

United Nations Economic Commission for Latin America and the Caribbean

ECLAC WASHINGTON OFFICE

Capital Flows to Latin America and the Caribbean: Recent Developments



UNITED NATIONS



Washington, D.C., 21 October 2014

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Highlights

- Asset prices declined and portfolio flows to Latin America and the Caribbean (LAC) weakened in the first half of 2015. One of the key drivers of LAC asset prices in the first half of the year was the fall in commodity prices, led by oil.
- A strengthening U.S. dollar continued to contribute to the commodity prices' decline, which has been exacerbated in recent weeks by concerns about China's growth outlook. Currencies, equities and bonds suffered as result.
- Growth disappointment was an important adverse factor for capital flows and asset prices in the first half of the year. Greece-related uncertainties also had an impact on LAC financial markets, as they led to increased volatility and cautiousness on the part of investors.
- Brazilian borrowers stayed out of cross-border bond markets through May, given the uncertainty regarding the ultimate extent of the losses associated with Petrobras' investigation. The absence of Brazilian issuers explained the almost 30% decrease in LAC debt issuance relative to the first half of last year.
- Countries in the region, particularly commodity-producers, are under pressure from China's slowdown and an imminent rise in the U.S. interest rate, which both hurt commodities. The combination of a slowing China and a less accommodative Federal Reserve means tighter monetary policies, worsening credit quality and slower growth for most countries.
- The following are the main highlights in Latin American and Caribbean international debt markets in the first half of 2015:¹
 - ✓ In **January**, Mexico raised US\$ 2 billion through the reopening of a 2025 and the sale of a new 2046 bond, opening the Latin American cross-border bond market for 2015.

¹ The list that follows is based on information from LatinFinance and other market sources.

- ✓ Mexico's Pemex issued the first bond from a quasi-sovereign, raising US\$ 6 billion through a triple-tranche deal, the largest bond offering ever issued by a Mexican credit.
- ✓ The Dominican Republic issued US\$ 2.5 billion through the sale of a 2025 and a long-date 2045 bond. Of the total amount issued, US\$1.93 billion was used to pay Venezuela's PDVSA, while the oil company forgave the rest of Dominican Republic's debt, about US\$ 2 billion.
- ✓ Colombia issued a US\$ 1.5 billion 2045 bond with a 5% coupon, its lowest-ever rate for a long bond. The country took US\$ 5 billion in orders from 224 investors, the largest ever order book for a long bond from Colombia.
- ✓ In **February**, Argentina's YPF raised US\$ 500 million through a re-tap of its 2018 (first issued in December 2013) and 2024 (first issued in April 2014) notes, the year's first high-yield bond issuance from Latin America.
- ✓ Mexico's Pemex issued a US\$ 1.1 billion-equivalent 2026 bond in Mexican pesos, the first local-currency bond sale on Euroclear, one of two principal clearing houses for securities traded in the Euromarket.
- ✓ Chilean retailer Cencosud raised US\$ 1 billion in a deal that included a rare 30-year tranche.
- ✓ Following the announcement of a larger-than-expected quantitative easing program by the European Central Bank in late January, Mexico raised EUR 2.5 billion with the sale of 2024 and 2045 bonds, becoming the first non-European sovereign to sell a 30-year bond in that market.
- ✓ In **March**, the Central American Bank for Economic Integration (CABEI) sold a 4.75% CNH 800 million (US\$ 128 million) 2018 Formosa bond. The cost after swapping the transaction into U.S. dollars was one of the lowest historically for CABEI.
- ✓ Five sovereigns hit the cross-border market in March. *Costa Rica* issued a 7.158% US\$ 1 billion 30-year bond. *Panama* issued a US\$ 1.25 billion 3.75% 2025 bond, with the intention to use the proceeds for general purposes and liability management. *Peru* added US\$ 545 million to its 5.625% US\$ 2 billion 2050 bond and PEN 2.25 billion (US\$ 728 million) to its 6.95% 2031 global-sol instrument. *Ecuador* priced a 10.5% US\$ 750 million 2020 bond in its second visit to the cross-border market since a 2008 default. And *Colombia* reopened its 5% 2045 bond issued in late January to raise US\$ 1 billion, locking in the lowest-ever rate for a 30-year bond and adding liquidity to the long-end of its curve.
- ✓ Colombian telecommunications company ColTel issued a US\$ 500 million 8.5% hybrid perpetual instrument, the first hybrid ever issued in the Colombian market and the first hybrid perpetual in Latin America, according to ColTel.
- ✓ Peru's Red Dorsal Finance issued a fiber-optic project bond, a 5.875% US\$ 273.7 million 2031 Variable Funding Note (VFN) backed by revenue on a fiber optic project and the Peruvian government.
- ✓ In **April**, Mexico took advantage of low rates, extensive liquidity and strong appetite for duration in the Euro zone to issue its third century bond, but the first in Euros: Mexico has one 100-year bond in dollars and one in sterling outstanding. With this issuance Mexico has completed its international funding program for 2015.
- ✓ Pemex also tapped the Euro bond market, raising EUR 2.25 billion (US\$ 2.4 billion) in a dual tranche.
- ✓ Argentina's YPF placed US\$ 1.5 billion in bonds with an 8.5% coupon, maturing in 2025.

- ✓ The Central American Bank for Economic Integration (CABEI) sold a 0.19% six-year CHF 200 million (US\$ 207 million) bond, securing the lowest-ever yield from a Latin American issuer in the Swiss market.
- ✓ Fresh from two rating upgrades (Moody's lifted Paraguay's rating a notch in January and March, respectively), Paraguay reopened its 4.625% 2023 bond, adding US\$ 280 million.
- ✓ The Dominican Republic reopened the bonds issued in January, adding US\$ 500 million to both its 2025 and 2045 bonds.
- ✓ In **May**, Mexico's JB y Compania, the maker of Jose Cuervo tequila, made its debut in cross-border markets with the sale of a 3.75% US\$ 500 million 2025 bond.
- ✓ Votorantim Cimentos sold a 3.5% EUR 500 million 2022 bond, becoming the first Brazilian issuer to tap the cross-border market since November 2014.²
- ✓ Chile's Latam Airlines sold Latin America's first issue of enhanced equipment trust certificates (EETCs)³, a US\$ 245 million 4.2% 2029 bond.
- ✓ Ecuador doubled its 10.5% US\$ 750 million 2020 issued in March, adding US\$ 750 million in a reopening.
- ✓ Itaú Unibanco became the first Brazilian issuer to tap the dollar bond market since November 2014, selling a 2.85% US\$ 1 billion 2018 bond.
- ✓ Chile took advantage of falling European bond yields to re-tap its Euro-denominated 1.625% EUR 800 million 2025 bond issued in December 2014, adding EUR 440 million, and to issue a new 1.875% EUR 950 million 2030 bond.
- ✓ Mexico's America Movil issued a EUR 3 billion (US\$ 3.3 billion) 0% 2020 exchangeable bond, in a rare transaction where it can pay cash or KPN stock (the holdings the company has in the Dutch telecom Koninklijke KPN) when the bond matures.
- ✓ CAF, the Development Bank of Latin America, tapped Norwegian investors selling a 3.05% NOK 1 billion (US\$ 129 million) 20-year bond in response to a reverse inquiry⁴ in a private transaction, and issued a AUD 150 million (US\$ 115 million) 4.5% 2025 bond, its third Kangaroo bond.
- ✓ BRF Brazil Foods, a meat producer, took advantage of a yield-hungry European market to issue a EUR 500 million (US\$ 549 million) 2.750% 2022 bond, the first green bond from Brazil, and the second from a Latin American borrower, following a transaction from Peruvian wind farm operator Energia Eolica in December.
- ✓ In **June**, Petrobras surprised markets issuing a US\$ 2.5 billion 6.85% century bond. The century bond took more than five times the size in orders, with Petrobras possibly meeting its debt goal for the year as a result. It was its first dollar sale in more than a year, with Petrobras having been out of international bond markets for seven months. It was the first time an emerging market company has issued such long-dated notes since 1997.
- ✓ Mexico's Comision Federal de Electricidad (CFE) re-tapped its global-peso 2025 bond. The sale was the second time an issuer used clearing house Euroclear this year (following Pemex's Euroclearable

² The Brazilian company broke the nearly six-month hiatus of Brazilian borrowers in international markets after Petrobras' audited financial results were released at the end of April.

³ An equipment trust certificate (ETC) is a financial security used in aircraft finance that allows a company to take possession of an asset and pay for it over time. In a typical ETC transaction, a "trust certificate" is sold to investors in order to finance the purchase of an aircraft.

⁴ A reverse inquiry is a request by an investor for a security with specific characteristics that is not currently on the market.

note in February), and the first sale of a Mexican-peso denominated note on Clearstream. CFE also issued a US\$ 700 million 6.125% 2045 bond.

- ✓ Metro de Lima Linea 2 sold a 5.875% US\$ 1.16 billion 2034 securitized note, in the second structured deal backed by the Peruvian government this year (the first was Red Dorsal's in March).
 - ✓ El Salvador's Banco Agrícola issued a US\$ 300 million 6.75% 2020 bond, in a transaction that was more than five times subscribed in part because of the credit's diversification value, since deals from Central America are rare.
 - ✓ In **July**, Mexico's Pemex issued a US\$ 525 million 2.46% 2025 bond, the first note from Latin America in two weeks (a hiatus that was due to the increase in volatility from the Greek financial crisis), using a guarantee from the US Export Import Bank.⁵
 - ✓ Jamaica sold a US\$ 2 billion dual-tranche bond: a 6.75% US\$ 1.35 billion 2028 and a 7.875% US\$ 650 million 2045 bond. Following on the Dominican Republic steps, Jamaica will use US\$ 1.5 billion of the issue to pay back debt with Venezuelan oil company PDVSA.
- There are six main takeaways from the bond issuances in the first half of 2015:

Increased size: the trend towards large bond issuances continued, with several issuances above the US\$ 1 billion mark. Mexico's Pemex issued US\$ 6 billion through a triple-tranche deal in January, an offering that according to its statement was the largest bond offering ever issued by a Mexican credit.

Lower coupons: the trend towards lower coupons also continued, as the Central American Bank for Economic Integration (CABEI)'s 0.19% – the lowest-ever yield from a Latin American issuer in the Swiss market – six-year CHF 200 million bond attests.

Currency diversification: another trend that has continued. There were deals in Euros, Swiss francs, Japanese yen, Australian dollar, Chinese offshore renminbi, Norwegian krone, and local currencies.

Increased maturities: trend continued. Mexico issued another 100-year bond, now in Euros, Petrobras also issued a century bond, and there were several 30-year deals. The proportion of new issuance with maturities longer than 10 years is the highest since 2007, according to J.P. Morgan.

High-yield sovereigns continued to have access to international bond market: Ecuador and Jamaica, among others, came back to international bond markets for more financing.

Innovations continued: ColTel issued the first hybrid ever issued in the Colombian market and the first hybrid perpetual in Latin America, Chile's Latam Airlines sold Latin America's first issue of enhanced equipment trust certificates (EETCs), Mexico's America Movil issued a 0% 2020 exchangeable bond, in a rare transaction where it can pay cash or stock, and BRF Brazil Foods issued the first green bond from Brazil and the second from a Latin American borrower.

⁵ With the guarantee the bond is viewed more as a US high-grade deal than an emerging market issue according to market sources.

Overview

Falling commodity prices, led by oil, was a dominant driver of rates and currencies in Latin American and Caribbean (LAC) markets in the first half of 2015. Asset prices declined and portfolio flows to the region have weakened as a result. A strengthening U.S. dollar continued to contribute to the commodity prices' decline, which has been exacerbated in recent weeks by concerns about China's growth outlook. Currencies, equities and bonds suffered as result.

The U.S. dollar has strengthened over 20% over the past three years, recently reaching 10-year highs on a trade-weighted basis. As the Institute of International Finance points out, together with expectations of a Fed 'lift-off' it has contributed to trigger a rebalancing of international investors' portfolios away from emerging market assets, particularly equities and to a lesser extent bonds.⁶

Dollar gains are often accompanied by a flight of investor capital from emerging market economies. According to a compilation of official data and estimates from NN Investment Partners, capital outflows from emerging markets have risen toward US\$ 1 trillion over the past 13 months, roughly double the amount that fled during the financial crisis.⁷ Capital outflows add to pressures on emerging market currencies to weaken against the U.S. dollar, thus holding back import demand, slowing economic growth and encouraging further outflows.

The recent sell-off of China's equities and the surprising devaluation of the Yuan in the second week of August have increased the pressure on emerging markets, as well as volatility across global financial markets. Implied volatility as measured by the Chicago Board Options Exchange's VIX index – a key measure of market expectations of near-term volatility and a barometer of investor sentiment – surged to its highest level since 2009 as a result. On Friday, August 21, the VIX jumped to 28 from 19, a 46% jump, the fifth-largest one day increase in the history of the index going back to 1990. On Monday, August 24, when Chinese shares plunged by 8.5% amid growing doubts about the Chinese government's ability to backstop the market, the index jumped another 45% to 40.74, surging into fear territory and bringing back memories of past periods of intense market stress (see chart 1). According to Credit Suisse, the surge in the VIX raises concern of a more systemic threat to the mainstream asset markets.⁸

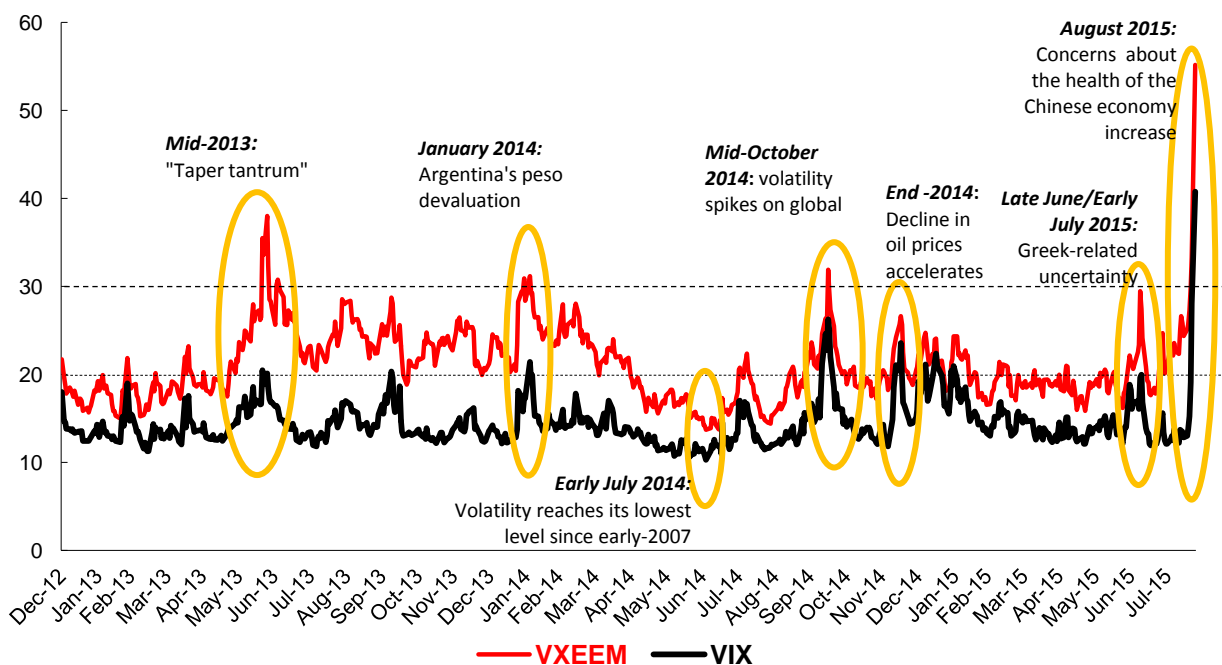
⁶ Institute of International Finance, "Emerging Markets – The Perfect Storm?" Global Capital Markets Research Note, August 3, 2015.

