

Wednesday 24<sup>th</sup> February 2016 – 10.40 am

International

Prepared by: Rajesh Ramroop, Research Officer, First Citizens Research and Analytics

[rajesh.ramroop@firstcitizenstt.com](mailto:rajesh.ramroop@firstcitizenstt.com)

## Brazil downgraded by Moody's to Junk

- On 24 February 2016, Moody's Investors Service lowered its long-term foreign currency rating by two steps on Brazil from Baa3 to Ba2 with a negative outlook.
- According to Moody's, the downgrade was triggered by:
  1. Expectation of a weakening credit profile in the coming years
  2. The increasing difficulty for the government to pass fiscal and structural reforms due to challenging political dynamics.
- Brazil's debt metrics are expected to further deteriorate with government debt forecasted to exceed 80% of GDP by 2018. Compounding this is the low growth outlook which Moody's averages at -0.5% growth over the period 2016-18.
- Interest rates are also expected to remain high, resulting in low debt affordability with interest payments accounting for more than 20% of government revenue.
- Policy reforms including raising the minimum retirement age, improving fiscal flexibility and reducing revenue earmarking (the Constitution establishes that at least 25% of tax revenue must be allocated to education and 12-15% of the states' and municipalities' tax revenues to healthcare services) are expected to face significant headwinds due to deterioration in the political climate.
- Approval in Congress of these reforms will be difficult due to the government's limited support and the challenges being faced by the President. The ongoing impeachment proceedings against President Dilma Rousseff, the Petrobras scandal and further corruption investigations will also continue to weigh on business sentiment and investment prospects.
- Brazil's credit rating was cut to junk (BB+), downgraded by Fitch on 16 December 2015 and further downgraded into junk territory (BB) by Standard & Poor's on the 17 February 2016.

### Brazil Government Bonds

Name	Coupon	Maturity	Ask Yield to Maturity	Country	Ask Price	Bid Yield to Maturity
Brazilian Government International Bond	4.25	1/7/2025	6.5719598	BR	84.59	6.9152619
Brazilian Government International Bond	8.25	1/20/2034	8.1148834	BR	101.25	8.1148834
Brazilian Government International Bond	7.125	1/20/2037	7.9549345	BR	91.6	7.9549345
Brazilian Government International Bond	5	1/27/2045	7.7145486	BR	68.75	7.7145486
Brazilian Government International Bond	4.875	1/22/2021	5.6184017	BR	96.85	5.7028857

### Brazil Economic Indicators

Brazil	Q1 15		Q2 15			Q3 15			Q4 15			Q1 16	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
National Accounts													
Real GDP (yoy %)	--	-2	--	--	-3	--	--	-4.5	--	--		--	--
Real GDP (qoq % sa)	--	-0.8	--	--	-2.1	--	--	-1.7	--	--		--	--
Private Consumption (yoy %)	--	-1.5	--	--	-3	--	--	-4.5	--	--		--	--
Gross Fixed Capital Formation (yoy %)	--	-10.1	--	--	-12.9	--	--	-15	--	--		--	--
Government Consumption (yoy %)	--	-0.5	--	--	-0.3	--	--	-0.4	--	--		--	--
Exports (yoy %)	--	3.3	--	--	7.7	--	--	1.1	--	--		--	--
Imports (yoy %)	--	-5	--	--	-11.5	--	--	-20	--	--		--	--
Nominal GDP (BRL bn)	--	1435	--	--	1457	--	--	1481	--	--		--	--
Economic Activity Indicator (mom%, sa)	0.5	-1.4	-1.1	0	-0.9	-0.1	-0.9	-0.6	-0.6	-0.5			
International Reserve Assets (USD bn)	359.9	360.2	361.9	364.1	366.1	365.9	365.7	359	358.8	354.7	354.2		
Financial Sector													
3-Month T-Bill Rate (%)	12.75	12.98	13.45	13.74	13.99	14.24	14.34	14.54	14.41	14.45	14.63	14.18	14.28
10-Year Gov't Bond Yield (%)	12.29	13.04	12.8	12.22	12.62	12.97	14.27	15.4	15.89	15.87	16.51	16.19	16.26

Equity Market (IBOVESPA Index, 000s)	51.6	51.2	56.2	52.8	53.1	50.9	46.6	45.1	45.9	45.1	43.3	40.4	40.9
USD/BRL Exchange Rate	2.855	3.197	3.014	3.179	3.104	3.421	3.621	3.948	3.856	3.869	3.961	4	4.071

Source: Bloomberg



Follow us on Twitter [@FCISResearch](https://twitter.com/FCISResearch)

### Disclaimers

*All information contained in this article has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the Author's judgment as of the date of the article; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this article is given or made by First Citizens Investment Services in any form whatsoever. First Citizens Investment Services and/or its employees or directors may, where applicable, make markets and effect transactions, or have positions in securities or companies mentioned herein. Neither the information nor any opinion expressed shall be construed to be, or constitute an offer or a solicitation to buy or sell.*