

LatAm Daily | Brazil loses its investment grade rating from S&P

Cecilia Posadas / Enestor Dos Santos / Jorge Selaive Carrasco / Juana Téllez Corredor / Carlos Serrano Herrera / Hugo Perea Flores / Marina Conesa Martínez

S&P downgraded Brazil's credit rating to BB+ from BBB- sooner than expected. The decision was driven by an economic deterioration and the worse prospects for fiscal adjustment. S&P does not rule out additional downgrades, and we expect at least one of the two other main risk agencies to also withdraw Brazil's investment grade.

Brazil - S&P downgrades the country's credit rating to high-yield

The risk agency downgraded Brazil's credit rating to BB+ from BBB-, less than two months after it had changed the country's outlook to negative from stable. Even though the decision was widely expected, its timing was surprising, as we, and many other analysts, expected it to happen next year. The overall deterioration observed in the last few months, and mainly the worsening of the prospects regarding the fiscal adjustment (especially after the preliminary 2016 budget was announced with a -0.3% of GDP primary result), was certainly the main driver of S&P's decision to downgrade Brazil now rather than in 2016. In addition to cutting the sovereign rating to high-yield, S&P maintained the negative outlook, meaning that additional downgrades going forward should not be ruled out. We expect at least one of the two other main risk agencies to also withdraw Brazil's investment grade going forward (although probably not in 2015). Even though markets were to a large extent already pricing in a downgrade, we expect the announcement from S&P to add to recent losses. Although the government is likely to adopt measures to show more commitment with its fiscal targets in the near future (0.15% of GDP in 2015 and 0.7% of GDP in 2016), we are not optimistic about a reversion of the negative dynamics prevailing over Brazil's economy and politics.

Chile - The trader's survey is pricing annual inflation above 3% 24-months ahead

The results showed inflation expectations at 0.7% MoM for September (in line with our view). Although 12 months-ahead inflation expectations remain stable at 3.5% YoY, the long-term view (24 months-ahead) increased to 3.2% YoY decoupling slightly from the central bank's 3% YoY target. In this regard, the last episode of this nature was observed during March and April of 2012. In terms of policy rates, traders changed to a more hawkish view, considering a 25bp increase at both 3 and 12-months ahead reaching 3.50%. Finally, the results showed expectations of a stable exchange-rate at levels around CLPUSD690.

Colombia - Civil engineering works continue to boost the economy

In the second quarter of the year, civil works payments grew 8.4% YoY (BBVAe: 8.0%). Roads and other works (the latter chiefly financed with royalties) registered the best performance. These results make us more confident in our forecast for 2Q15 GDP growth of 3.5%.

Mexico - Inflation reached a new low of 2.59%

Inflation in August was in line with expectations (Observed: 2.59% YoY vs. BBVAe: 2.62%), and, as expected, was driven by an increase in tuition fees and durable goods but compensated by a reduction in tourism services and some livestock products.

Mexico - The Ministry of Finance presents the budget for 2016

Ministry of Finance submitted to Congress the 2016 budget package which sees GDP growth for 2015 in a range of 2.0% - 2.8% YoY and 2.6% - 3.6% YoY for 2016. A contraction of public sector net expense of 1.9% in real terms is expected while budget revenues are expected to decline marginally to (-)0.2%. The Ministry of Finance estimates the price of the Mexican oil at USD50bbl while hedges have been contracted at a price of USD49bbl. The PSBR (the full measure of the government deficit) is forecast to be at 3.5% of GDP in 2016 and its historical balance will increase from 46.9% of GDP in 2015 to 47.8% in 2016. The budget considers a contraction in physical investment of 30% in 2016. See [Mexico Flash](#) (in Spanish) for more details.

What to watch today

Chile - Economic expectation survey (September, 07:30hrs NYT)

We expect the results to reveal CPI inflation estimates at around 0.7% MoM for September, while long-term inflation expectations should remain anchored to the central bank's target of 3% YoY. Monthly activity estimates for August should be around 2.6% YoY, while GDP growth expectations for 2015 should remain stable at 2.2%. Finally, we expect the results to show a more hawkish view for policy rates, and in this context, we do not rule out the possibility of new downward adjustments to 2016 GDP growth expectations.

Brazil - Monetary policy minutes (7:30hrs NYT)

We expect the minutes of last week's monetary policy meeting to reinforce the prospect of interest rates remaining unchanged for some time. In any case, its assessment of the outlook will be important for an evaluation of both upward risks (following additional exchange rate weakness or further fiscal deterioration, for example) and downward risks (due to heightened concerns about economic activity, for example).