⁷ James Kyng and Roger Blitz, "Surge in emerging market capital outflows hits growth and currencies," Financial Times, August 18, 2015.

⁸ Bill Papadakis and Sean Shepley, "Macro Tactics. A short history of VIX surges," Credit Suisse, Fixed Income Research, 24 August 2015.

**CHART 1:
CBOE VOLATILITY INDEX**

(VIX and VXEEM close)



Source: ECLAC, on the basis of data from the Chicago Board Options Exchange, www.cboe.com/micro/vix/historical.aspx

Note: The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. VIX values greater than 30 are generally associated with a large amount of volatility, while values below 20 generally correspond to less stressful, even complacent, times in the markets. The VXEEM is the CBOE volatility index for emerging markets (conveyed by MSCI Emerging Markets Index fund option prices).

With many countries in the region having benefitted from China's strong demand for commodities in recent years, the Yuan's devaluation, the subsequent release of China's weakest manufacturing data since 2009, and China's stock markets crash on August 24, which caused a global sell-off, have raised concerns that a primary engine of the global economy is slowing rapidly.

Countries in the region, particularly commodity-producers, are under pressure not only from China's faster-than-expected slowdown, but also from an imminent rise in the U.S. interest rate, which both hurt commodities. The impact of an increase in the U.S. interest rates is expected to lead not only to higher borrowing costs and a heavier debt servicing load for sovereign and corporate issuers in the region, but also to slower capital inflows and a reversal in asset price inflation.

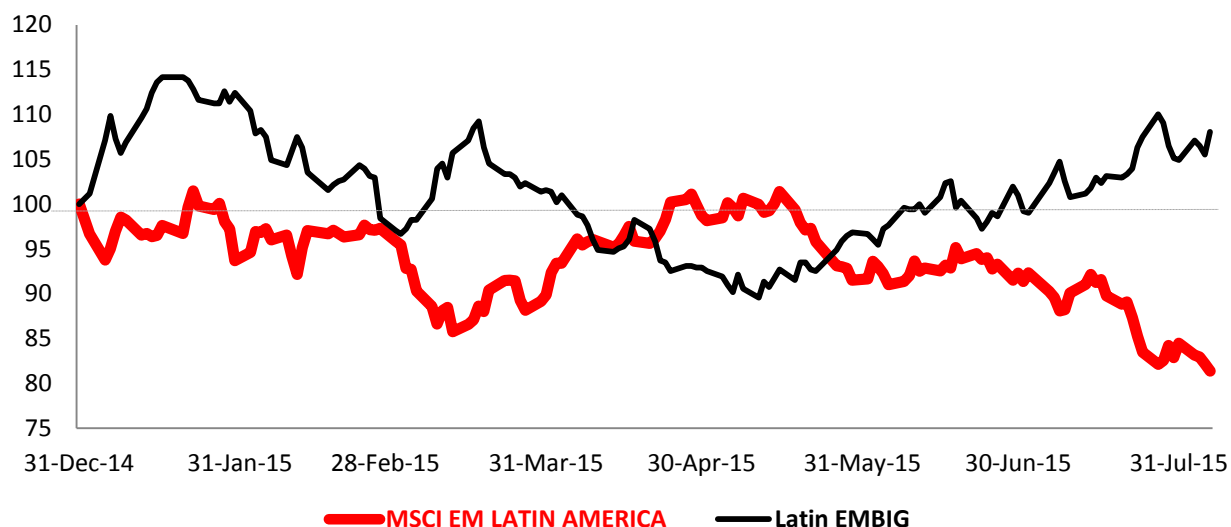
The combination of a slowing China and a less accommodative Federal Reserve means tighter monetary policies, worsening credit quality and slower growth for most LAC countries. Growth disappointment in most countries of the region has had already an important adverse effect on capital flows and asset prices in the first half of the year.

The U.S. Federal Reserve so far has offered no clear signal that it is getting ready to raise interest rates in September, and after the recent global rout and stock markets plunge, few believe that a September rise will happen. Market turmoil and China's troubles are threatening to undermine the slow but steady U.S. outlook, creating further uncertainty regarding when interest rates will be raised. The Fed may still increase interest rates before the end of the year, but calls for waiting longer will certainly rise if the turmoil in global financial markets, caused by fears of a disorderly Chinese slowdown, intensify.

Greece-related uncertainties also had an adverse impact on LAC financial markets in the first half, as they led to increased volatility and cautiousness on the part of investors.

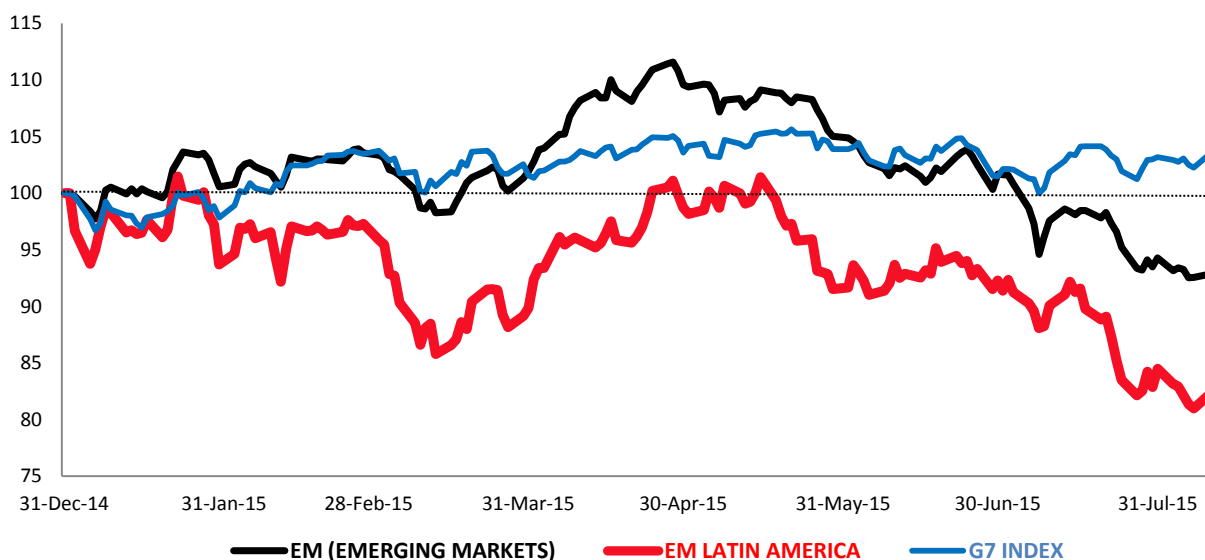
The unfavorable external scenario led to a decline in Latin American equities prices and an increase in bond spreads in the first half of 2015 (see chart 2). In the case of Latin American equities, their appeal has been undermined by a shrinking growth differential between the region and mature markets. In the first half of 2015, the Morgan Stanley Capital International (MSCI) Latin American Index lost 7.7%. From January to August 10 2015, the MSCI Latin America lost almost 18%. This compares to a loss of 7.2% for emerging markets as a whole and a gain of 3.4% for G7 countries (see chart 3). Latin America’s weaker growth prospects have weighed down on its stocks.

**CHART 2:
LATIN AMERICAN EQUITY PRICES VS BOND SPREADS IN H1 2015**
(MSCI and EMBIG indices)



Source: ECLAC, on the basis of data from MSCI Equity Indices and J.P. Morgan.

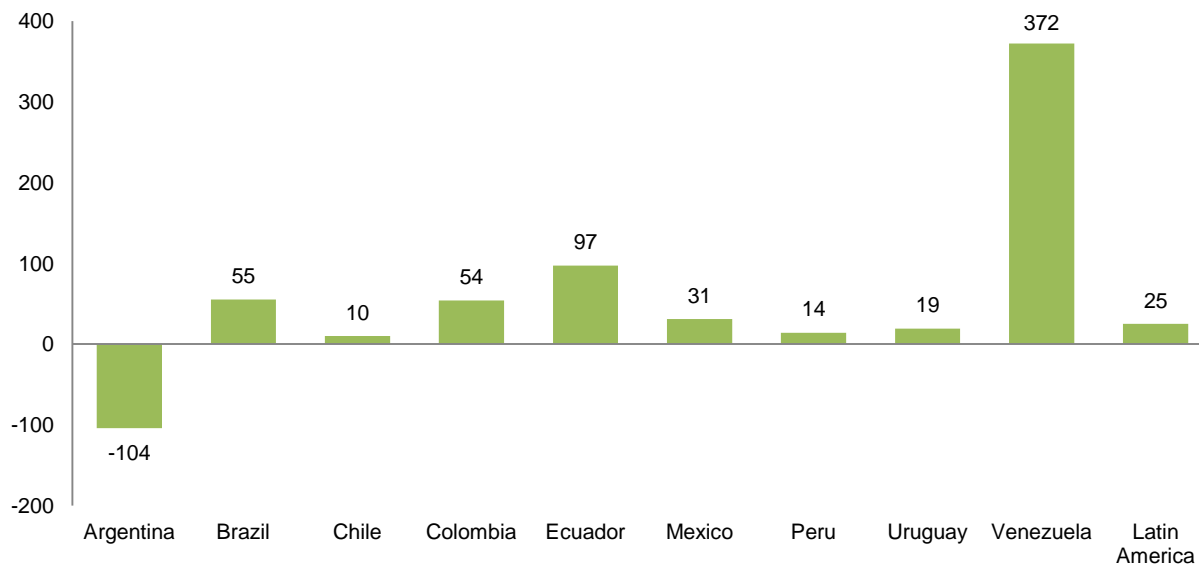
**CHART 3:
MSCI EQUITY PRICE INDEX**



Source: MSCI Equity Indices, <http://www.msci.com/products/indexes/performance.html> , prices at the end of the month.

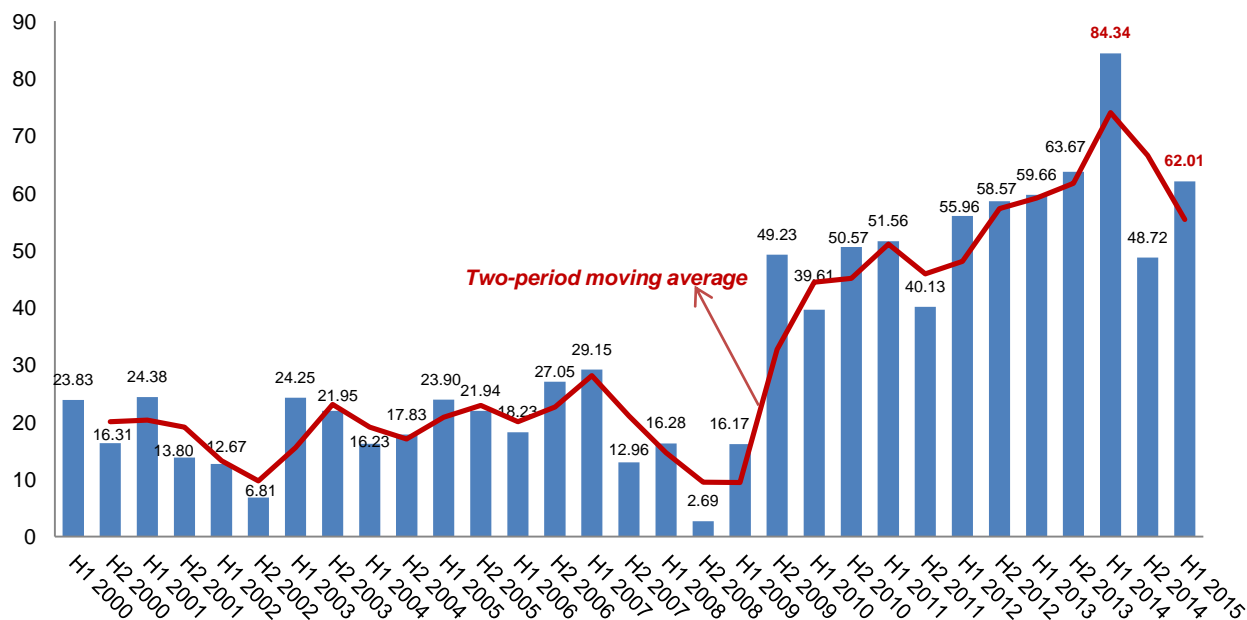
Bond spreads for the countries in the region widened in the first seven months of the year, as a sharp decline in oil prices, Greece-related uncertainties, doubts about China’s economic health, and anticipation of a U.S. interest rate increase, weighed on risk. Spreads for Venezuela and Ecuador widened the most, as rapidly declining oil prices increased investors’ concerns (see chart 4).

CHART 4:
EMBI GLOBAL SPREAD DIFFERENTIALS: JAN-JUL 2015
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan.

CHART 5:
HALF-YEARLY LAC ISSUANCE
(US\$ Billions)



Source: ECLAC, on the basis of data from LatinFinance, JPMorgan and Bank of America-Merrill Lynch.

While debt spreads increased, debt issuance declined. Bond issuance in the first half of 2015 was almost 30% lower in comparison to the first half of 2014. Borrowers from Latin America and the Caribbean issued US\$ 62 billion in the first half of 2015, according to ECLAC's estimates based on data from LatinFinance (see chart 5). The absence of Brazilian borrowers from international capital markets through May had an important impact on LAC bond issuances in the first half of 2015. While corporates from other countries still came to the market, it was hard to make up for the high amount issued in recent years by Petrobras and Brazilian companies in the region's total issuance. The nearly six-month hiatus of Brazilian borrowers in international markets was broken by Votorantim Cimentos in May, after Petrobras' audited financial results were released at the end of April.

