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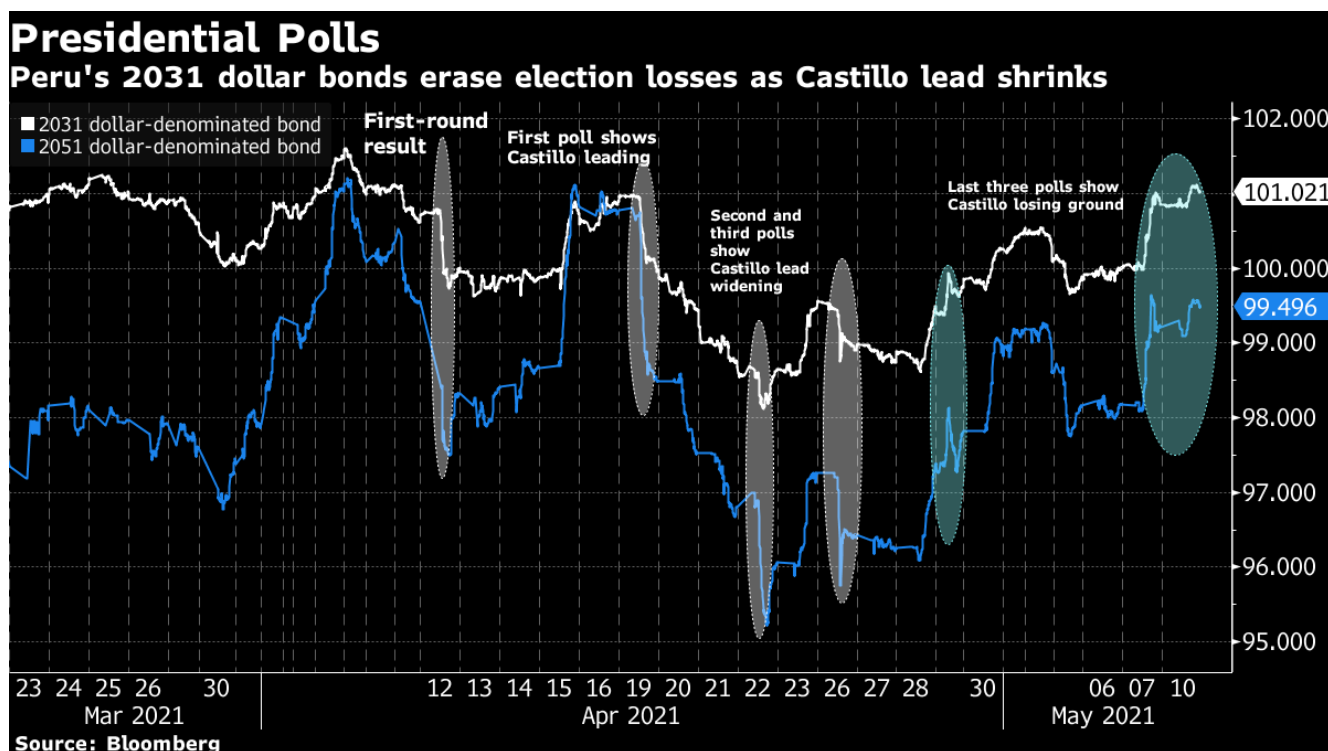
Peru Bonds Erase Post-Election Crash as Lead Shrinks for Leftist

- Castillo holds a 2.4 percentage point lead over Fujimori
- The Peruvian sol is leading global gains among peers

By Maria Elena Vizcaino and Jim Wyss

(Bloomberg) -- Peru's dollar bonds have erased last month's crash and the sol headed for its biggest advance in five years as polls show a shrinking lead for the leftist frontrunner feared by investors.

The nation's dollar-denominated debt due in 2031 surged to 101 cents on the dollar Monday, their highest level since Pedro Castillo unexpectedly won the first round of the nation's presidential election last month. The sol rallied the most among more than 140 currencies tracked by Bloomberg.



Pollster CPI found that Castillo's lead over former lawmaker Keiko Fujimori has narrowed to 2.4 percentage points, which is within the margin of error, according to the survey published Monday by RPP Noticias. Last month, some polls showed Castillo with a lead of as much as 20 percentage points.

Peruvian assets have broadly recovered losses as Castillo's advantage diminishes. The cost of insuring the country's debt against default over the next five years declined by 14 basis points since peaking on April 27. Local currency debt due in 10 years has climbed 6 cents over the last two weeks and the nation's benchmark stock index is at a three-week high.

"The presidential race remains wide open but just the fact that Fujimori is closing the gap means that she is increasing her chances of winning, plus is forcing Castillo to have a less radical discourse," said William Snead, a strategist at BBVA in New York, in an interview. Snead last week recommended buying Peru's debt.

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Castillo, a former school teacher has spooked investors by proposing to rewrite the constitution, exercise more state control over "strategic industries" and redistribute wealth. Since winning the first-round of the election last month, he has sought to distance himself from the Marxist politics of his party. The election is scheduled for June 6.

Strategists at Buenos Aires-based BancTrust & Co. Bruno Gennari and Ramiro Blazquez upgraded their recommendation on Peru's 2033 and 2037 bonds to neutral from underweight.

As well as reflecting Fujimori's improved chances of winning, the rally may also reflect a calculation that Castillo would have trouble implementing a radical agenda, they wrote in a note Monday.

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The new poll found that Castillo has 34.2% of voter intention versus 32% for Fujimori. Their previous poll published April 20 gave Castillo a 13 percentage-point lead.

Even so, the poll found that 18.5% respondents said they planned to cast blank ballots and 15.3% are still undecided. The poll surveyed 1,600 people from May 6-8 and has a margin of error of plus minus 2.5 percentage points.

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