/24	98.946c	+0.002	8.558	--		8.430		8.785	-11.2				
4) Indonesia		INDOGB8 ¾ 24	101.861c	+0.580	8.090	-8.8		7.924		8.249	+7.7				
5) South Africa		SAGB 10 ¼ 26	119.672	+0.510	7.959	-5.9		7.956		8.429	-19.5				
6) Colombia		COLTES 10 24	125.732	+0.166	6.406	-2.1		6.249		6.703	+18.5				
7) Mexico		MBONO10 12/24	133.361	-0.072	5.703	+7		5.591		5.976	-8.1				
8) Peru		PERUGB 5.2 23	100.215	-0.019	5.160	+3		5.017		5.415	-30.2				
9) Hungary		HGB5 ½ 06/25	109.106	+0.533	4.420	-6.0		4.080		5.040	-21.4				
10) Philippines		RPGB 4 ⅛ 24	98.294c	+0.001	4.338	--		4.125		4.338	N.A.				
11) Chile		BTPCL 6 01/24	114.292	-0.019	4.301	+7		4.294		4.920	N.A.				
12) China		CGB4 06/19/24	98.347c	+0.003	4.207	--		3.980		4.264	+8.4				
13) Romania		ROMGB 4 ¾ 25	104.999	+0.045	4.149	-5		3.929		4.687	-53.2				
14) Malaysia		MGS 4.181 24	102.221c	+0.066	3.907	-8		3.855		4.055	-11.5				
15) Thailand		THAIGB3.85 25	102.386c	+0.175	3.590	-1.9		3.581		3.717	-13.0				
16) Poland		POLGB 4 10/23	106.935	-0.190	3.116	+2.3		3.027		3.661	-50.0				
17) Bulgaria		BULGGB4 07/24	107.594	-0.666	3.100	+7.5		2.978		3.221	+6.9				
18) South Korea		NDFB 3 ½ 24	105.529c	+0.208	3.030	-2.2		2.955		3.417	-29.3				
19) Slovenia		SLOREP4 ⅝ 24	117.660	-0.070	2.599	+7		2.569		3.284	-68.9				
20) Taiwan		TGB1 ½ 03/24	99.172c	+0.126	1.594	-1.4		1.559		1.629	+8.9				
21) Slovakia		SLOVGB3 ¾ 24	116.745	+0.090	1.584	-9		1.584		2.169	-53.3				
22) Czech Republic		CZGB5.7 05/24	141.380	-0.170	1.173	+1.4		1.159		1.623	-43.7				

# And how about some equity exposure?

1) Settings		2) Actions		Page 1/36		Comparative Return	
Range	09/03/2004	-	08/22/2014	Period	Weekly <th>No. of Period</th> <td>520 Week(s)</td>	No. of Period	520 Week(s)
Security	Currency	Price Change	Total Return	Difference	Annual Ea		
1. COLCAP Index	COP	396.08%	396.08% **	276.27%	17.42%		
2. SPX Index	USD	78.55%	119.81%		8.22%		
3.							