However, this year's first half amount was an improvement over the total issued in the second half of 2014, when there was a noticeable slowdown as windows with best conditions became smaller. Borrowers from the region have taken advantage of still low global interest rates to obtain cheap financing ahead of the anticipated increase in U.S. interest rates. Nonetheless, global developments, as well as disappointing growth in most countries of the region, have made the first half of 2015 a tough semester for LAC capital market borrowers.

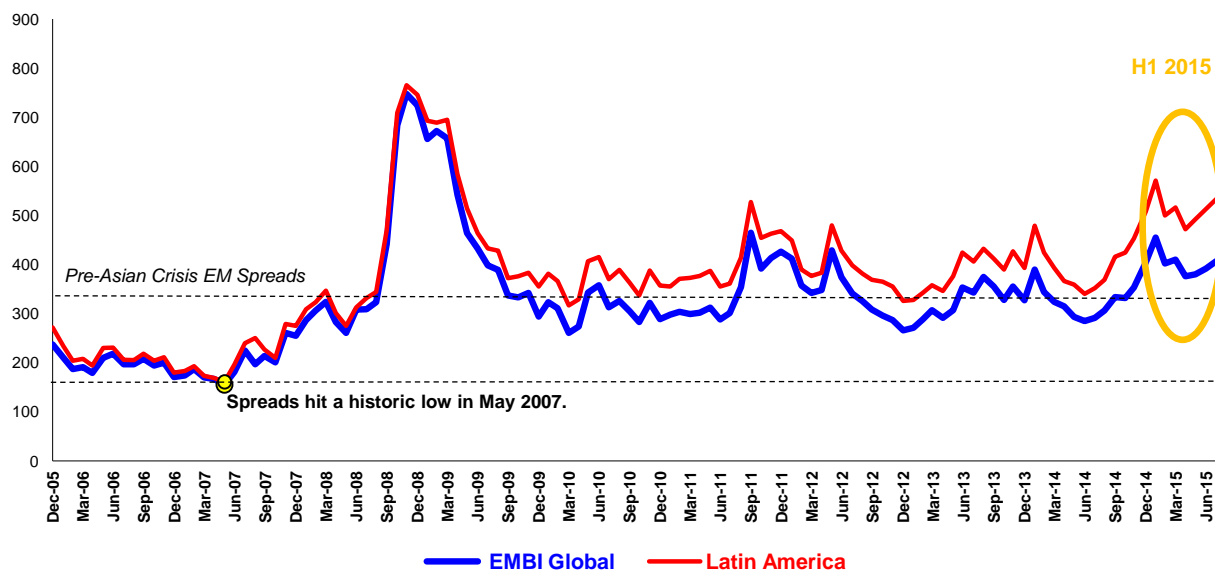
The markets' narrative on emerging markets is that commodity prices will remain 'low for long.' The consensus view remains negative on emerging market risk in the near term, especially ahead of an imminent Fed 'lift-off'. A strengthening U.S. dollar, a slowing China and weakness in commodity prices are skewing risks toward the downside.

Latin America and the Caribbean, along with other emerging markets, are facing the reversal of what attracted money to the region in recent years. The commodity price boom has been exhausted and the previously weak dollar has recovered strongly. The search for risk that accompanied U.S. quantitative easing and sent a flood of money to the region has ended. Meanwhile, China is slowing much faster than expected.

I. Bond markets and debt management

Sovereign bond spreads widened 5 basis points in the first half of 2015 (a widening of 8 basis points in the first quarter and a tightening of 3 basis points in the second). However, spreads have been widening since the end of April, as investors responded to falling commodity prices, particularly oil prices, a strengthening U.S. dollar, a slowdown in China and Greek-related uncertainties. From April to July 2015, the EMBIG Latin component widened 61 basis points (see charts 6 and 7).

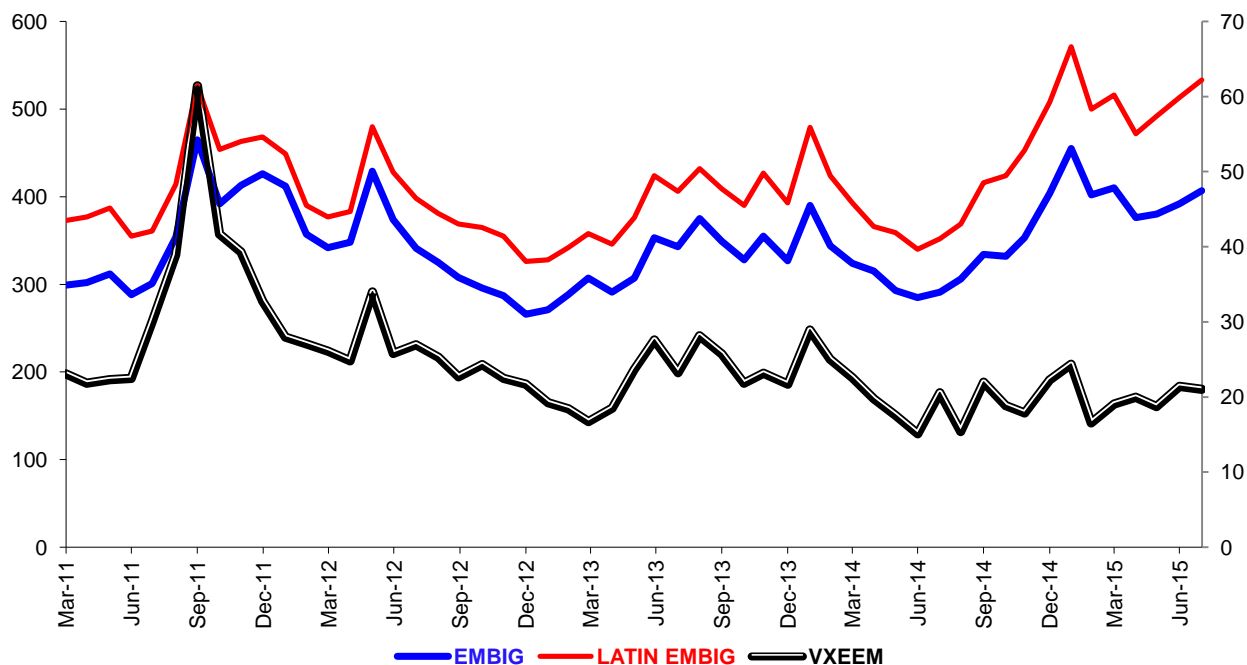
**CHART 6:
EMBIG AND LATIN AMERICAN MONTHLY SPREADS**
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan, "Emerging Markets Bond Index Monitor".

**CHART 7:
CBOE VOLATILITY INDEX AND EMBIG**

(Basis points, left and VXEEM close, right)



Source: ECLAC, on the basis of data from JP Morgan, "EMBI Monitor" and Chicago Board Options Exchange, www.cboe.com/micro/vix/historical.aspx

Emerging markets and LAC spreads were on a downward trend from 2002 to May 2007. The trend towards lower spreads was supported by a continued upward momentum in credit ratings in emerging markets, with the biggest average upward ratings taking place in Latin America. A convergence of emerging and developed market ratings took place in the triple-B space. From the LAC region, there are currently five countries in the triple-B space – the Bahamas, Brazil, Colombia, Panama, and Uruguay – together with Italy and Spain. Eight countries, counting Trinidad and Tobago, which has a Baa1 rating from Moody's and an A rating from S&P; Mexico, which has a BBB+ rating by S&P and Fitch, and an A3 rating by Moody's; and Peru, which has a BBB+ rating by S&P and Fitch, and an A3 rating by Moody's. Chile, the ninth LAC investment grade country, has higher credit ratings: Aa3/AA-/A+.

The upward trend in LAC credit ratings reversed direction in 2013, when the number of negative credit rating actions outpaced the number of positive actions. But in 2015, as of mid-August, there has been one more positive sovereign credit rating action than negative. There have been 11 positive sovereign credit rating actions in 2015 year-to-date – 9 upgrades and 2 outlook upward revisions – and 10 negative – 6 downgrades and 4 downward outlook revisions. Seven LAC countries were upgraded in 2015 YTD – Paraguay, Dominican Republic, Jamaica, Uruguay, Nicaragua, Bolivia and Honduras – and five – Venezuela, Trinidad & Tobago, El Salvador, Brazil, and Ecuador – were downgraded (see table 1). Four of the five countries downgraded were affected by the decline in oil and commodity prices and subsequent fiscal deterioration. Four of the countries upgraded were from the Caribbean and Central America, which tend to benefit from lower oil prices and from an improvement in the U.S. economy.

As of mid-August 2015, three of the rated sovereigns in the region – Belize, Honduras and Jamaica – had a positive outlook from one or more of the three main credit rating agencies (Moody's, S&P and Fitch) and seven – Argentina, Bahamas, Barbados, Brazil, Costa Rica, Guatemala and Venezuela – had a negative outlook (appendix A, table 1).

**TABLE 1:
SOVEREIGN CREDIT RATING ACTIONS IN LATIN AMERICA AND THE CARIBBEAN, 2015 YTD**

Date	Country	Action	
2015 YTD 11 positive and 10 negative actions			
Q1 3 positive and 3 negative			
13-Jan-15	Venezuela	Moody's downgrades Venezuela's rating to Caa3 from Caa1, with a stable outlook	<i>Negative</i>
22-Jan-15	Costa Rica	Fitch revises Costa Rica's BB+ rating outlook to negative	<i>Negative</i>
29-Jan-15	Paraguay	Fitch upgrades Paraguay's rating to BB from BB- with a stable outlook	<i>Positive</i>
9-Feb-15	Venezuela	S&P downgrades Venezuela's rating to CCC from CCC+ with a negative outlook	<i>Negative</i>
19-Feb-15	Jamaica	Fitch changes Jamaica's B- rating outlook to positive	<i>Positive</i>
22-Mar-15	Paraguay	Moody's upgrades Paraguay's rating to Ba1 from Ba2, with a stable outlook	<i>Positive</i>
Q2 5 positive and 3 negative			
9-Apr-15	Brazil	Fitch revises Brazil's BBB rating outlook to negative	<i>Negative</i>
30-Apr-15	Trinidad & Tobago	Moody's downgrades T&T's credit rating to Baa2 from Baa1 with a negative outlook	<i>Negative</i>
11-May-15	Honduras	Moody's changes Honduras' outlook to positive	<i>Positive</i>
20-May-15	Dom. Republic	S&P's upgrades Dominican Republic to BB- from B+, with a stable outlook	<i>Positive</i>
26-May-15	Guatemala	Moody's lowers Guatemala's rating outlook to negative	<i>Negative</i>
28-May-15	Jamaica	Moody's upgrades Jamaica to Caa2 from Caa3 with a positive outlook	<i>Positive</i>
3-Jun-15	Jamaica	S&P upgrades Jamaica's rating to B from B- with a stable outlook	<i>Positive</i>
5-Jun-15	Uruguay	S&P's upgrades Uruguay to BBB from BBB-, with a stable outlook	<i>Positive</i>
Q3 3 positive and 4 negative			
9-Jul-15	El Salvador	Fitch downgrades El Salvador to B+ from BB- with a stable outlook	<i>Negative</i>
10-Jul-15	Nicaragua	Moody's raises Nicaragua's Credit rating to B2 from B3 with a stable outlook	<i>Positive</i>
15-Jul-15	Bolivia	Fitch upgrades Bolivia to BB from BB- with a stable outlook	<i>Positive</i>
20-Jul-15	Honduras	S&P upgrades Honduras' credit rating to B+ from B with a stable outlook	<i>Positive</i>
28-Jul-15	Brazil	S&P lowers Brazil's BBB- sovereign rating outlook to negative from stable	<i>Negative</i>
11-Aug-15	Brazil	Moody's downgrades Brazil to Baa3 from Baa2 with a stable outlook	<i>Negative</i>
12-Aug-15	Ecuador	S&P downgrades Ecuador's credit rating to B from B+ with a stable outlook	<i>Negative</i>

Source: JPMorgan, Emerging Markets Outlook and Strategy and rating agencies.

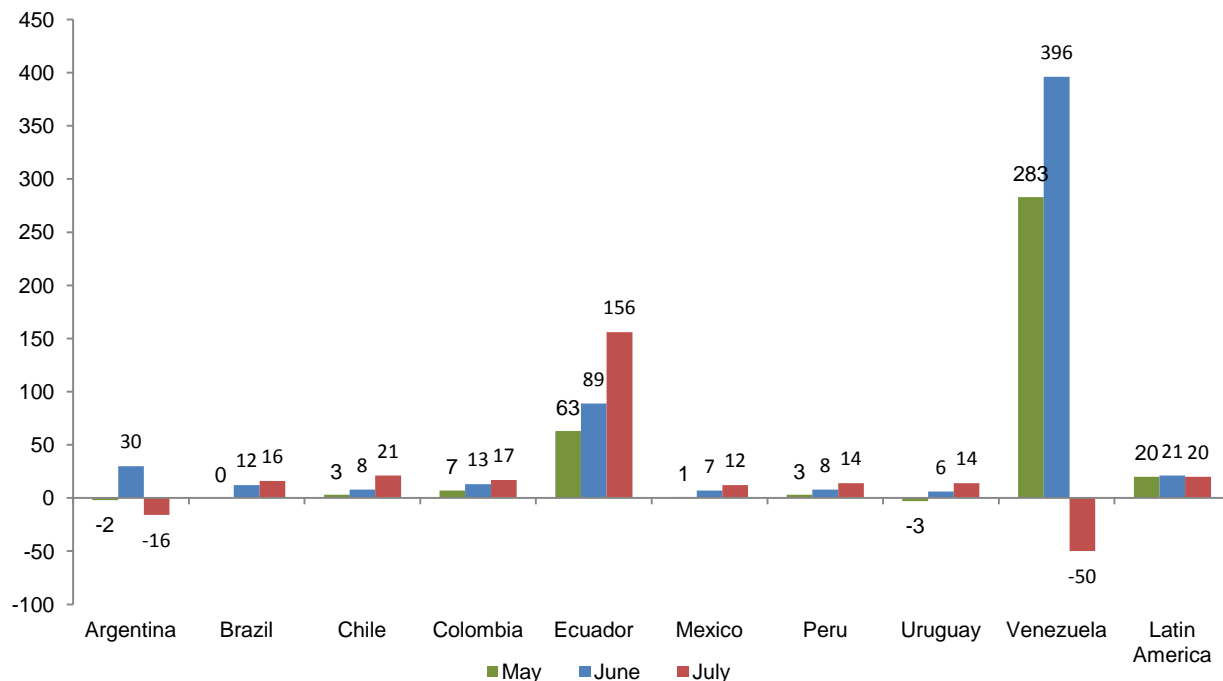
A. Sovereign Spreads

The J.P. Morgan's EMBIG widened 3 basis points from January to July 2015 – from 404 basis points at the end of December 2014 to 407 basis points at the end of July 2015 – while its Latin component widened 25 basis points, from 508 to 533 basis points. In this period, spreads increased for all countries in our Latin American sample except Argentina, whose spreads have been on a tightening trend since January of last year, when they spiked widely following a currency depreciation. On a monthly basis, spreads widened in May, June and July, with Ecuador, and Venezuela in particular, driving the spread widening (chart 8).

