

## LatAm Daily | Moody's could soon downgrade Brazil to high-yield

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*The rating agency put Brazil's sovereign rating under review, implying that a downgrade to high-yield is likely in the next few months. The other bad news regarding Brazil yesterday was that inflation surprised to the upside and broke the 10% level. In Chile, the trader's survey is for a 25bp hike in MPR at the next monetary policy meeting.*

### Brazil - Moody's put Brazil rating under review for downgrade

The rating agency announced yesterday that Brazil's Baa3 rating -the last within the investment grade range- is under review, meaning that it could downgrade it to high-yield within the next 90 days. This unsurprising decision follows the additional fiscal and macroeconomic deterioration as well as political turbulence observed in the last few months. Regarding the latter, the agency highlights that the beginning of the impeachment proceedings against President Dilma Rousseff represents an extra barrier for the implementation of the fiscal adjustment, which is in line with our general view that the impeachment process will not favour Brazil's macroeconomic scenario. We see a downgrade to high-yield by Moody's in the next few months as practically unavoidable, reinforcing our opinion that, after S&P downgraded the country to high-yield two months ago, Brazil will lose its investment grade from at least a second rating agency next year.

### Brazil - Double-digit inflation

Inflation reached 10.48% YoY in November, the highest rate since 2003, topping expectations once more (BBVA: 10.2% YoY; consensus: 10.4% YoY). Monthly inflation came in at 1.01% MoM, the largest increase since March. The main pressures came from fuel and food prices, which increased 4.16% MoM and 1.83% MoM respectively. Taking into account the larger than expected pressure from both food and administered prices at the end of the year, we now expect it to close the year at 10.5% YoY. As we move into 2016, the adjustments in regulated prices are likely to lose steam as most of their misalignment will be corrected by then. That will allow annual inflation to start to trend downwards from January onwards. However, this moderation should be more gradual than anticipated, to a large extent due to a higher point of departure (inflation at 10.5% YoY at the end of 2015). We maintain our forecast for 2016 inflation at 5.5% YoY while we think it will only move to within the 2.5%-6.5% target range by the end of the next year rather than in 2Q16 or 3Q16. Even though most recent figures put more pressure on the BCB's monetary policy, we continue to see as the most likely outcome the stability of the Selic rate at 14.25% for a prolonged period of time (for more details see our [Brazil Flash](#)).

### Chile - The trader's survey are for 25bp tightening of policy rate in December

The results showed inflation expectations at +0.1% MoM for December 2015 (BBVAe: +0.0%/+0.1% MoM). The long-term view (24 months ahead) remained at +3.0% YoY, anchored to the central bank's target, while for the end of 2016 expectations of inflation are for a +3.4% YoY. In terms of policy rates, the traders' survey anticipates a 25bp increase to 3.50% at next week's meeting and another 25bp increase 6-months ahead. Finally, exchange-rate is expected to reach levels around USDCLP 710 in the short-term.

## Colombia - Civil works

Civil works increased 8.2% YoY, topping our expectations (+4%). High regional execution, in part financed by mining royalties, and typical in the last year of the outgoing government, was determinant. This result implies an upward bias to our 3Q15 GDP growth forecast.

## What to watch today

### Chile - Economic Expectation Survey (December, 07:30hrs NYT)

We expect the results to reveal CPI estimates in a range between +0.0%/+0.1% MoM for December 2015. Long-term inflation expectations should remain anchored to the central bank's target of 3% YoY. Monthly activity estimates for November should come in around +2.0% YoY. Finally, although incoming information supports another pause at 3.25% in the policy rate, results could show median expectations for another 25bp hike at next week's meeting.

### Colombia - GDP (3Q15, 10:00hrs NYT)

We expect GDP to have grown 2.5% YoY (0.5% QoQ). Sectors with links to private consumption should drive the GDP growth. In contrast, mining could be the only sector with negative figures because of lower oil production.

