

LatAm Daily | Additional withdraw of Brazil's investment grade, now by Fitch

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Three months after the downgrade of S&P, Fitch has withdrawn Brazil's investment grade, albeit somewhat sooner than expected. Moody's is likely to do the same in the next few months. In Colombia GDP growth in 3Q15 was mainly driven by private consumption. Today, MP meetings will take place in Chile and Mexico, where we expect a pause and a 25bp hike respectively.

Brazil - Fitch withdraws Brazil's investment grade

The ratings agency cut Brazil's sovereign rating by one notch, from BBB- to BB+, the highest step within the speculative grade zone. Moreover, it maintained the negative rating outlook, meaning that additional downgrades should not be ruled out. These decisions were announced three months after S&P downgraded Brazil to high-yield. Even though a second downgrade was already expected, it happened some months sooner than most anticipated and will force the exclusion of Brazil from investment grade indices, spurring some capital outflows. Even though this is likely to cause a further correction in local financial markets, this effect should be relatively small as it had, to a large extent, already been priced in. It is worth noting that Fitch's decision follows moves by the Brazilian government in the last few days to reduce the 2016 primary surplus target from 0.7% of GDP to between 0.0% and 0.5% of GDP. As one of the goals of the ongoing fiscal adjustment was to prevent the country from losing its investment grade, yesterday's announcement by Fitch also reinforces the view that fiscal consolidation in coming years will be lower than expected and lower than what is needed to avoid further fiscal deterioration (the gross public debt should converge to 75% of GDP in 2017 and almost 80% in 2020, in comparison to 57% in 2013). Finally, without an investment grade, and facing significant political and economic problems, Brazil is not in a good position to face the consequences of the imminent increase in interest rates by the Fed.

Brazil - Retail sales surprise to the upside and grow in October

The 0.6% MoM growth in retail sales in October interrupted a sequence of eight consecutive contractions which led to a decline of 6.2% from January to September. The growth recorded in October was in sharp contrast to expectations: BBVA: -0.7% MoM; consensus: -1.4% MoM. The broad retail sales indicator, which also includes vehicles and construction materials, remained practically stable, -0.1% MoM, after dropping sharply in the two previous readings (-1.5% MoM in September and -2.2% MoM in August). By sectors the main positive contribution to retail sales in October came from supermarket, food and beverage sales, which increased 2.0% MoM. In our view, October retail sales figures should be read more as a timely correction following series of contractions in previous months, than a reversal of the negative trend.

Colombia - GDP by demand increased 3.2% YoY in 3Q15: private consumption drove the growth

Private consumption grew 3.5% YoY, boosted by household services. Fixed investment fell 0.4% YoY, explained by a sharp contraction in private investment (-2.3% YoY). Finally, exports fell 0.7% YoY and imports grew 0.6%, resulting in an additional deterioration of net external demand. The deceleration in investment was particularly strong, topping our expectations. Private consumption, meanwhile, rebounded with respect to 2Q15. However, this performance, in our opinion, is temporary. All in all, except for private consumption, the slowdown is in line with our expectations. We maintain our GDP growth forecast for 2015 at 2.7%, meaning that the growth in the last quarter would be the lowest of the year.

Colombia - Retail sales and industrial production anticipate the lowest GDP growth of 2015 in 4Q15

Total retail sales grew 0.1% YoY, below expectations (Consensus: 1.7% BBVAe: 2.0%). Retail sales (excl. cars) grew 5.7% YoY; thus the negative contribution from car sales was important, as we expected. Also, the figures showed a healthy slowdown of other durable goods, such as appliances and household items. Non-durable goods, like food, beverages and textiles, showed a sharp increase. On the other hand, industrial production grew 1.3% YoY (Consensus: 1.5%, BBVAe: 3.0%), after the negative contribution from oil refinery of 1.3 percentage points. As a result, industrial production excluding oil refinery grew 2.6% YoY, closer to our forecast. All in all, these results anticipate a lower rate of growth for 4Q15 compared to the previous quarter.

What to watch today

Brazil - Labour market report (November, 6:00hrs NYT)

In spite of favourable seasonality, we expect the unemployment rate to remain broadly stable around 7.9% in November and the labour market report to provide further evidence of deterioration.