The recent evolution of the EMBIG spreads continues to point to a clustering of Latin American countries into roughly two groups: creditworthy countries, perceived as low risk by investors, with most countries in this group having already received an investment grade; and high EMBIG countries, which are perceived as high risk (see chart 9). Among the investment grade countries, Brazilian spreads widened the most in 2015 YTD (see chart 10), while Brazil's risk of losing its investment grade has increased.

**CHART 8:
EMBIG MONTHLY SPREAD DIFFERENTIALS – 2015**

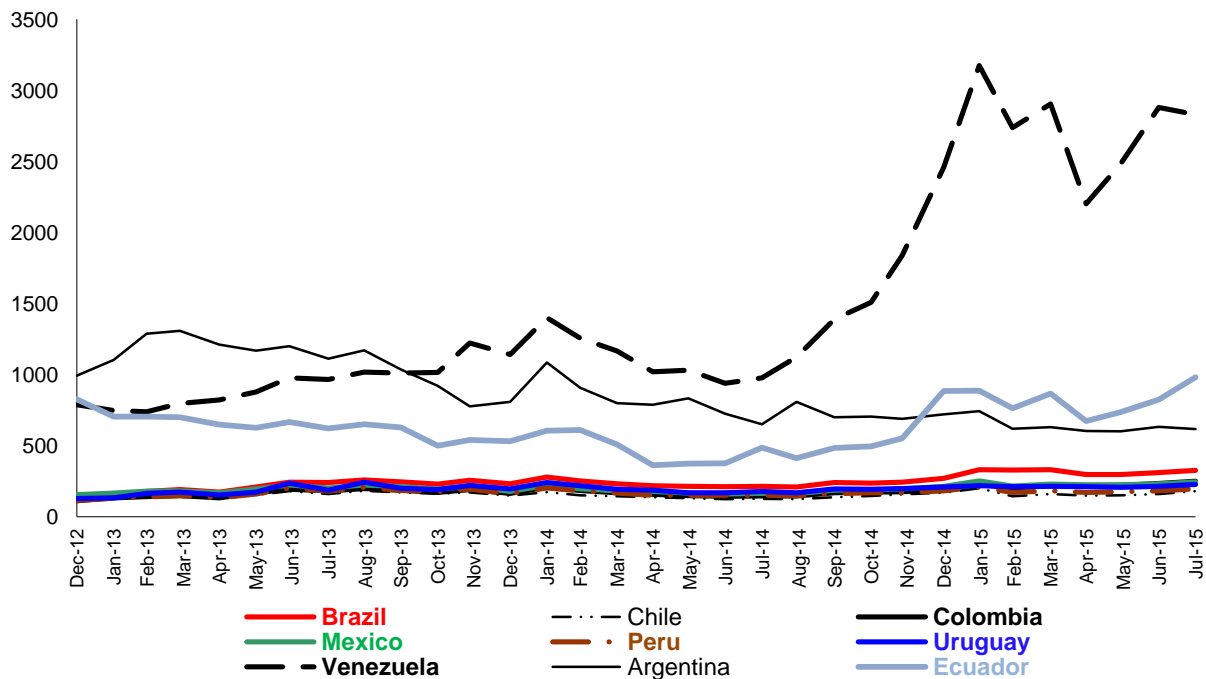
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan.

**CHART 9:
EMBIG LATIN: COUNTRY SPREADS**

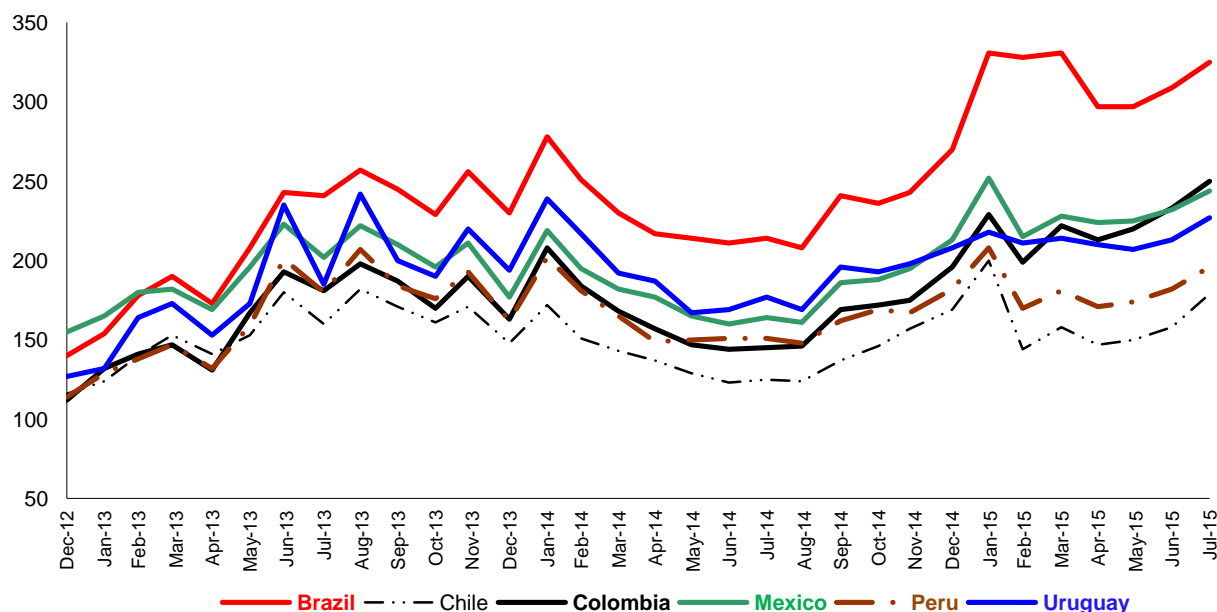
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan.

**CHART 10:
EMBIG LATIN: INVESTMENT GRADE ISSUERS**

(Basis points)



Source: ECLAC, on the basis of data from JPMorgan.

Chile – the highest investment grade country in the region – had the lowest spreads in the EMBIG composite at the end of July 2015: 179 basis points (see appendix B, table 2). Chilean spreads widened 10 basis points in the first seven months of the year. Economic activity has remained subdued and the outlook for the economy remains challenging given renewed downward pressures on copper prices and expectations of lower growth in China.

Peruvian spreads were at 196 basis points at the end of July. They widened 14 basis points in the first seven months of the year. Economic growth has softened, just as in Chile, and inflation is still above the 1-3% target range, but investors see Peru as one of the stronger credits in the region.

Uruguayan spreads were at 227 basis points at the end of July 2015. They increased 19 basis points since the beginning of the year. GDP growth has been healthy since the beginning of the year, but the economy is somewhat hindered by the weak prospects of its key regional trading partners (Argentina and Brazil). Inflation is also above the official target range. In June, S&P upgraded Uruguay's rating a notch to BBB- with a stable outlook, to reflect the country's sound macroeconomic policies.

Analysis by J.P Morgan Asset Management has added Mexico and Colombia to the “fragile five” group of emerging market countries (the latest market label that tries to capture recent global trends) replacing India and Brazil. The two countries, alongside Turkey, South Africa and Indonesia, are seen as the countries most overdependent on potentially jumpy foreign investment flows.⁹

Mexican spreads were at 244 basis points at the end of July 2015. They widened 31 basis points in 2015 year-to-date. J.P Morgan sees Mexico as vulnerable because of its reserve coverage ratio, which according to the analysis, is far less than that of other struggling oil exporters. Moreover, its real interest rate of close to zero leaves little room to cut rates if its economy weakens further.

Colombian spreads were at 250 basis points at the end of July. They increased 54 basis points since the beginning of the year. The recent decline in oil prices has raised concerns regarding Colombia's growth

⁹ Steve Johnson, “Mexico and Colombia join ‘fragile five’ emerging markets,” *Financial Times*, August 13 2015.

prospects, and that was the reason given by J.P Morgan to why Colombia was included under the ‘fragile five’ label. The sovereign also needs capital inflows to fund its current account deficit of more than 5% of GDP. While investors remain constructive on the medium-term fundamentals, they recognize potential risks to the economy derived from lower oil prices.

Brazilian spreads were at 325 basis points at the end of July 2015. They widened 55 basis points since the beginning of the year. On April 9, Fitch revised Brazil's BBB rating outlook to negative, saying that the country's economy was underperforming and its fiscal accounts had deteriorated. On July 28, S&P lowered Brazil's BBB-sovereign rating outlook to negative from stable, citing fears that reforms will not be implemented as planned. On August 11, Moody's downgraded Brazil to Baa3 from Baa2 with a stable outlook, on the basis of higher expected government expenditures and a lack of political accord to pass fiscal reforms. The political and economic uncertainty is expected to create increasingly difficult situations ahead.

Finally, Argentina, Ecuador and Venezuela, continue to be among the countries with the highest and most volatile spreads in the composite (615, 980 and 2,829 basis points at the end of July 2015, respectively).

Activity indicators in Argentina have been showing signs of improvement over the last months. Spreads have narrowed 104 basis points since the beginning of the year, the only country to see a tightening. The fall in oil prices has led to a small increase in foreign exchange reserves, eased strains in the balance of payments and lessened the need for the government to return to international capital markets.

In the case of Ecuador, debt spreads have widened 97 basis points so far this year. Investors expect Ecuador to increase its debt levels as it seeks to finance its large spending needs, including a substantive capital expenditure budget, amid lower oil prices. In March, Ecuador made its second visit to cross-border market since a 2008 default (the first was in June 2014), paying a heavy premium due to the drastic drop in oil prices. It came back to international markets in May, for a reopening of the same bond. The sharp fall in oil prices threatens to open up large twin current account and budget deficits.

Venezuela maintains the highest debt spreads of any country in the EMBIG. Venezuelan spreads have widened 372 basis points since the beginning to the year, as lower oil prices and resulting economic pressure led to increasing market doubts regarding Venezuela's ability to pay its debt. In January, Moody's downgraded Venezuela's sovereign rating to Caa3 from Caa1 and changed the outlook to stable from negative, saying that the falling oil price has put the exporter at a greater risk of default. In February, S&P downgraded Venezuela's rating to CCC from CCC+ with a negative outlook, pointing to a growing default risk thanks to plummeting oil prices and a difficult political and social situation. Five-year credit default swaps, a form of insurance against a borrower reneging on its debts, have surged in the past month on renewed oil price weakness (they are up 31.2%).

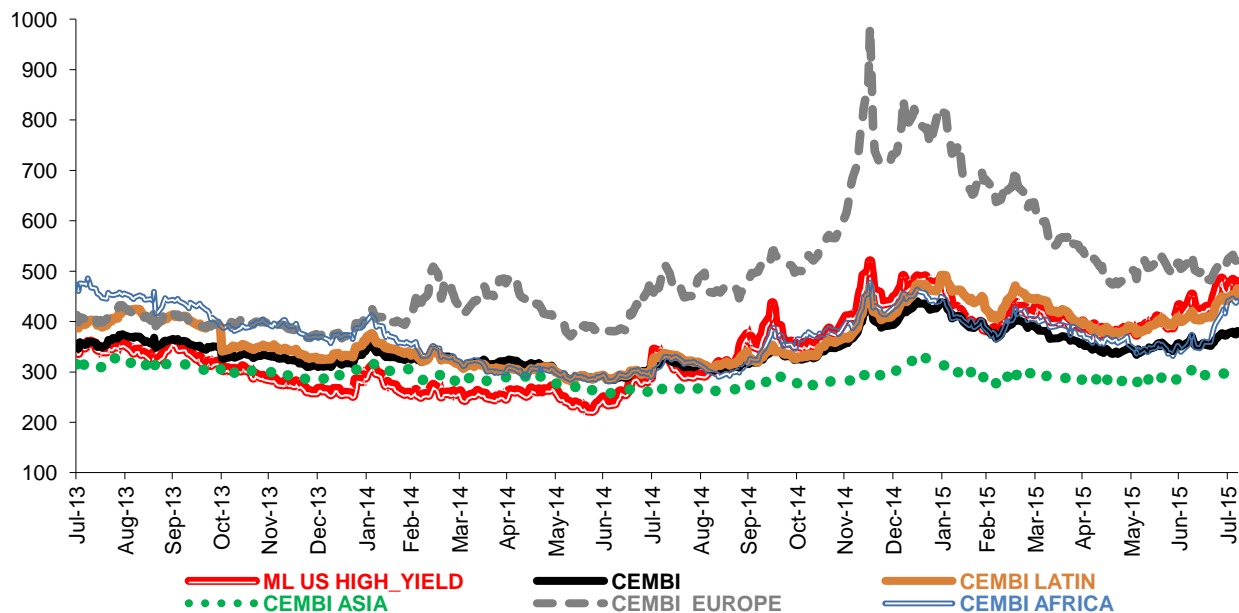
B. Corporate Spreads

The market for emerging market hard currency corporate bonds has grown tremendously in the past ten years. The growth has been driven by global investors' search for yield and by the ongoing development of emerging bond markets more broadly. Today, it is larger than the U.S. high-yield corporate bond market, an asset class familiar to investors for decades, and more than four times the size of Europe's high-yield bond market. Advanced economies' low interest rates supported by easy monetary policy pushed foreign money into emerging market assets. Emerging market companies, many able to tap the international bond market for the first time, increased their borrowing. However, with the prospect of policy normalization in the U.S., and with the dollar gaining strength, the fear is that the emerging market corporate sector may show increasing signs of distress and investors will start to leave the asset class altogether.

