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International

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Brazil downgraded by S&P to BB

- On 17 February 2016, Standard & Poor's lowered its long-term foreign currency rating on Brazil from BB+ to BB with a negative outlook.
- According to S&P, the downgraded was triggered by:
 1. A weakening credit profile.
 2. Increased political uncertainty that can limit the government's capacity to effectively implement fiscal measures to stabilize the economy.
 3. Prolonged adjustment period with a slower correction in fiscal policy leading to another year of steep economic contraction.
- Brazil's economic slump is not abating as highlighted by an estimated 3.6% contraction of the economy in 2015. The fall in commodity prices and slowdown of the China, the country's main trading partner, continue to weigh heavily on the economy and dampen hopes of recovery. S&P forecasts growth of -3% and 1.0% in 2016 and 2017, respectively with risks skewed mainly to the downside.
- Fiscal deterioration continues against the backdrop of weaker economic conditions. Repeated changes in fiscal targets have undermined the credibility of the government's fiscal policy. The general government deficit is forecasted to average 8% of GDP in 2016 and 2017 while general government debt, net of liquid assets (not including international reserves) is forecasted at 58% and 60% of GDP in 2016 and 2017 respectively. Inflation also poses a challenge having measured 10.7% at year-end 2015 (the highest since 2002) due to the correction of administered prices and depreciation of the real (30% in the last year). Positively improvements are being seen in the external accounts and the current account deficit is forecasted to fall to an average of 2% of GDP for 2016-2018.
- Policy reform is expected to face significant headwinds due to deterioration in the political climate. The ongoing impeachment proceedings against President Dilma Rousseff, the Petrobras scandal and further corruption investigations will continue to weigh on business sentiment and investment prospects.
- Brazil's credit rating was cut to junk, downgraded by Fitch in December 2015 to BB+ and the Moody's Investor Services rating of Baa3 (lowest investment grade) was placed on negative credit watch.

Brazil Government Bonds

Name	Coupon	Maturity	Ask Yield to Maturity	Ask Price	Bid Yield to Maturity
Brazilian Government International Bond	4.25	1/7/2025	6.7929903	83.25	6.7929903
Brazilian Government International Bond	8.25	1/20/2034	8.3027976	99.5	8.3027976
Brazilian Government International Bond	7.125	1/20/2037	8.1804934	89.5	8.1804934
Brazilian Government International Bond	5	1/27/2045	7.8024173	68	7.8024173
Brazilian Government International Bond	4.875	1/22/2021	5.8453538	95.9	5.8453538

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

In addition the following oil-producing countries saw downgrades by S&P as well :

Country	Before Downgrade	After Downgrade
Bahrain	BBB-	BB
Kazakhstan	BBB-	BB
Oman	BBB+	BBB-
Saudi Arabia	A+	A-

Source: Bloomberg



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