Mexico - Monetary policy meeting (December, 14:00hrs NYT)

Influenced by the risks related with the Fed's first hike yesterday, we expect a 25bp MPR hike in Mexico that will be the first since 2008. Once the first hike has been implemented, and if no disorderly movements in the financial markets ensue, we believe that Banxico will concentrate on domestic conditions, that would suggest a very gradual hiking cycle (See [Mexico Flash](#) for details).

Chile - Monetary policy meeting (December, 17:00hrs NYT)

Recent activity and inflation figures support a pause at 3.25% in rates in today's monetary policy meeting, even though some measures of market expectations lean to a 25bp hike considering yesterday's Fed lift-off in policy rates.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Formal Job Creation Total	14-Dec	Nov	-172550.00			-169131.00
CNI Consumer Confidence	14-Dec	Dec			96.30	97.60
CNI Industrial Confidence	15-Dec	Dec				36.40
FGV Inflation IGP-10 MoM	16-Dec	Dec	0.82%		0.81%	1.64%
FGV CPI IPC-S	16-Dec	Dec	1.12%		1.06%	1.21%
Retail Sales MoM	16-Dec	Oct	-1.40%	-0.70%	0.60%	-0.50%
Unemployment Rate	17-Dec	Nov	8.00%	7.90%		7.90%
Economic Activity MoM	17-Dec	Oct	-0.45%	-0.10%		-0.50%
IBGE Inflation IPCA-15 MoM	18-Dec	Dec	1.11%	0.93%		0.85%
Chile						
Overnight Rate Target	17-Dec	Dec	3.50%	3.25%		3.25%
Colombia						
Consumer Confidence Index	15-Dec	Nov	7.00	8.00	6.70	6.80
Retail Sales YoY	16-Dec	Oct	1.70%	2.00%	0.10%	2.80%
Industrial Production YoY	16-Dec	Oct	1.55%	3.00%	1.31%	2.00%
Retail Confidence	18-Dec	Nov		18.00		20.50
Industrial Confidence	18-Dec	Nov		4.00		2.10
Overnight Lending Rate	18-Dec	Dec	5.75%			5.50%
Mexico						
Overnight Rate	17-Dec	Dec	3.25%			3.00%
Central Bank Economist Survey	18-Dec					
Peru						
Unemployment Rate	15-Dec	Nov	5.80%			
Economic Activity YoY	15-Dec	Oct	3.10%	3.20%		3.00%
Central Bank 4Q Inflation Report	18-Dec					

Source: Bloomberg and BBVA Research

Most recent Latam reports

Date	Description
12.16.2015	Mexico: We expect a 25 basis point increase in the monetary policy rate
12.15.2015	Mexico: A successful Phase 3 of Round 1 despite low oil prices
12.15.2015	Peru: Mining continues to support growth, but non-primary sectors decelerated (In Spanish)
12.15.2015	Chile: We expect the MPR to hold at 3.25% at this meeting (In Spanish)
12.14.2015	Mexico: The exchange rate reached new highs due to the collapse in oil prices (In Spanish)
12.11.2015	Peru: High inflation expectations lead the Central Bank to taper the monetary stimulus
12.10.2015	Colombia: The good GDP result in the third quarter will be temporary (In Spanish)
12.09.2015	Brazil: Double-digit inflation
12.07.2015	Chile: CPI with no monthly variation in November, while activity remain weak in October
12.07.2015	Colombia: November inflation climbs to 6.4%
12.04.2015	Peru: Exports fell nearly 14% yoy in October
12.04.2015	Mexico: The expectation for December interest rate hike is reinforced
12.03.2015	Chile: We expect null variation for November's CPI (4% YoY)
12.03.2015	Chile: Activity by sector data remained weak in October
12.03.2015	Brazil: The risk of further monetary tightening raises as the fiscal situation worsens
12.03.2015	Mexico: Credit to the private sector: maintained growth of 13.3%
12.02.2015	Peru: Inflation resumes upward trend in November
12.01.2015	Mexico: Remittances grow 1.7% in October with a flow of 2,075.9md (In Spanish)
11.30.2015	Chile: October's IMACEC would stand around 2% (In Spanish)

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