Latin CEMBI spreads widened 32 basis points from January to July 2015, with most of the widening taking place since April (48 basis points), as the external environment deteriorated and the cost of holding dollar-denominated debt increased (chart 11). Latin EMBIG spreads widened 25 basis points in the same period. Despite the bigger increase this year so far, LAC corporate spreads remain lower than their sovereign counterparts (chart 12), notwithstanding concerns about the impact that an increase in U.S. interest rates would have on the debt of the

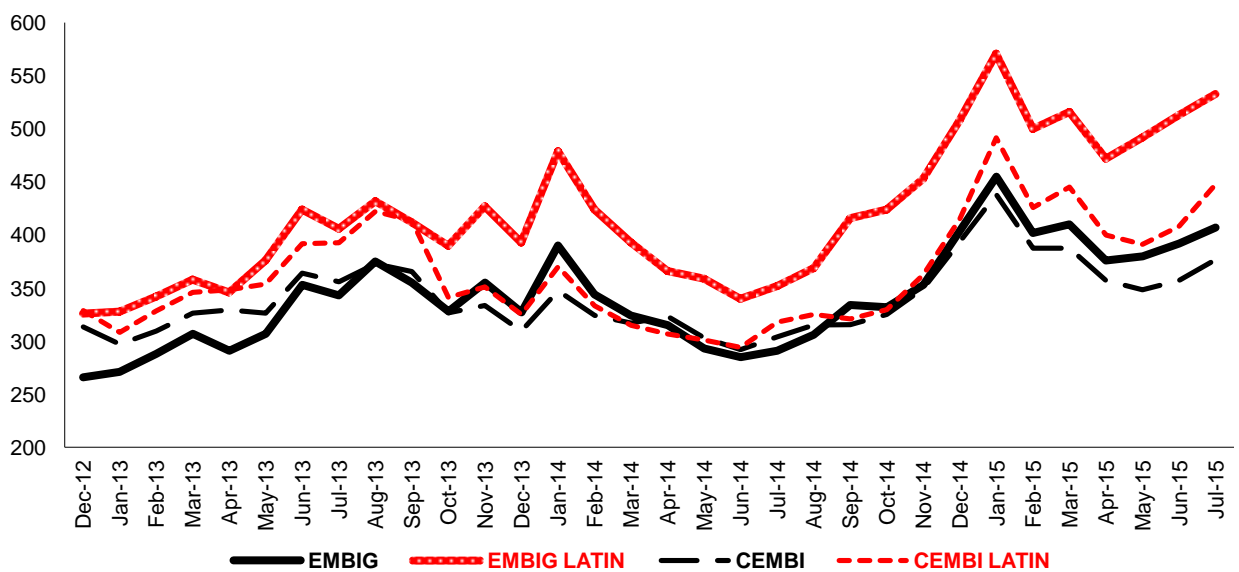
corporate sector (which issued 65% of the total LAC issuance in first half of the year). However, the Latin sovereign composite was largely driven by the high-EMBIG countries.

CHART 11:
CORPORATE EMBI SPREADS VS U.S. HIGH-YIELD COPORATE SPREADS
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan CEMBI and Merrill Lynch U.S. High-Yield Master II Index (H0A0).

CHART 12:
JPMORGAN EMBIG SPREADS, CORPORATE AND SOVEREIGN
(Basis points)



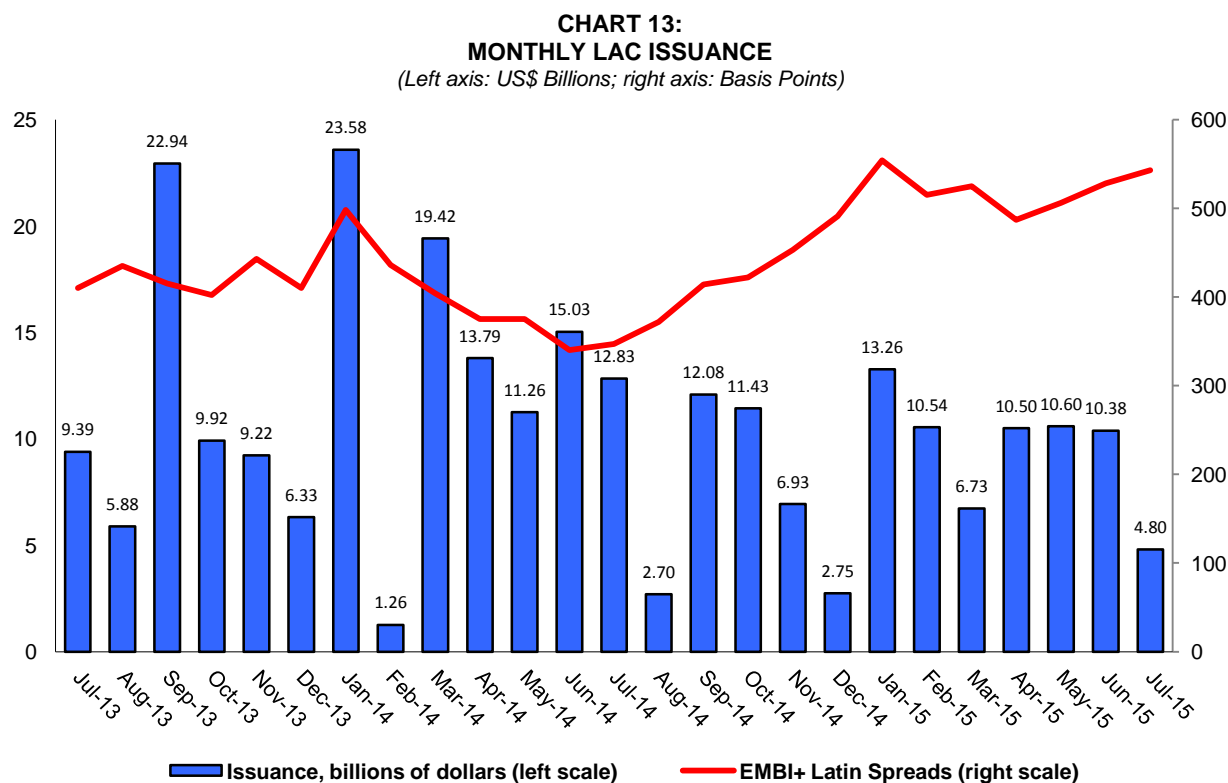
Source: ECLAC, on the basis of data from JPMorgan, "Emerging Markets Bond Index Monitor." EMBIG and EMBIG Latin: sovereign spreads, CEMBI and CEMBI Latin: blended spreads.

Although Latin American corporates have taken great strides in their market funding strategies, risks remain. Part of the growing volume of Latin American corporate issuances in international bond markets consists of first-time high-yield issuers, bringing with it a higher likelihood of default. The region's corporate sector is susceptible to interest rate risk (longest duration) and to outflows from the high yield market (many LAC credits are widely held by high-yield investors). Weakness in oil and commodity prices weighed on the performance of LAC corporate credits, with added negative impact from the Petrobras' investigation.

Developments in Brazil, particularly regarding Petrobras' investigation, are expected to continue to be a key driver of LAC corporate spreads in the second half of 2015. Moody's, S&P and Fitch have already downgraded 93 corporations in Brazil in the first half of the year, more than in any full year since 2002, according to Bloomberg analysts. The ratings cuts have led to strong increases in corporate yields, reducing access to overseas credit. According to J.P. Morgan, average corporate yields for Brazilian U.S. dollar corporate bonds had jumped to a three month high of 7.27% in mid-July, compared to 5.52% for average emerging market corporations. If a downgrade of Brazil's sovereign rating materializes, a new wave of corporate downgrades is anticipated.

C. New Debt Issuance

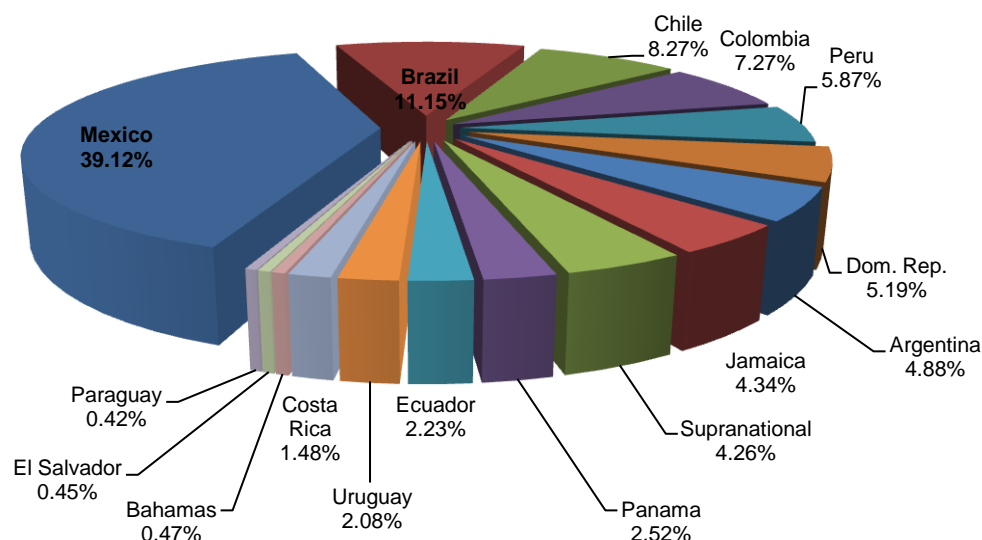
Total LAC debt issuance reached US\$ 66.8 billion from January to July 2015, compared to US\$ 97.2 billion in the same period in 2014, 31% lower. On a monthly basis, total issuance in January 2015, at US\$ 13.3 billion, was the highest of the year so far (chart 13). After a wave of issuances in May and early June, including the first bonds from Brazilian corporates this year, LAC cross-border deals slowed as Greek-related uncertainties, followed by concerns over Chinese growth, froze uneasy markets. The average maturity of the bonds issued in the first half of 2015 increased to 20 years from 14 years in 2014.



Source: ECLAC, on the basis of data from LatinFinance, JPMorgan and Bank of America-Merrill Lynch.

Mexico had the largest share of bond issuances – sovereign and corporate combined – from January to July 2015, followed by Brazil. Mexico and Brazil issued (sovereign and corporate combined) US\$ 26.4 billion and US\$ 7.5 billion, respectively. Brazilian and Mexican issues together account for 50% of the total LAC issuance from January to July 2015 (chart 14). This is a smaller share than the 62% in 2014, given Brazilian issuers' absence from international bond markets through May. Brazil's share year-to-date is 11.2%, compared to 34.1% last year.

CHART 14:
LAC DEBT ISSUANCE IN 2015 YEAR-TO-DATE: COUNTRY BREAKDOWN
(Country shares in percentage)



Source: ECLAC on the basis of data from LatinFinance.

i. Sovereign Issuance

Eleven sovereigns – Mexico, Dominican Republic, Colombia, Uruguay, Costa Rica, Panama, Peru, Ecuador, Paraguay, Chile and Jamaica – tapped international debt markets this year (see appendix C, tables 3 to 5).

In the *first quarter*, eight sovereigns tapped the cross-border bond markets (appendix C, table 3). In *January*, *Mexico* opened the Latin American cross-border bond market for 2015 after raising US\$ 2 billion through the reopening of a 2025 and the sale of a new 2046 bond. Investors enthusiastic about a pick-up in North American growth entered the dual-tranche transaction. The *Dominican Republic* issued US\$ 2.5 billion through the sale of a 2025 and a long-date 2045 bond. The benchmark issuance of long dated bonds was the first since Fitch raised DR's rating to B+ last November. *Colombia* issued a US\$ 1.5 billion 2045 bond with a 5% coupon, its lowest-ever rate for a long bond.

In *February*, following the announcement of a larger-than-expected quantitative easing program by the European Central Bank in late January, *Mexico* raised EUR 2.5 billion with the sale of 2024 and 2045 bonds, becoming the first non-European sovereign to sell a 30-year bond in that market. *Uruguay* reopened its 5.1% 2050 initially issued in June 2014 (US\$ 2 billion) to add US\$ 1.2 billion. The exercise extends Uruguay's maturity to 15 years, from 14 years previously. The sovereign has covered its financial needs for the year with the transaction.

In *March*, five sovereigns hit the cross-border market. *Costa Rica* issued a 7.158% US\$ 1 billion 30-year bond. *Panama* issued a US\$ 1.25 billion 3.75% 2025 bond, with the intention to use the proceeds for general purposes and liability management. *Peru* added US\$ 545 million to its 5.625% US\$ 2 billion 2050 bond and PEN 2.25 billion (US\$ 728 million) to its 6.95% 2031 global-sol instrument. *Ecuador* priced a 10.5% US\$ 750 million 2020 bond in its second visit to the cross-border market since a 2008 default. And *Colombia*

reopened its 5% 2045 bond issued in late January to raise US\$ 1 billion, locking in the lowest-ever rate for a 30-year bond and adding liquidity to the long-end of its curve.

In the *second quarter*, five sovereigns tapped the cross-border bond markets (appendix C, table 4). In *April*, *Mexico* took advantage of low rates, extensive liquidity and strong appetite for duration in the Euro zone to issue its third century bond but the first in Euros, totaling EUR 1.5 billion. Mexico has one 100-year bond in U.S. dollars and one in sterling outstanding. With this issuance Mexico has completed its international funding program for 2015. Fresh from two rating upgrades, *Paraguay* reopened its 4.625% 2023 bond to add US\$ 280 million. Fitch and Moody's lifted Paraguay's rating a notch in January and March, respectively, leaving the sovereign at Ba1/BB/BB. *Dominican Republic* returned to international bond markets with a reopening to add US\$ 500 million to its 5.5% 2025 first issued in January 2015 (a US\$ 1 billion bond) and US\$ 500 to its 6.85% 2045 also originally issued in January 2015 (a US\$ 1.5 billion bond). Appetite for long maturity among investors, and the fact that Caribbean countries are set to benefit from lower oil prices were seen as the main drivers of demand for the original bonds and the reopenings.

In *May*, *Chile* seized falling European bond yields to re-tap its Euro-denominated 2025s (first issued in December 2014, EUR 800), adding EUR 400 million. Chile also issued a new EUR 950 million 1.875% 2030 bond. *Ecuador* re-tapped its 10.5% 2020 bond, which was sold in March, to add US\$ 750 million.

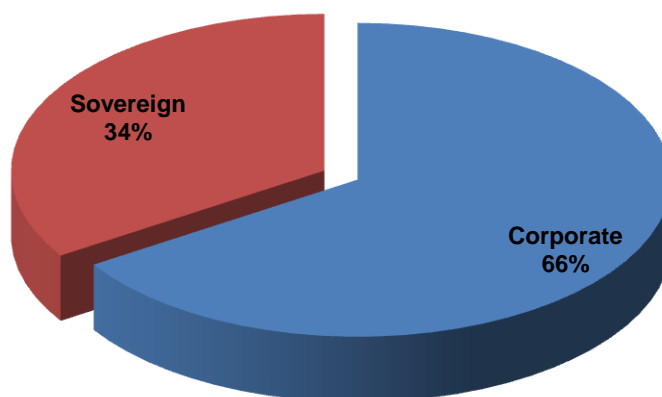
In *July*, *Jamaica* issued a dual tranche deal, a US\$ 1.35 billion 6.750% 2028 bond and a US\$ 650 million 7.875% 2045 bond (appendix C, table 5).

