

## Brazil's Credit Rating Upgrade Felt More Like a Downgrade

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Brazil government debt prices eased slightly after a rating agency upgraded Brazil's credit but left its outlook stable, knocking investors' expectations of further upgrades in the near future.

Standard & Poor's raised Brazil's credit rating to "BB" from "BB-minus" with a stable outlook, which disappointed investors as they had already priced in a stronger move due to the country's aggressive debt liability management.

"A one notch upgrade (of Brazil's credit) with no change in the outlook is seen as mildly negative," a trader with an investment bank based in New York said.

"Considering where the bonds had been trading, the market was expecting either a two-notch upgrade or a one-notch upgrade with a positive outlook. That put a little damper on the market," he said.

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Brazil's global bond due 2040, considered the emerging market benchmark paper, eased 0.500 in price to bid 132.813 and to yield 6.333 percent.

S&P said the upgrade was supported by "prospects for an important decline in the vulnerability of the government's debt burden to exchange-rate and interest-rate fluctuations".

Emerging market debt prices have been touching record highs almost weekly as Latin American countries announce their plans to buy back some of their external debt, helped by a large inflow of cash due to strong commodity prices.

Overall spreads widened 5 basis points to 190 basis points over comparable U.S. Treasuries on the JP Morgan Emerging Markets Bond Index Plus (EMBI+). Total returns were down 0.13 percent on the day. Spreads on the EMBI-Global widened 4 points to 187 basis points.

So far this year Brazil's bonds have gained 6.6 percent, according to the EMBI+, the second largest winner after Ecuador with 7.6 percent

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