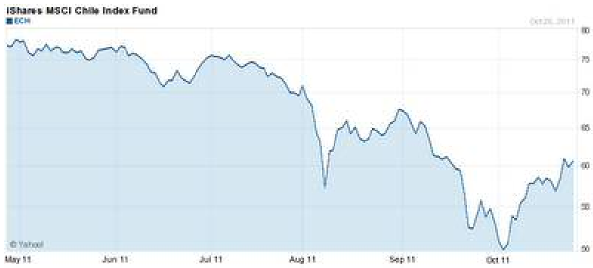
Five Reasons to Invest in Chile

POSTED ON OCTOBER 27, 2011 · ADD COMMENT

When Wall Street thinks of Chile (NYSE: ECH), it thinks of one word — copper. Indeed, Chile is the world's largest producer and exporter of the red industrial metal, producing about a third of the world's supply. Here is the recent performance of the ECH index:



But here are some good reasons to consider the country as an investment opportunity, according to Tony Daltorio at streetauthority.com:

1. There's a lot more to the country's economy and stock market than copper. In fact, there is not a single copper mining company listed on the Santiago blue-chip IPSA index. To be sure, the red metal accounts for more than 50% of exports and 20% of the nation's gross domestic product (GDP), but it employs only a little more than 200,000 people out of a population of about 17 million.

2. Chile's economy is resilient. It has endured lower copper prices and a devastating earthquake in early 2010. Yet the economy grew by more than 5% last year and in excess of 8% in the first half of 2011. The International Monetary Fund predicts Chile's economy will grow 6.5% this year and 4.7% next year, despite the poor outlook for copper.

3. Chilean citizens are educated, involved and on the rise. Some of the headlines coming out of Chile may sound alarming at first glance. Some Chileans have taken to the streets, demanding better living conditions and more affordable education. Despite these protests, Chileans are still optimistic about their country, however. According to regional pollster Latinobarometro, 44% of Chileans think their democracy works well, twice the Latin America average.

4. The country has almost no sovereign debt. Chile has built up a sovereign wealth fund valued at more than $20 billion, while its central bank has more than $37 billion in foreign exchange reserves. These are just some of the reasons why Chile was able to issue a $1 billion 10-year bond at a rate of 3.4% in September. This rate was the lowest interest rate that any Latin American borrower had ever achieved. It is also why Chile's credit default swaps are trading lower than France's.

5. Strong monetary policy of its central bank. During the 2008-2009 financial crisis, Chile's central bank slashed domestic interest rates to 0.5%. It was also the only South American central bank to engage in a quantitative easing (QE) plan, similar to the Federal Reserve in the United States. The QE was intended to increase the money supply in the economy by purchasing securities, usually government bonds, from the market. Subsequently, the central bank quickly raised interest rates up to 5.25%. This now leaves it with plenty of room to cut rates in case the country needs to stimulate the economy again.

TOP STORIES

Opinion: The Brazil Industry Problem
Europe dominates FDI into Brazil; Beware of Spanish crisis contagion…
Top 30: Here are the Latin American public companies that booked the largest losses in 2011

Risks to consider: China's interdependence (if China slows, Chile will suffer), copper's price volatility, and government's addiction to Codelco's revenues (25% of the government's income depends on Codelco, the state-run cooper company).

SHARE → Like 0 Tweet 0 Share

Leave a Reply

Your email address will not be published. Required fields are marked *

Name *

Email *

Website

+ 3 = 11

Comment

You may use these HTML tags and attributes:

<a href="" title=""> <abbr title=""> <acronym title=""> <b> <blockquote cite=""> <cite> <code> <del datetime=""> <em> <i> <q cite=""> <strike> <strong>

Post Comment

"A major housing bubble in Canada may cause international distress," says Neville Bennett

Beware commodity investors: Morgan Stanley's Sharma says "commodity.com" could cause "the next global crash"

Capital Economics says "Brazil property market is overvalued by 50%" but "the housing bubble will deflate slowly"

Opinion: Here is what 8 economists have to say about Brazil's protectionist policies

Time to Sell! World's "worst stock picker" Carl Icahn buys into Brazilian mining company

Krugman says Brazilian Real appreciation is not due to "currency wars" and that "shouting at developed countries" will not solve it

An interview with Brazilian Bubble, by Rachel Glickhouse

Property developer Lider files for Chapter 11 protection and seems to be the first casualty of Brazil's real estate bubble

Top Ten: Forbes puts Petrobras as the 10th largest company on the planet

Santander in Brazil for sale; Bradesco and Banco do Brasil are potential acquirers

Janus Capital says the miracle is not over: "Brazil's future remains bright"

Productivity gains in the last 30 years: China (+808%) vs. Brazil (-15%)

Rank Chart: Productivity by country… Brazil ranks 15th out of 17 LatAm countries

Top Ten: Brazil's Richest People

IMF's (Lousy?) Predictions: Brazil to fall back to 7th largest economy in 2012