Two semi-sovereigns also tapped international bond markets in the first half of 2015. In January, the City of Buenos Aires issued a US\$ 500 million 8.95% 2021 bond, and in June, the Province of Buenos Aires issued a US\$ 500 million 9.95% 2021 bond. Both have a Caa2/CCC- rate and are high-yield issuances.

ii. Corporate Issuance

From January to July 2015, the corporate sector (including corporations, banks, quasi-sovereigns and supranationals) accounted for 66% of total LAC issuance, less than the 75% share in 2014 (see chart 15). The share of corporate issuance has been declining since 2012, when it reached a peak of 85%.

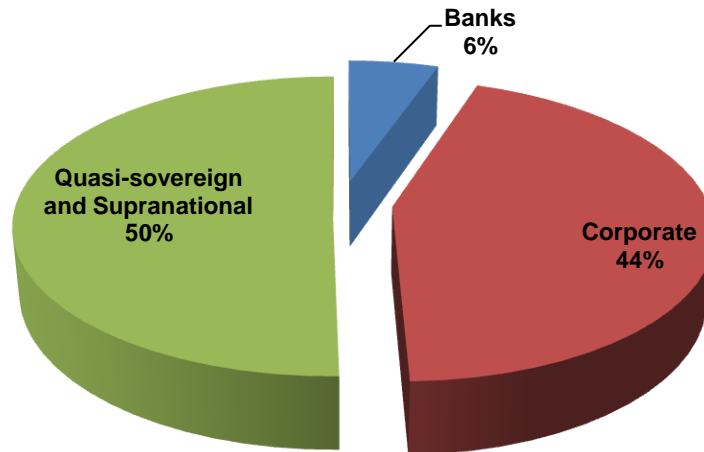
CHART 15:
LAC CORPORATE AND SOVEREIGN ISSUANCE IN 2015 YTD
(Percentage)



Source: ECLAC on the basis of data from LatinFinance.

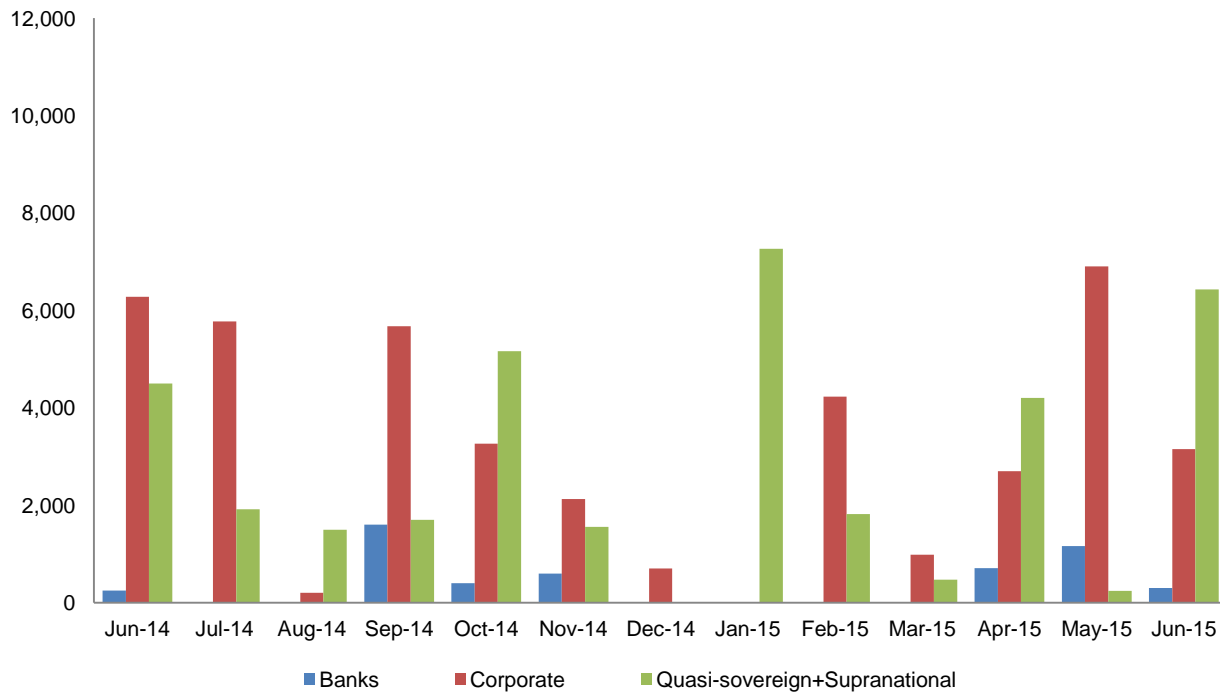
Quasi-sovereign and supranational issuers accounted for 50% of total LAC corporate issuance in international markets in the first half of 2015, a significant increase from the 46%, 39% and 31% shares in 2014, 2013 and 2012, respectively. Banks and corporations accounted for the other 50% (charts 16 and 17).

CHART 16:
LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY TYPE IN H1 2015
(Percentage)



Source: ECLAC on the basis of data from LatinFinance.

CHART 17:
CORPORATE ISSUANCE BY TYPE IN H1 2015
(US\$ million)



Source: ECLAC on the basis of data from LatinFinance.

In the **first quarter**, four quasi-sovereigns and two supranationals tapped the cross-border markets, issuing a total of US\$ 9.5 billion (appendix C, Table 3).

In **January**, quasi-sovereign and supranational issuance was particularly high because of Pemex's US\$ 6 billion triple-tranche deal. The offering, Pemex said in a statement, was the largest bond offering ever issued by a Mexican credit. CAF, the Development Bank of Latin America, issued a US\$ 1 billion 2018 bond, and Banco del Estado de Chile dodged volatile conditions in the dollar market with a US\$ 263 million equivalent JPY return. The bank last raised funds in Japan in June 2013.

In **February**, Argentina's YPF raised US\$ 500 million through a retap of its 2018 (first issued in December 2013) and 2024 (first issued in April 2014) notes, the year's first high-yield bond issuance from Latin America. Mexico's Pemex issued a US\$ 1.1 billion-equivalent 2026 bond in Mexican pesos, the first local-currency bond sale on Euroclear, one of two principal clearing houses for securities traded in the Euromarket. And CAF issued a CHF 200 0.5% 2026 bond. The deal allowed CAF to cement its positions as a leading supranational issuer in Switzerland. It has 11 CHF-denominated bonds outstanding.

In **March**, the Central American Bank for Economic Integration (CABEI) sold a 4.75% CNH 800 million (US\$ 128 million) 2018 Formosa bond. The cost after swapping the transaction into U.S. dollars was one of the lowest historically for CABEI. Peru's Red Dorsal Finance issued a fiber-optic project bond, a 5.875% US\$ 273.7 million 2031 Variable Funding Note (VFN) backed by revenue on a fiber optic project and the Peruvian government. And CAF, through a private placement, issued a US\$ 73 million-equivalent 2025 JPY bond, the second Latin American bond in Japan this year. The Yen-denominated bond was part of CAF's effort to cement its position in different markets.

In the **second quarter**, six quasi-sovereigns and two supranationals tapped the cross-border markets, issuing a total of US\$ 10.9 billion, with Petrobras returning after a seven-month absence (appendix C, Table 4).

In **April**, Pemex tapped the Euro bond market for the first time this year, raising EUR 2.25 billion (US\$ 2.4 billion) in a dual tranche. Argentina's YPF placed US\$ 1.5 billion in bonds with an 8.5% coupon, maturing in 2025. The Central American Bank for Economic Integration (CABEI) sold a 0.19% six-year CHF 200 million (US\$ 207 million) bond, securing the lowest-ever yield from a Latin American issuer in the Swiss market.

In **May**, CAF tapped Norwegian investors selling a 3.05% NOK 1 billion (US\$ 129 million) 20-year bond in response to a reverse inquiry in a private transaction, and issued a AUD 150 million (US\$ 115 million) 4.5% 2025 bond, its third Kangaroo bond.

In **June**, Petrobras surprised markets issuing a US\$ 2.5 billion 6.85% century bond. The century bond took more than five times the size in orders, with Petrobras possibly meeting its debt goal for the year as a result. It was its first dollar sale in more than a year, with Petrobras having been out of international bond markets for seven months. It was the first time an emerging market company has issued such long-dated notes since 1997. Mexico's Comision Federal de Electricidad (CFE) re-tapped its global-peso MXN 9,000 (US\$ 575 million) 7.35% 2025 bond. The sale was the second time an issuer used clearing house Euroclear this year (following Pemex's Euroclearable note in February), and the first sale of a Mexican-peso denominated note on Clearstream. The format helps MXN bonds gain liquidity in secondary market trading, market sources said. CFE also issued a US\$ 700 million 6.125% 2045 bond. Metro de Lima Linea 2 sold a 5.875% US\$ 1.16 billion 2034 securitized note, in the second structured deal backed by the Peruvian government this year (the first was Red Dorsal's in March). Ecopetrol, the Colombian oil company, issued a US\$ 1.5 billion 5.375% 2026 bond.

In **July**, Peru's Corporacion Financiera de Desarrollo S.A. – Cofide issued a new US\$ 600 million 4.75% 2025 bond and re-tapped its 3.25% 2019 bond to add US\$ 200 million, and Mexico's Pemex issued a US\$ 525 million 2.46% 2025 bond, using a guarantee from the US Export Import Bank (appendix C, table 5).

Regarding issuances from the **private corporate sector** in the first half of 2015, monthly activity was lowest in March and strongest in June (chart 18). The following are some of the highlights in terms of corporate and bank issuance in the first half of the year:

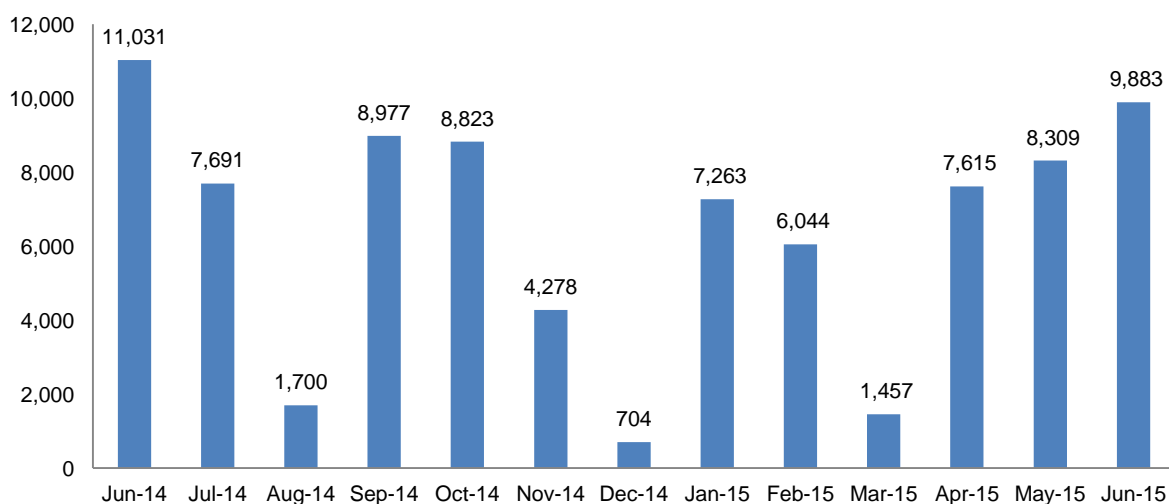
In **February**, Chilean retailer *Cencosud* raised US\$ 1 billion in a deal that included a rare 30-year tranche.

In **March**, Colombian telecommunications company *ColTel* issued a US\$ 500 million 8.5% hybrid perpetual instrument, the first hybrid ever issued in the Colombian market and the first hybrid perpetual in Latin America, according to ColTel.

In **May**, Mexico's *JB y Compania*, the maker of Jose Cuervo tequila, made its debut in cross-border markets with the sale of a 3.75% US\$ 500 million 2025 bond. *Votorantim Cimentos* sold a 3.5% EUR 500 million 2022 bond, becoming the first Brazilian issuer to tap the cross-border market since November 2014. Chile's *Latam Airlines* sold Latin America's first issue of enhanced equipment trust certificates (EETCs), a US\$ 245 million 4.2% 2029 bond. *Itaú Unibanco* became the first Brazilian issuer to tap the dollar bond market since November 2014, selling a 2.85% US\$ 1 billion 2018 bond. Mexico's *America Movil* issued a EUR 3 billion (US\$ 3.3 billion) 0% 2020 exchangeable bond, in a rare transaction where it can pay cash or KPN stock (the holdings the company has in the Dutch telecom Koninklijke KPN) when the bond matures. And *BRF Brazil Foods*, a meat producer, took advantage of a yield-hungry European market to issue a EUR 500 million (US\$ 549 million) 2.750% 2022 bond, the first green bond from Brazil, and the second from a Latin American borrower, following a transaction from Peruvian wind farm operator Energia Eolica in December.

In **June**, El Salvador's *Banco Agrícola* issued a US\$ 300 million 6.75% 2020 bond, in a transaction that was more than five times subscribed in part because of the credit's diversification value, since deals from Central America are rare.

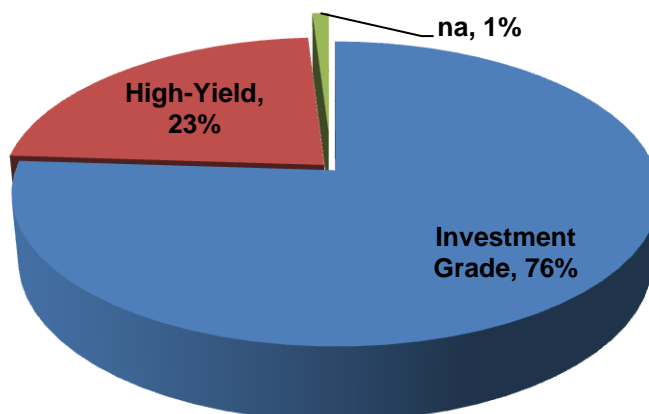
CHART 18:
LAC MONTHLY BANK AND CORPORATE BOND ISSUANCE IN H1 2015
(US\$ Millions)



Source: ECLAC on the basis of data from LatinFinance.

Investment grade companies continued to dominate corporate issuance in the first half of 2015. The share of high-yield issuance was 23% (see chart 19), the same as in 2014 but below the 2013 share of 30%. LAC high-yield debt in particular has benefitted from low global interest rates, seeing an unprecedented demand from international investors in search of yield. With the prospect of an increase in interest rates by the U.S. Federal Reserve, investors have turned more cautious on debt, and high-yield bond issuances from the Latin American and Caribbean region have fallen as a result. Political and market uncertainty in Brazil also dampened issuance, since it is home to a third of the 103 high-yield issuers that Moody's covers in Latin America.