Brazil - Inflation (August, 8:00hrs NYT)

We expect monthly inflation to ease significantly, to 0.30% MoM in August from 0.62% MoM in July and 1.0% on average in 1H15. Annual inflation, however, should remain broadly unchanged at around 9.6% YoY.

Colombia - GDP (2Q15, 11:00 hrs NYT)

We expect 2Q15 GDP to have grown 3.5% YoY. The mining and construction sectors (especially, civil works) should be the main drivers. On the other hand, we believe retail should continue a process of moderation in terms of annual variation and manufacturing could be the only sector with negative figures.

Peru - Monetary policy meeting (September, 18:30hrs NYT)

Greater inflationary pressures, rising inflation expectations, and comments from some central bank authorities to the effect that they are assessing a policy rate hike have all increased the probability of this happening (45% probability), by 25bp, perhaps as soon as September. However, we still believe the central bank will keep the policy rate on hold at 3.25% (55% probability) because there are no demand-side pressures which need to be contained and therefore no long-lasting factors pushing up inflation: private spending has virtually come to a halt in 2Q15, the fiscal impulse is very weak, and the pass-through from local currency depreciation onto inflation (the main driver behind the acceleration of prices) should tend to abate as the FX climbs onwards at a more moderate pace.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
FGV CPI IPC-S	8-sep	1-sep	0,24		0,21	0,22%
COPOM Monetary Policy Meeting Minutes	10-sep					
IBGE Inflation IPCA MoM	10-sep	Aug	0,25	0,30		0,62%
Chile						
Economic Activity YoY	7-sep	Jul	2,00	2,00	2,54	2,56%
Economic Activity MoM	7-sep	Jul	-0,30	-0,40	0,13	0,75%
Trade Balance	7-sep	Aug	100,00		-61,51	10,87
Nominal Wage MoM	7-sep	Jul			1	0,20%
Vehicle Sales Total	7-sep	Aug			24374	22247
CPI MoM	8-sep	Aug	0,50	0,40	0,7	0,40%
CPI YoY	8-sep	Aug	4,80	4,70	5	4,60%
Central Bank's Traders Survey	9-sep					
Central Bank's Economist Survey	10-sep					
Colombia						
Civil Works Payments (YoY)	10-sep	2Q		8,40		6,90%
GDP QoQ	11-sep	2Q	0,50	1,00		0,80%
GDP YoY	11-sep	2Q	2,90	3,50		2,80%
Mexico						
Vehicle Production AMIA	7-sep	Aug			292271	254312
CPI MoM	9-sep	Aug	0,24	0,24	0,21	0,15%
CPI Core MoM	9-sep	Aug	0,20	0,18	0,2	0,17%
CPI YoY	9-sep	Aug	2,62	2,62	2,59	2,74%
ANTAD Same-Store Sales YoY	9-sep	Aug	6,00		7,8	6,80%
Nominal Wages	10-sep	Aug				4,78%
Industrial Production NSA YoY	11-sep	Jul	0,50			1,35%
Industrial Production SA MoM	11-sep	Jul	-0,10			0,23%
Peru						
Reference Rate	11-sep		3,25			3,25%

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
09.10.2015	Mexico: The 2016 budget package reduces spending and promotes savings (In Spanish)
09.08.2015	Chile: CPI inflation surprisingly increased 0.7% MoM in August
09.07.2015	Chile: July IMACEC (2.5% YoY) in line with stabilization of growth (In Spanish)
09.07.2015	Colombia: An upward surprise in food prices removes inflation from its target (In Spanish)
09.02.2015	Mexico: Private sector credit increased 10.7% in July
09.01.2015	Peru: Inflation continued to accelerate in August
09.01.2015	Chile: Public expenditure increased by 8.9% in July
09.01.2015	Mexico: Remittances reached the highest growth rate of the year in July (11.7%)
08.31.2015	Chile: Transitory factors could lead the IMACEC below 2% in July
08.31.2015	Chile: Investment in non-mining exporting sectors
08.28.2015	Peru: Private expenditures maintained fragile in 2Q15
08.28.2015	Chile: MPR Minutes CB considers sorpresive option of rise in MPR
08.25.2015	Chile: And if there were a central bank intervention, what form would it take?

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.