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Mexico's Peso Headed for Third Weekly Gain on Risk Appetite  
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By Andres R. Martinez

April 9 (Bloomberg) -- Mexico's peso is headed for a third weekly gain after European Central Bank President Jean-Claude Trichet said he doesn't expect Greece to default on its debt, spurring demand for higher-yielding, emerging-market assets.

The currency rose 0.8 percent to 12.2037 per U.S. dollar at 10:44 a.m. New York time, from 12.3026 on April 2. The currency rose to 12.1833 earlier, the strongest level against the U.S. dollar since Oct. 14, 2008. Oil, the nation's largest export, headed for a second weekly gain.

"There has been a shift toward risk as investors began discarding worries about Greece," said Gerardo Margolis, vice president of emerging markets at TD Securities Inc. in Toronto.

"As long as the peso holds below 12.3, it's headed for 12.05."

The peso may strengthen to 11.8 per dollar if it breaks through 12.1, said Enrique Alvarez, an analyst at IDEAglobal Inc. in New York. By year-end, the currency may drop to 12.3 as the Mexican government intervenes in the market to keep the peso's strength from cutting demand for exports, he said.

The peso has gained 7.3 percent this year, the best performer among the 16 major currencies tracked by Bloomberg.

"I don't think the Mexican government is willing to let the peso appreciate this much," Alvarez said. "We are going to see the government intervene in some fashion."

Mexican Central Bank President Agustin Carstens said in January that the government will increase foreign reserves, after the peso fell to a record low in March 2009. Reserves reached a record \$95.7 billion as of April 2.

Traders have triggered \$501 million of the \$601 million worth of dollar options the central bank auctioned for April. Investors sell the bank dollars and get pesos in return.

The yield on Mexico's 10 percent peso bond due in 2024 fell 13 basis points, or 0.13 percentage point, to 7.8 percent this week, from 7.93 percent on April 1, according to Banco Santander SA. The price of the security rose 1.3 centavos to 119.13 centavos per peso.

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