CHART 19:
H1 2015 BREAKDOWN OF LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY RATING
(Percentage of total)

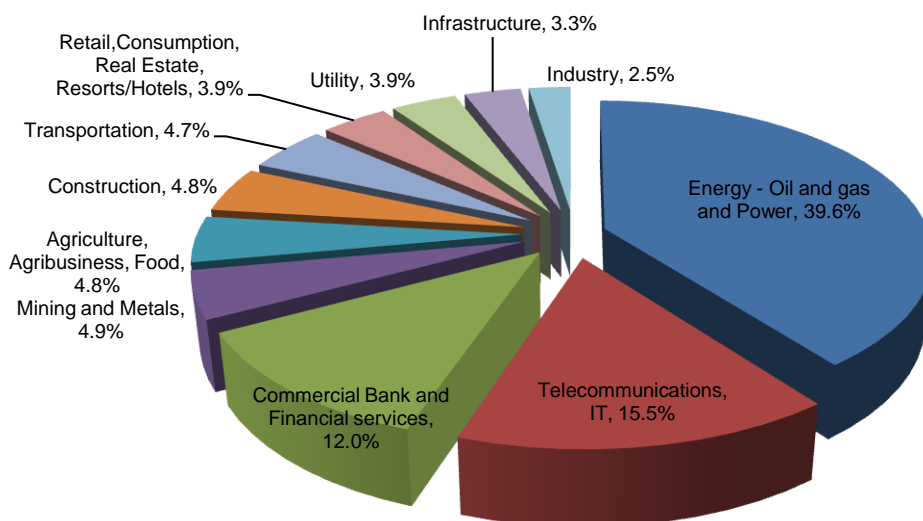


Source: ECLAC, on the basis of data from LatinFinance.

Note: corporate issuance includes corporates, banks, quasi-sovereigns and supranationals.

From a sectoral perspective, almost 67% of LAC corporate debt issuance (including corporate, banks, quasi-sovereigns and supranationals) in the first half of 2015 came from three sectors: energy, telecommunications and financial services (chart 20). The energy sector, including oil, gas as well as power, was the main driver of the growth in corporate issuance and accounted for 40% of the total volume. The telecommunications came in second, accounting for 15.5%. The financial sector, including banks as well as financial services companies, was the third most relevant sector in terms of aggregate volume (12% of total corporate issuance), followed by mining (4.9%), agriculture (4.8%), construction (4.8%) and transportation (4.7%).

CHART 20:
H1 2015 LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY SECTORS
(Percentage of total)



Source: ECLAC, on the basis of data from LatinFinance.

Note: corporate issuance includes corporates, banks, quasi-sovereigns and supranationals.

iii. Currency Composition

Most of the international debt issuance in the region in the first half of 2015 was denominated in U.S. dollars (70.16%), but there was also issuance in Euros (22.91%), local currencies (4.58%), Swiss francs (1.21%), Japanese yen (0.54%), Norwegian krone (0.21%), offshore renminbi (0.21%), and Australian dollars (0.19%). Local currencies included Mexican pesos, and Peruvian soles. Mexican pesos had the highest share (3.08%), followed by Peruvian soles (1.50%).

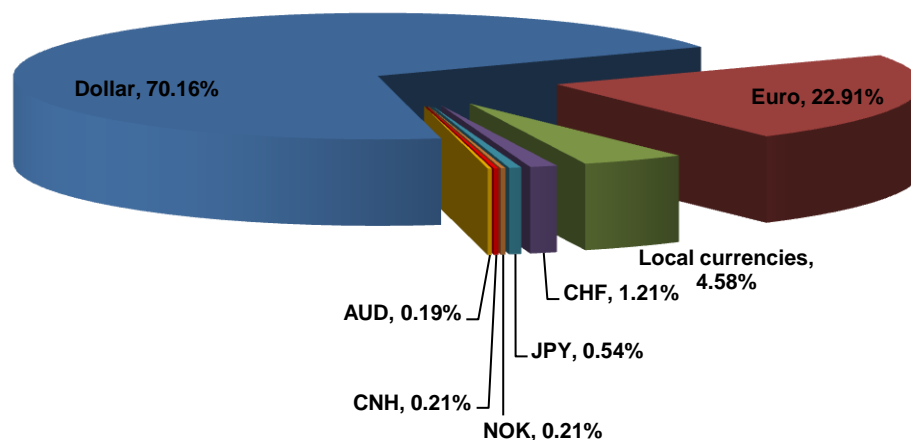
The share of dollar-denominated bonds has decreased since 2013. In 2013, 82.51% of the total amount issued was denominated in dollars, while only 6.20% was denominated in Euros. The increase in euro-denominated issuances took place as lower benchmark rates in Europe – driven by the central bank’s continued stimulus program – encouraged borrowers to drift away from the dollar market in the first months of the year.

TABLE 2:
CURRENCY BREAKDOWN
(Percentage of Latin America’s total)

Currency	H1 2015
Dollar	70.16%
Euro	22.91%
Local currencies	4.58%
CHF	1.21%
JPY	0.54%
NOK	0.21%
CNH	0.21%
AUD	0.19%

Source: ECLAC with data from LatinFinance (Bonds Database).

CHART 21:
H1 2015 CURRENCY BREAKDOWN



Source: ECLAC with data from LatinFinance (Bonds Database).

II. Bond markets and credit management in the Caribbean

After going through a difficult time in the wake of the 2008 global financial crisis, the Caribbean region¹⁰ has made strides in rebalancing sovereign finances and improving economic conditions. A number of Caribbean countries restructured bond payments over the past three years, making this period one with the highest number of defaults on loan agreements in the Caribbean region. Some of these restructuring agreements have tried to reduce the chances of a default in the future. For example, Grenada's restructuring agreement is set to include a novel hurricane clause that would delay payments if a major natural disaster strikes the island.

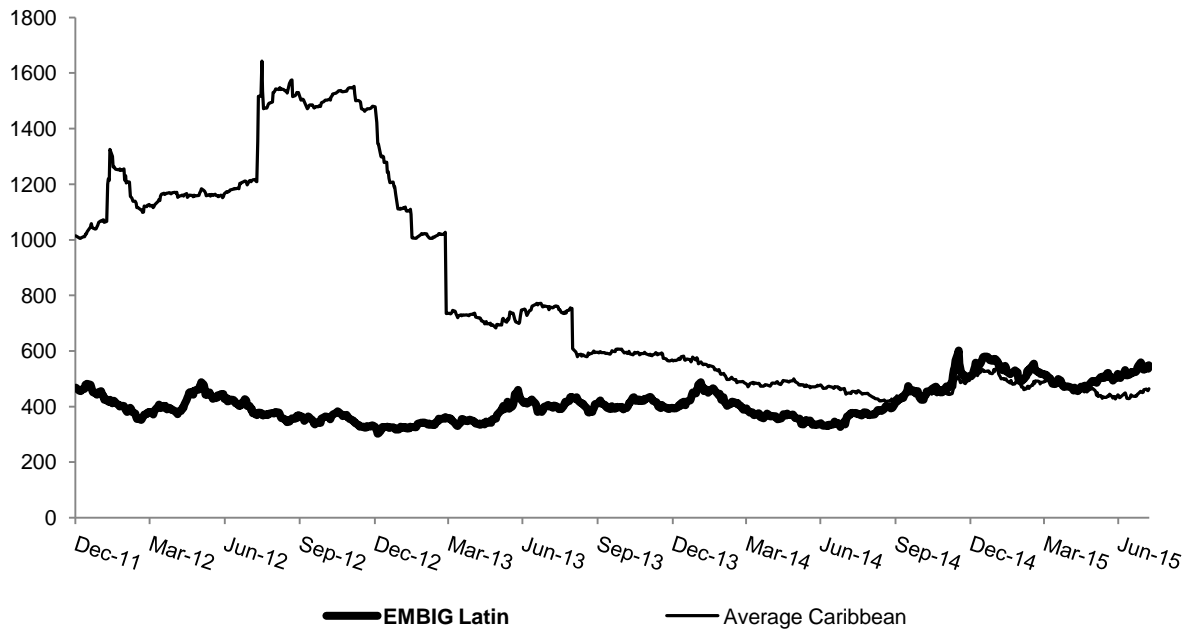
From late 2010 to late 2012 the spread gap between the Caribbean countries and the EMBIG Latin component widened by more than 1,500 basis points as a result of the high number of defaults in the region. In 2014 the spread gap was finally closed, as successful bond restructurings lowered spreads for the region, and in the first half of 2015, the gap actually reversed, with Caribbean spreads now lower than the EMBIG Latin component (see chart 22).

While Latin American sovereign spreads widened 25 basis points in the seven months of 2015, according to the J.P. Morgan EMBIG Latin component, spreads for the Caribbean region tightened 54 basis points. Caribbean countries are set to benefit from lower oil prices and from an increase in tourism flows. The rebound in the economies that rely on tourism is offsetting the impact of softer commodity prices on growth among commodity producer economies. Despite the welcome economic improvement in the Caribbean, the decline in investment during the period following the global crisis remains a key challenge for the region.

The main driver for the tightening of the Caribbean spreads average in the seven months of 2015 was the decline in spreads for Jamaica (see chart 23). Jamaica's spreads tightened 107 basis points, from 485 basis points at the end of December 2014 to 378 basis points at the end of July 2015, following an outlook change to positive by Fitch (in February) and two upgrades by Moody's (in May) and by S&P (in June). In July, Jamaica sold a US\$ 2 billion dual-tranche bond: a 6.75% US\$ 1.35 billion 2028 and a 7.875% US\$ 650 million 2045 bond.

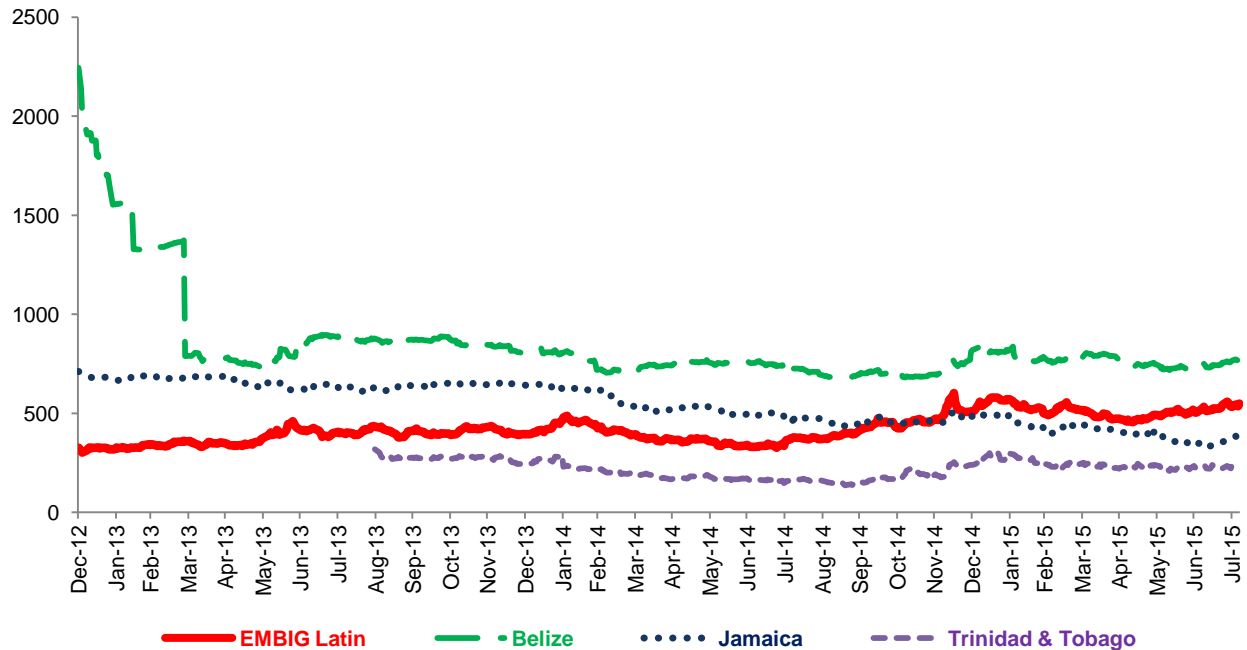
¹⁰ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Of these 13 countries, only a few have tapped international capital markets. For some it is difficult to get a foothold in the capital markets borrowing, because bonds' benchmark sizes – US\$ 500 million is the EMBI minimum – are in general too high for the size of their economies.

CHART 22:
EMBIG SPREADS, CARIBBEAN VERSUS LAC
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan. The Caribbean average includes Belize and Jamaica, and since 30 August 2013, it also includes Trinidad & Tobago.

CHART 23:
CARIBBEAN COUNTRIES, 2015 YTD EMBIG SPREADS
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan.

Belize's spreads tightened 53 basis points, to 766 basis points at the end of July from 819 basis points at the end of December 2014 and Trinidad & Tobago's spreads – which were added to the J.P. Morgan EMBIG index on 30 August 2013 – tightened only 2 basis points, to 237 basis points at the end of July from 239 basis points at the end of December 2014. Oil and gas account for about 40% of Trinidad & Tobago's GDP and half of government revenues, but with low sovereign debt and a record of running current account surpluses, the country is in better financial position than many of the other countries in the region. It also has a buffer in the form of a sovereign wealth fund that was set up in 2007 to invest oil and gas income. Spreads for Trinidad & Tobago, which has an investment grade from Moody's and Standard & Poor's, are way below the LAC average.

Credit Rating Actions

In the first half of 2015, there were three positive credit rating actions in the Caribbean region, all related to Jamaica, and one negative action, related to Trinidad & Tobago (see table 3). The positive actions were taken in February, May and June. Citing diminishing external financing risks and built-up reserves, Fitch changed Jamaica's B- rating outlook to positive on February 28. On May 26, Moody's upgraded Jamaica's rating to Caa2 from Caa3, maintaining a positive outlook, citing fiscal consolidation, strong commitment to structural reforms, improving balance of payments position and reduced external vulnerabilities. On June 3, S&P upgraded Jamaica's rating to B from B- with a stable outlook, citing its ability to meet its fiscal targets in the past two years, which has led to stronger fiscal credibility and steady debt trajectory

On April 30, Moody's downgraded Trinidad and Tobago's credit rating citing persistent fiscal deficits, decline in oil prices and weak macroeconomic policy framework.

**TABLE 3:
SOVEREIGN CREDIT RATING ACTIONS IN THE CARIBBEAN, H1 2015**

Date	Country	Action	
H1 2015 3 positive and 1 negative actions			
Q1 1 positive and 0 negative			
28-Feb-15	Jamaica	Fitch changes Jamaica's B- rating outlook to positive	Positive
Q2 2 positive and 1 negative			
30-Apr-15	Trinidad & Tobago	Moody's downgrades T&T's credit rating to Baa2 from Baa1 with a negative outlook	Negative
28-May-15	Jamaica	Moody's upgrades Jamaica to Caa2 from Caa3 with a positive outlook	Positive
3-Jun-15	Jamaica	S&P upgrades Jamaica's rating to B from B- with a stable outlook	Positive

Source: J.P. Morgan, Emerging Markets Outlook and Strategy and rating agencies.

