

## LatAm Daily | Moody's downgrades Brazil to Baa3 due to economic and political issues

Cecilia Posadas / Enestor Dos Santos / Jorge Selaive Carrasco / Juana Téllez Corredor / Carlos Serrano Herrera / Hugo Perea Flores / Alejandro Faci

---

*Overnight, Moody's decided to downgrade Brazil while attaching a stable outlook. The decision comes after S&P's outlook downgrade to negative from stable 2 weeks ago. Meanwhile, June retail sales will be released today; we expect a drop of 0.4% MoM, supporting our view of a severe contraction in consumption*

### Brazil - Moody's cuts Brazil's sovereign rating to Baa3, just one notch above high yield

The downgrade of Brazil's credit rating to Baa3 from Baa2, which follows a decision to change the country's rating outlook to "negative" in September 2014, was already expected. However, the rating agency attached a "stable" outlook to the Baa3 grade, rather than a "negative" one as many had feared, meaning that the risk of it withdrawing Brazil's investment grade before the end of 2016 -but not in a longer time frame- is smaller. To justify its decision Moody's highlighted the weaker than expected economic performance, political turbulence and the deterioration of fiscal indicators. These are basically the same drivers that encouraged S&P to change Brazil's rating outlook to "negative", and leave the country on the verge of losing its investment grade, at the end of July. Nevertheless, we think that it will be very difficult for the government to avoid the main rating agencies downgrading the country to high yield status going forward.

## What to watch today

### Brazil - Retail sales (June, 8:00hrs NYT)

We expect retail sales to have dropped around 0.4% MoM in June, following contractions of 0.9% MoM in May and of 0.4% MoM in April, and supporting our view that a sharp contraction of private consumption in 2Q15 (around -2.3% QoQ) will be the main driver of a 1.4% QoQ decline of 2Q15 GDP.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
FGV CPI IPC-S	10 August	Aug 9	0.55%	--	0.53%	0.53%
Retail Sales MoM	12 August	Jun	-0.40%	-0.40%		-0.90%
Economic Activity MoM	13 August	Jun	-0.50%	-0.50%		0.03%
FGV Inflation IGP-10 MoM	14 August	Aug	--	--		0.75%
Formal Job Creation Total	14 August	Jul	--	--		-111,199
<b>Chile</b>						
Central Bank's Economist Survey	11 August	--	--	--		--
Central Bank's Traders Survey	12 August	--	--	--		--
Overnight Rate Target	13 August	Aug 13	3.00%	3.00%		3.00%
<b>Colombia</b>						
Vehicle Sales	13 August	Jul	--	--		22,192
Colombia Monetary Policy Minutes	14 August	--	--	--		0.00%
Retail Sales YoY	14 August	Jun	3.40%	--		2.70%
Industrial Production YoY	14 August	Jun	-0.90%	--		-3.90%
<b>Mexico</b>						
Industrial Production NSA YoY	11 August	Jun	1.10%	--	1.35%	-0.90%
Industrial Production SAMoM	11 August	Jun	0.30%	0.20%	0.23%	-0.40%
ANTAD Same-Store Sales YoY	11 August	Jul	5.80%	--	6.80%	5.00%
Formal Job Creation Total	12 August	Jul	40K	47K		78.4K
Mexican Central Bank Releases Inflation Report	12 August	--	--	--		--
Central Bank Monetary Policy Minutes	13 August	--	--	--		--
<b>Peru</b>						
Trade Balance	10 August	Jun	\$50M	--	\$23M	-\$342M
Reference Rate	13 August	Aug 13	3.25%	3.25%		3.25%
Economic Activity YoY	14 August	Jun	--	--		1.20%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
08.09.2015	<a href="#">LatAm Economic Outlook (Presentation)</a>
08.09.2015	<a href="#">LatAm Economic Outlook</a>
08.09.2015	<a href="#">Mexico: Inflation reaches historical low and Peso nears 16.1</a>
08.06.2015	<a href="#">Colombia Economic Outlook (Presentation)</a>
08.06.2015	<a href="#">Chile Economic Outlook (Presentation)</a>
08.06.2015	<a href="#">Chile Economic Outlook</a>
08.06.2015	<a href="#">Chile: Nominal wages increased by 0.2% MoM in June</a>
08.06.2015	<a href="#">Colombia: Inflation in July surprises to the upside</a>
08.05.2015	<a href="#">Colombia Economic Outlook</a>
08.05.2015	<a href="#">Peru Economic Outlook</a>
08.05.2015	<a href="#">Uruguay: Inflation in July</a>
08.05.2015	<a href="#">Chile: Imacec grew 2.7% in June</a>
08.03.2015	<a href="#">Mexico: Remittances grew 6.1% YoY in June</a>
08.03.2015	<a href="#">Peru: Inflation to stand above target range for the rest of the year</a>
08.03.2015	<a href="#">Chile: CLP must fall further to force agents to intervene</a>
08.01.2015	<a href="#">Mexico: Peso back to 16 influenced by worse-than-expected data in the US</a>
07.30.2015	<a href="#">Chile: IMACEC to grow between 2.2% and 2.7% YoY in June</a>
07.30.2015	<a href="#">Mexico: Monetary policy rate on hold</a>
07.30.2015	<a href="#">Mexico: Monetary policy rate on hold in July. Rate hike in September is still in the cards</a>

---

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.