\*\* No dividends or coupons



# So how do I get this exposure?

SELL



BUY



# Peso gains (until 22 May 2013)





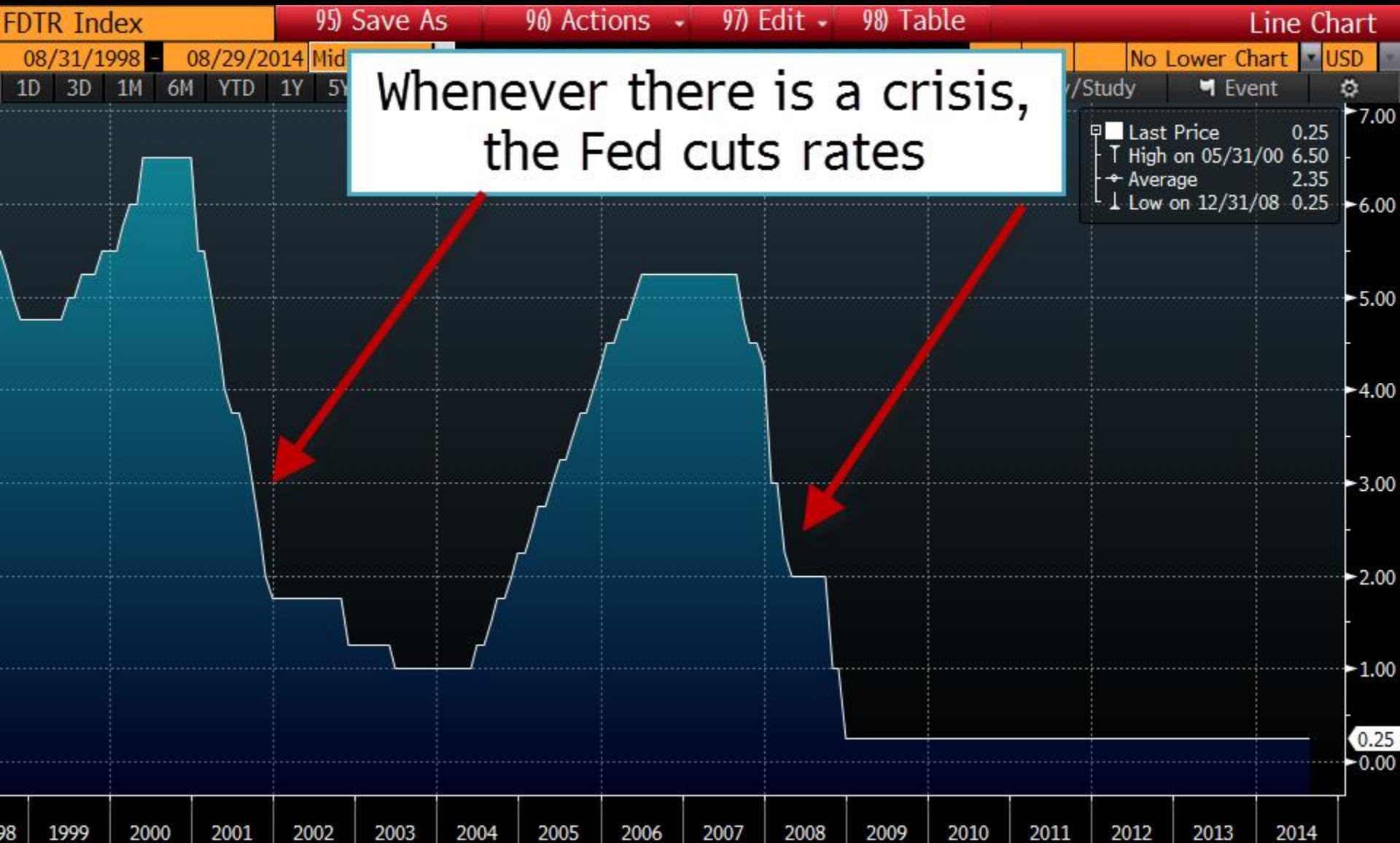
**But what happened  
next??**



# Bernanke Taper Speech



# The first thing Bernanke did after the 2008 crisis was.....



# Free money shapes the world

NEW AND IMPROVED



*Mark Hill*

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# How do investors exploit the situation of “free” money?

## DERIVATIVES



# They use the carry trade

- **Instead of using your own money, you “borrow” money**
  - The cost is almost zero
- **And then you buy the asset**

# But you don't actually borrow the money

- You enter into a forward (or futures contract)
- Which contains an embedded loan
- And the loan interest rate is LIBOR
  
- This means that private investors can borrow at the same rate as big international banks
- Libor is currently .23%
- So if you borrow **\$10,000** for **12 months**, it will; cost **\$23** in interest.



# So how does it work??

- You enter into a forward (or futures contract)
- Which contains an embedded loan
- And the loan interest rate is LIBOR
  
- This means that private investors can borrow at the same rate as big international banks
- Libor is currently .23%
- So if you borrow **\$10,000** for **12 months**, it will; cost **\$23** in interest.

- **So, for the same cost as 23 songs on iTunes, you can borrow \$10,000 for 12 months**

**THAT IS CRAZY!!**

**But wait....it gets better!**

# Most assets pay more than .23% in dividends and coupons

JPMORGAN CHASE & CO 6) Diversified Banks (CCB)  
 JPMorgan Chase & Co. provides global financial services and retail banking. The Company provides services such as investment banking, treasury and securities services, asset management, private banking, card member services, commercial banking, and home finance. JP Morgan Chase serves business enterprises, institutions, and individuals. [BBGID BBG000DMBXR2]

JP Morgan has a dividend yield of 2.7%. You borrow \$10,000 to buy JP Morgan shares. The loan costs you \$23 but the shares pays you income of \$270. So the market gives you a gift of \$247!