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

We expect the policy rate to be raised by 25bp, to 3.75%. YoY inflation accelerated in November, from 3.7% to 4.2%. This could drive inflation expectations up even more (they have currently deviated away from the 2% +/- 1pp target range). Therefore, there is a need to tighten the monetary policy stance. Besides, there is more room to do it now as the intensity of El Niño weather phenomenon during the summer (and hence its negative impact on economic activity) may not have been as strong as previously expected according to the local meteorological agency.

## Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
<b>Brazil</b>						
IBGE Inflation IPCA MoM	9-Dec	Nov	0.95%	0.80%	1.01%	0.82%
<b>Chile</b>						
CPI MoM	7-Dec	Nov	0.10%	0.00%	0.00%	0.40%
CPI YoY	7-Dec	Nov	4.01%	4.00%	3.90%	4.00%
Economic Activity YoY	7-Dec	Oct	1.70%	2.20%	1.54%	2.60%
Economic Activity MoM	7-Dec	Oct	-0.25%	0.20%	0.04%	1.10%
Trade Balance	7-Dec	Nov	\$400.0	\$300.0	\$400.64	-\$170.9
<b>Colombia</b>						
GDP QoQ	10-Dec	3Q	1.10%	0.50%		0.60%
GDP YoY	10-Dec	3Q	3.20%	2.50%		3.00%
Economic Activity Index SA YoY	10-Dec	Sep	3.80%	2.00%		4.00%
Colombia Monetary Policy Minutes	11-Dec					
Civil Works Payments (YoY)	11-Dec	3Q		4.00%		8.00%
<b>Mexico</b>						
Vehicle Production AMIA	7-Dec	Nov			296338.00	326876.00
CPI MoM	9-Dec	Nov	0.60%	0.60%	0.55%	0.51%
CPI Core MoM	9-Dec	Nov	0.07%	0.08%	0.04%	0.25%
CPI YoY	9-Dec	Nov	2.28%		2.21%	2.48%
ANTAD Same-Store Sales YoY	9-Dec	Nov	6.70%		6.00%	9.80%
Industrial Production NSA YoY	11-Dec	Oct	1.00%			1.70%
Industrial Production SA MoM	11-Dec	Oct	0.12%	0.40%		0.40%
<b>Peru</b>						
Reference Rate	11-Dec	Dec	3.75%	3.75%		3.50%

Source: Bloomberg and BBVA Research

## Most recent Latam reports

Date	Description
12.09.2015	<a href="#">Brazil: Double-digit inflation</a>
12.07.2015	<a href="#">Chile: CPI with no monthly variation in November, while activity remain weak in October</a>
12.07.2015	<a href="#">Colombia: November inflation climbs to 6.4%</a>
12.04.2015	<a href="#">Peru: Exports fell nearly 14% yoy in October</a>
12.04.2015	<a href="#">Mexico: The expectation for December interest rate hike is reinforced</a>
12.03.2015	<a href="#">Chile: We expect null variation for November's CPI (4% YoY)</a>
12.03.2015	<a href="#">Chile: Activity by sector data remained weak in October</a>
12.03.2015	<a href="#">Brazil: The risk of further monetary tightening raises as the fiscal situation worsens</a>
12.03.2015	<a href="#">Mexico: Credit to the private sector: maintained growth of 13.3%</a>
12.02.2015	<a href="#">Peru: Inflation resumes upward trend in November</a>
12.01.2015	<a href="#">Mexico: Remittances grow 1.7% in October with a flow of 2,075.9md (In Spanish)</a>
11.30.2015	<a href="#">Chile: October's IMACEC would stand around 2% (In Spanish)</a>
11.30.2015	<a href="#">Chile: Only a negative CPI in November would avoid further increase in the MPR this month (in Spanish)</a>
11.28.2015	<a href="#">Colombia: BanRep increased the repo rate 25bp up to 5.50% as expected</a>
11.27.2015	<a href="#">Mexico: Annual inflation below 2.3%. Next week watch for US jobs data</a>
11.24.2015	<a href="#">Mexico: Bank deposits: continues catching up driven by its two components</a>

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