

LatAm Daily | Brazil on the verge of losing its investment grade

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Following the economic deterioration and increasing political turbulence, S&P announced yesterday a revision of Brazil's rating outlook to negative, meaning that in a one-year period it could withdraw the country's investment grade, unless the government is able to overcome its current difficulties (which is not an easy task)

Brazil - S&P revises the rating outlook to negative, meaning that it could withdraw Brazil's investment grade next year

S&P decided to revise Brazil's rating outlook to negative from stable while maintaining its grade one level above the junk grade (BBB-). Brazil's overall outlook and the prospects for public debt evolution over the next few years in particular, have deteriorated sharply in the last few months. In spite of a series of positive policy adjustments implemented recently, political turbulence (to a certain extent due to Petrobras-related corruption scandals) as well as an abrupt contraction of domestic demand have forced the government to **reduce the pace of its fiscal adjustment**. This means that public debt will increase faster and for a longer period than previously expected. In this environment, yesterday's announcement by S&P did not come as a surprise. Looking ahead, it will not be an easy task for the government to address the ongoing economic and political problems and prevent S&P from withdrawing the country's investment grade rating in a year's time.

What to watch today

Brazil - Monetary policy meeting (after local markets close)

COPOM will meet today. We expect the committee to raise the SELIC rate by 50bp to 14.25%. In our view, **the recent softening of fiscal targets** (not to mention the abnormally high inflation and still unanchored expectations) leaves the monetary authority with less room to maneuver to deliver a smaller (25bp) SELIC adjustment.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Selic Rate	29 July	Jul	14.25%	14.25%	--	13.75%
CNI Consumer Confidence	29 July	Jul	--	--	--	96.2
FGV Inflation IGPM MoM	30 July	Jun	0.73%	--	--	0.67%
Credit Market Report	30 July	--	--	--	--	--
Fiscal policy report	31 July	Jul	--	--	--	--
Chile						
Central Bank Meeting Minutes	30 July	--	--	--	--	--
Manufacturing Production YoY	30 July	Jun	--	-2.20%	--	--
Retail Sales YoY	30 July	Jun	2.7%	3.00%	--	3.10%
Industrial Production YoY	30 July	Jun	--	--	--	-1.20%
Unemployment Rate	31 July	Jun	6.7%	--	--	6.60%
Colombia						
Urban Unemployment Rate	31 July	Jun	10.0%	10.20%	--	9.60%
National Unemployment Rate	31 July	Jun	--	--	--	8.90%
Overnight Lending Rate	31 July	--	4.5%	4.50%	--	4.50%
Mexico						
Trade Balance	27 July	Jun	-\$501.4M	-\$725M	-\$749M	-\$1017.4M
Overnight Rate	30 July	--	3.0%	3.00%	--	3.00%
Peru						
CPI YoY	1 Aug	Jul	3.53%	3.57%	--	3.54%
CPI MoM	1 Aug	Jul	--	0.46%	--	0.33%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
07.24.2015	Chile: We expect inflation to reach 0.3% MoM (4.5% YoY) in July
07.24.2015	Mexico: Activity grows slightly; inflation and peso bottom out
07.23.2015	Colombia: Portfolio quality and economic cycle
07.20.2015	Mexico: Home loan advances 20% in May
07.17.2015	Mexico: We expect services to have spurred the growth in activity in May
07.15.2015	Peru: Economic activity slows down in May
07.13.2015	Chile: Central Bank of Chile keeps MPR at 3% as expected
07.10.2015	Colombia: Client presentation on real estate in Santa Marta
07.10.2015	Mexico: Inflation touches record low; industrial production shows weakness
07.10.2015	Peru: Monetary dilemma remains; activity, exchange rate, inflation?
07.09.2015	Chile: Analyzing the new fiscal scenario
07.09.2015	Mexico: Inflation YoY reached its lowest level in June
07.08.2015	Chile: "One timers" drive inflation above expectations
07.05.2015	Sectors that will benefit the most from the Pacific Alliance

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