Px/Chg 1D (USD)	59.32/+0.27%	16) Marianne Lake	
52 Wk H (03/25/14)	61.48	17) Chief Financial Officer	
52 Wk L (09/25/13)	50.06	17) Matthew E Zames "Matt"	
YTD Change/%	0.84/1.44%	COO/Head/CIO/Regulatory Affairs	
Mkt Cap (USD)	223,119.2M	18) 12M Total Ret (TRA)	20.60%
Shrs Out/Float	3,761.3M/3,738.4M	Beta vs SPX	1.17
SI/% of Float	35.8M/0.96%	20) Depository Receipts	
Days to Cover	2.8	Active Receipts	5

# AT&T is even better

T US Equity	98) Report	Page 1/5 Description		
1) Profile	2) Issue Info	3) Ratios	4) Revenue & EPS	5) Industry Info

AT&T INC 6) Telecom Carriers (CCB)

AT&T Inc. is a communications holding company. The Company, through its subsidiaries and affiliates, provides local and long-distance phone service, wireless and data communications, Internet access and messaging, IP-based and satellite television, security services, telecommunications equipment, and directory advertising and publishing. [BBGID BBG000BSJK37]

AT&T has a dividend yield of 5.28%. You borrow \$10,000 to buy JP Morgan shares. The loan costs you \$23 but the shares pays you income of \$528. So the market gives you a gift of \$505!

Px/Chg 1D (USD)	34.87/+0.37%		16) John T Stankey		
52 Wk H (07/29/14)	37.48	11) Dividend (DVD)	Group Pres/Chief Strategy Ofcr		
52 Wk L (02/06/14)	31.74	Ind Gross Yield	5.28%	17) Kelly King	
YTD Change/%	-0.29/-0.82%	5Y Net Growth	2.34%	Pres:Central Region	
Mkt Cap (USD)	180,835.8M	Cash 07/08/14	0.46	18) 12M Total Ret (TRA)	8.65%
Shrs Out/Float	5,186.0M/5,181.6M			Beta vs SPX	0.81
SI/% of Float	205.4M/3.96%			20) Depository Receipts	
Days to Cover	9.9			Active Receipts	4

# This explains.....



# So how does it work??

- **A forward (or future) is a SYTHETIC contract that involves borrowing money for a specific time period (at Libor) and buying the asset**
- **The contract future values the borrowing cost and present values the income flow (dividends for shares and coupons for bonds)**
- **The Fed cutting rates has pushed forward prices below spot prices**
- **So the market pays you for entering into the contract**

# Example 1: S&P 500



# Example 2: 10 year US Treasuries





# Example 3: Crude Oil



**What does this mean for  
Colombia??**

- Borrow in US dollars at 0.23%
- Convert into Colombian pesos (taking the FX risk)
- Buy Colombian bonds (that pay 10% coupon)

COLTES 10 07/24/24 Corp		Page 1/11		Description: Bond	
94) Notes		95) Buy		96) Sell	
97) Settings					
21) Bond Description		22) Issuer Description			
Pages		Issuer Information		Identifiers	
1) Bond Info		Name TITULOS DE TESORERIA B		ID Number EH7652033	
2) Addtl Info		Industry Sovereigns		ISIN COL17CT02385	
3) Covenants		Security Information		BBGID BBG0000Y3233	
4) Guarantors		Mkt Iss Domestic		Bond Ratings	
5) Bond Ratings		Country CO		Moody's Baa2	
6) Identifiers		Currency COP		S&P BBB+	
7) Exchanges		Series B		Fitch BBB+	
8) Inv Parties		Type Fixed		Composite BBB	
9) Fees, Restrict		Coupon 10		Issuance & Trading	
10) Schedules		Day Cnt NL/365		Amt Issued/Outstanding	
11) Coupons		Maturity 07/24/2024		COP 20,942,835,378.00 (M) /	
Quick Links		BULLET		COP 20,942,835,378.00 (M)	
32) ALLQ Pricing		Iss Sprd		Min Piece/Increment	
33) QRD Quote Recap		Calc Type (999)STREET CONVENTION		500,000.00 / 100,000.00	
34) TDH Trade Hist		Announcement Date 03/18/2009		Par Amount 100,000.00	
35) CACS Corp Action		Interest Accrual Date 07/24/2008		Book Runner	
36) CF Prospectus		1st Settle Date 03/19/2009		Exchange COLOMBIA	
37) CN Sec News		1st Coupon Date 07/24/2009			
38) HDS Holders		CPN RATE=10.00%			
39) VPRD Underly Info					
66) Send Bond					

# Colombian Bonds generally ignore Banrep



**So what are the most  
important questions  
you should be asking  
now?**

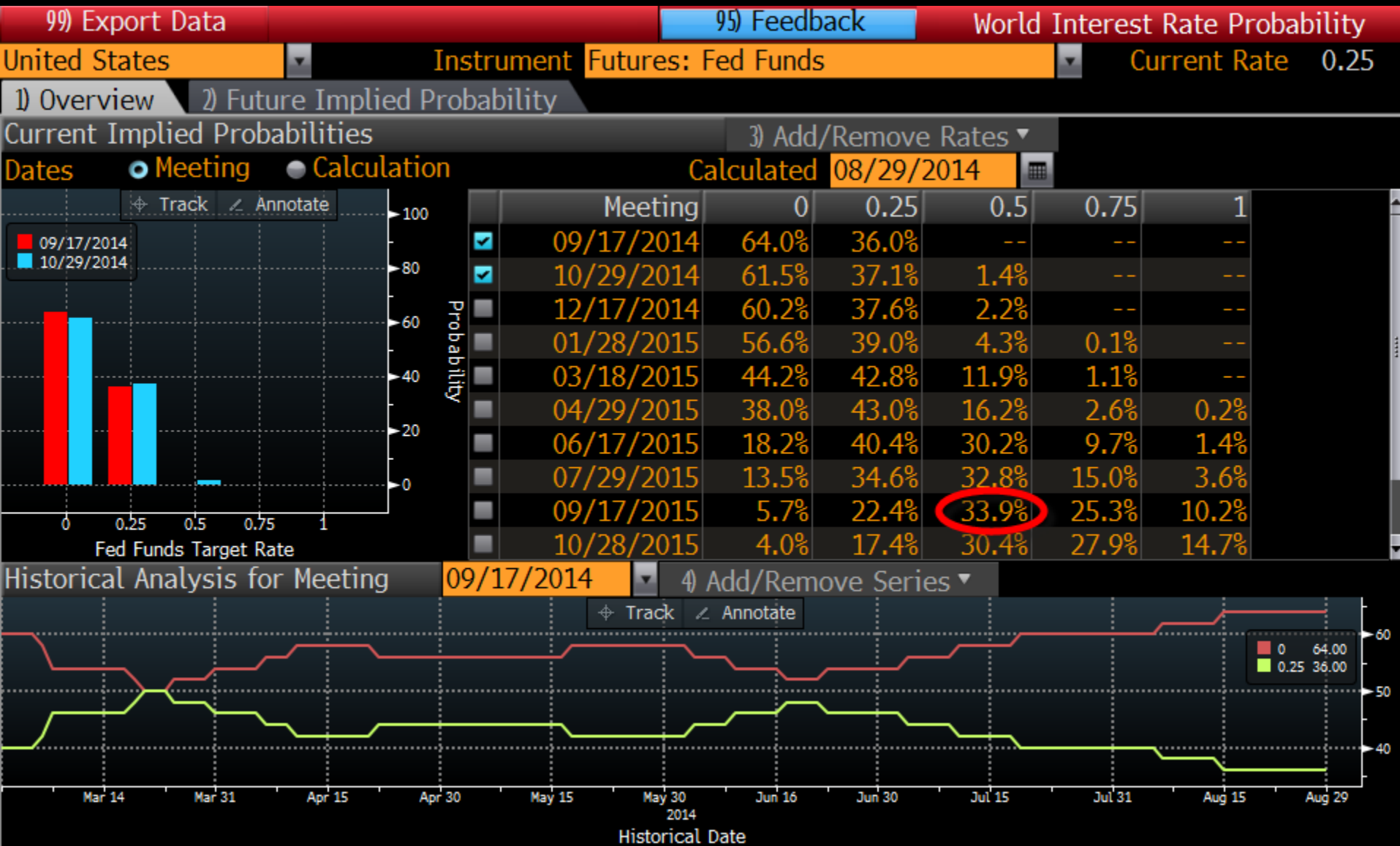
# What question is most relevant to Colombia TODAY?

- 1. What is going to happen to Argentina?**
- 2. What is going to happen to Colombian inflation?**
- 3. When will the US Federal Reserve raise interest rates?**

# **Interest Rates are everything in financial markets**

- 1. The value of every financial is the present value of future cash flows**
- 2. When rates go down, valuations go up**
- 3. When rates go up, valuations go down**
- 4. Colombian peso assets will become less attractive and US dollar assets will become more attractive**

# When is this expected to happen?





# But markets discount events 6/12/18 months in the future

GRAB

Related curve based on loaded security: US Treasury Actives Curve



**Bottom line: need to  
paying attention**

**NOW**