Debt issuance

There were four new bond issuances from the Caribbean region in 2015 year-to-date. In February, Jamaica's Digicel issued a US\$ 925 million 6.750% 2023 bond, to fund a buyback (to buy its 8.25% US\$ 800 million 2017 bond).

In July, Jamaica sold a US\$ 2 billion dual-tranche bond: a 6.75% US\$ 1.35 billion 2028 and a 7.875% US\$ 650 million 2045 bond. Following on the Dominican Republic steps, Jamaica will use US\$ 1.5 billion of the issue to pay back debt with Venezuelan oil company PDVSA. Also Sable International Finance, which operates in the Caribbean and Panama, issued a US\$ 750 million 6.875% 2022 bond at the end of the month. Sable is the financing arm (subsidiary) of Cable & Wireless Communications.

In August, Barbados-based financial services provider Sagicor issued a US\$ 320 million 8.875% 2022 bond.

III. Portfolio equity flows

A shrinking growth differential between emerging and mature markets has undermined the appeal of emerging market equities. The Latin American MSCI Index lost 7.7% in the first half of 2015, while emerging markets as a whole gained 1.67% (table 4). Concerns about poor global growth, especially China's rapid slowdown, declining oil prices, strengthening dollar and higher volatility had an impact on the region's equity markets.

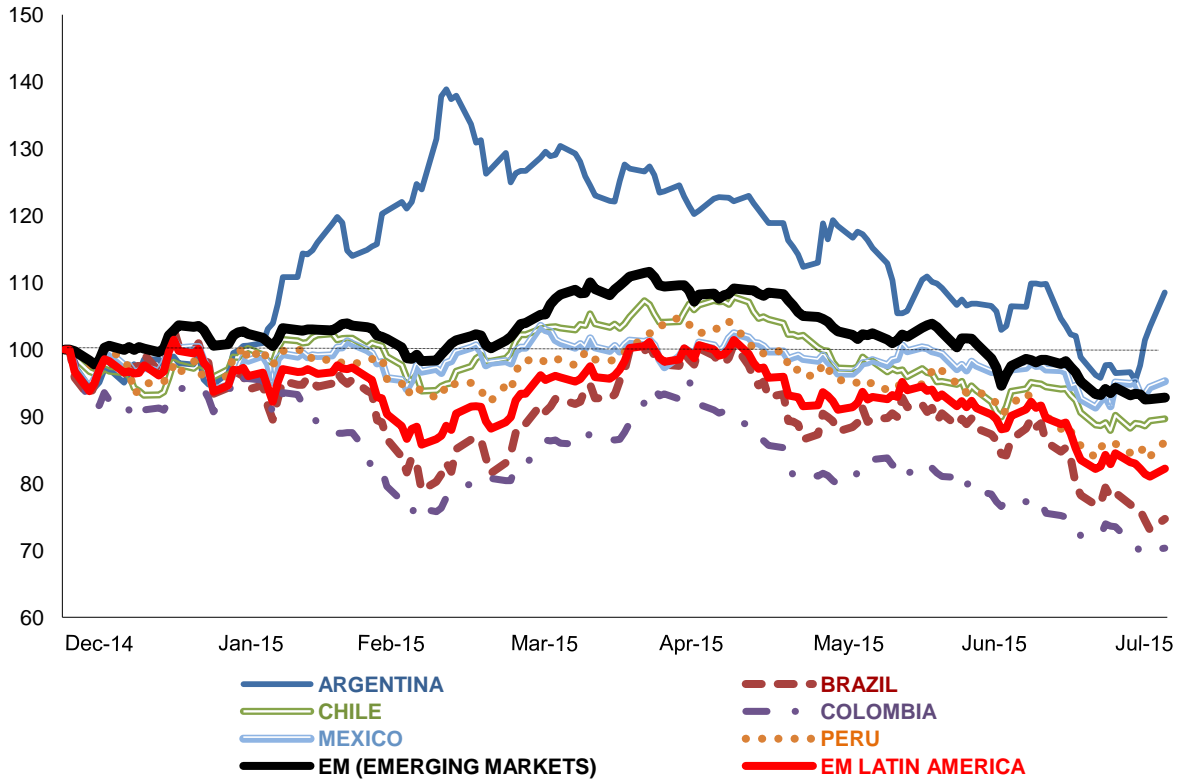
Within the region, Colombia's MSCI index had the sharpest decline (18.37%), as the fall in oil prices has had an adverse impact on Colombia's equity valuations (table 4, and chart 24). The loss in Colombian equity prices was followed by Brazil's (10.36%), Peru's (6.26%), Chile's (4.80%), and Mexico's (2.30%). Argentina's stock prices showed a gain (7.47%).

**TABLE 4:
MSCI EQUITY INDICES, H1 2015**

	Price Index in USD			Variation		
	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Q1 2015	Q2 2015	H1 2015
<i>Emerging markets</i>	956.308	974.572	972.254	1.91%	-0.24%	1.67%
<i>Latin America</i>	2,727.693	2,451.399	2,517.479	-10.13%	2.70%	-7.71%
<i>Argentina</i>	2,405.304	3,006.021	2,585.076	24.97%	-14.00%	7.47%
<i>Brazil</i>	1,832.343	1,548.261	1,642.490	-15.50%	6.09%	-10.36%
<i>Chile</i>	1,575.411	1,566.731	1,499.713	-0.55%	-4.28%	-4.80%
<i>Colombia</i>	806.735	648.573	658.515	-19.61%	1.53%	-18.37%
<i>Mexico</i>	6,262.814	6,133.204	6,118.684	-2.07%	-0.24%	-2.30%
<i>Peru</i>	1,202.652	1,129.580	1,127.423	-6.08%	-0.19%	-6.26%

Source: ECLAC, on the basis of data from MSCI Equity Indices, <http://www.msci.com/equity/index2.html>

**CHART 24:
MSCI EQUITY PRICE INDEX, H1 2015**



Source: ECLAC, on the basis of data from MSCI Equity Indices, <http://www.msci.com/equity/index2.html>.

Prices at the end of the month.

IV. Bank Lending

The small increase in cross-border lending to Latin America in the first quarter of 2015 – the latest data available from the Bank for International Settlements (BIS) – reflected the unfavorable external backdrop that translated into a tough semester for LAC capital market borrowers. BIS reporting banks increased their cross-border claims on residents of Latin America by only US\$ 2.11 billion, compared to an increase of US\$ 26.84 in the previous quarter (see table 4). Brazil and Colombia explain most of the first-quarter increase. Claims on Brazil rose US\$ 1.34 billion and on Colombia US\$ 1.87 billion.

**TABLE 5:
CROSS-BORDER BANK FLOWS TO LATIN AMERICA**

	Banks' Position*	Exchange rate adjusted changes in amounts outstanding (US\$ Billions)				Amounts outstanding		
		2014	Q3	2014	Q4	2015	Stocks at end-Dec 2014	Stocks at end-Mar 2015
Latin America	Claims	30.74	-9.26	26.84	2.11	634.17	627.19	-1.1%
	Liabilities	29.46	-2.03	6.77	13.77	471.16	478.19	1.5%
Argentina	Claims	0.47	-0.36	-0.52	0.20	11.94	11.96	0.2%
	Liabilities	0.39	0.24	-0.47	0.09	25.65	25.46	-0.7%
Brazil	Claims	12.45	-10.71	12.56	1.34	307.60	304.74	-0.9%
	Liabilities	3.28	-11.69	6.72	3.79	108.48	111.03	2.4%
Chile	Claims	-1.73	-1.53	-1.62	-0.36	47.20	46.22	-2.1%
	Liabilities	5.18	0.41	4.53	-4.41	36.5	31.44	-13.9%
Colombia	Claims	1.15	-0.75	1.03	1.87	26.01	27.61	6.2%
	Liabilities	0.37	3.23	-4.04	1.42	19.5	20.83	6.8%
Mexico	Claims	5.87	0.01	9.67	-0.05	128.91	126.29	-2.0%
	Liabilities	12.71	0.81	4.37	8.56	114.63	120.74	5.3%
Venezuela	Claims	-1.00	-0.11	-0.55	0.12	12.05	11.95	-0.8%
	Liabilities	-1.16	3.72	2.60	-0.91	47.19	45.95	-2.6%

Source: ECLAC on the basis of data from BIS Quarterly Review (Table 6A), July 2015

* External on-balance sheet positions of banks in the BIS reporting area. Liabilities mainly comprise deposits. Claims-liabilities = net inflows or outflows. An increase in claims represents an inflow into Latin American economies; an increase in liabilities an outflow.

However, Latin America experienced a net outflow (net repayments) to commercial banks of US\$ 11.66 billion in the first half of 2015, as liabilities increased much more than the claims on the region. While an increase in claims represents an inflow into Latin American economies, an increase in liabilities represents an outflow. Mexico experienced the largest net outflow of funds (US\$ 8.61 billion), followed by Brazil (US\$ 2.45 billion). The Institute of International Finance (IIF) estimates that bank flows to Latin America will decline to US\$ 25 billion in 2015, from US\$ 34 billion in 2014, as the region remains vulnerable to heightened financial volatility.¹¹

¹¹ Institute of International Finance (IIF), *Capital Flows to Emerging Markets*, May 28, 2015.

V. Prospects

In the first half of 2015, Latin American and Caribbean financial markets were under pressure from a stronger U.S. dollar, a slower Chinese economy, declining commodity prices led by oil, and developments at the country level. The underlying trend is of a moderation in private capital inflows due to weaker growth prospects and commodity prices, and tighter external financial conditions. Overall, the IIF forecasts that private capital flows to the region will decline to US\$ 268 billion in 2015 from US\$ 297 billion in 2014.¹²

When Greece agreed a third bailout with European creditors in July, markets had a moment of relief, feeling reassured that one of the big risks for the global economy in 2015 would not materialize. However, fears for the global economy intensified in August, with China's troubles making headlines for weeks and leading to a two-day plunge in stock markets on August 24 and 25. The wild swings in prices have been the most extreme since the financial crisis. Now that the epicenter of global troubles is not one of Europe's smallest economies, but one of the world's biggest, the potential impact is raising concerns across the world and pushing investors to take a closer look at their portfolios.

What will happen next to LAC asset prices will depend on the direction taken by commodity prices, China's economy and the U.S. Federal Reserve. Before the recent turmoil in financial markets, some market analysts believed that commodity prices were about to find a bottom, but correctly predicting the turning point in commodity prices is no easy task. Moreover, these recent events and the prospect of an economic slowdown in China has pummeled international oil prices, which were already being driven by Saudi Arabia's high production, new Iraqi output and still plentiful pumping by U.S. independent producers. China's decision to ease monetary policy following its two-day stock market plunge has boosted sentiment, but investors are still trying to assess whether the rout was just a short-term pullback or a signal of deeper trouble.

After the recent global rout and stock markets plunge, the time of the Fed 'lift-off' has become more uncertain. The Fed has said it will not raise short-term interest rates until officials are "reasonably confident" that inflation will rise toward 2% after running below it for more than three years. The stronger dollar and falling oil prices are bound to undermine that confidence, and bets that the rate increase will only take place next year are rising. On the other hand, the U.S. economy remains on solid footing, with the latest quarterly GDP number surprising on the upside. The Fed's policy making committee doesn't meet until mid-September,

¹² Institute of International Finance (IIF), *Capital Flows to Emerging Markets*, May 28, 2015.

and it has two more meetings scheduled later this year, in October and December, when they may have more clarity to where the global economy is heading.

Country-specific events and dynamics, particularly developments in Brazil, are expected to continue to add to the volatile environment in the second half of the year. The debt situation in Venezuela and Argentina is also likely to capture the attention of investors.

Going forward, policy space in most of the region seems to be more limited. Public debt has generally increased over the past two years, reaching more than 50% of GDP for some countries. Monetary policy space is also smaller, with some countries continuing to face inflationary pressures, while external financial conditions are narrowing the room for further easing. Exchange rate flexibility has acted as a shock absorber, but currencies are under pressure and there is a risk that balance sheet vulnerabilities could start to build up.

Appendix

A. Credit Rating

**TABLE 1:
CREDIT RATINGS IN LATIN AMERICA AND THE CARIBBEAN, 2015 YTD**

	Moody's		S&P		Fitch		Recent Moody's Action		Recent S&P Action		Recent Fitch Action	
	Rating	View	Rating	View	Rating	View	Action	Date	Action	Date	Action	Date
Argentina	Caa1	(-)	SD		RD		O/L changed to (-), Affirmed	31-Jul-14	Affirmed, O/L stable	1-Apr-15	Downgrade to RD	30-Jul-14
Bahamas	Baa2		BBB	(-)			Downgrade, O/L stable	2-Sep-14	O/L changed to (-)	24-Sep-12		
Barbados	B3	(-)	B	(-)	NR		Downgrade, O/L (-)	2-Jun-14	Downgrade, O/L to (-)	19-Dec-14		
Belize	Caa2		B-	(+)	NR		Affirmed, O/L stable	17-Jun-15	O/L changed to (+), Affirmed	7-Nov-14		
Bolivia	Ba3		BB		BB		Upgrade, O/L stable	8-Jun-12	Upgrade, O/L stable	15-May-14	Upgrade, O/L stable	15-Jul-15
Brazil	Baa3		BBB-	(-)	BBB	(-)	Downgrade, O/L stable	11-Aug-15	O/L changed to (-)	28-Jul-15	O/L changed to (-), Affirmed	9-Apr-15
Chile	Aa3		AA-		A+		Affirmed, O/L stable	29-Oct-13	Affirmed, O/L stable	16-Dec-13	Affirmed, O/L stable	25-Oct-13
Colombia	Baa2		BBB		BBB		Upgrade, O/L stable	28-Jul-14	Affirmed, O/L stable	29-Apr-14	Affirmed, O/L stable	20-Nov-14
Costa Rica*	Ba1		BB		BB+	(-)	Downgrade, O/L stable	16-Sep-14	Affirmed, O/L stable	28-Feb-14	O/L changed to (-), Affirmed	22-Jan-15
Cuba	Caa2		NR		NR		Downgrade, O/L stable	23-Apr-14				
Dominican Republic	B1		BB-		B+		Affirmed, O/L stable	10-Oct-11	Upgrade, O/L stable	20-May-15	Upgrade, O/L stable	21-Nov-14
Ecuador	B3		B		B		Upgrade, O/L stable	19-Dec-14	Downgrade, O/L stable	12-Aug-15	Upgrade, O/L stable	18-Oct-13
El Salvador	Ba3		B+		B+		Downgrade, O/L stable	5-Nov-12	Downgrade, O/L stable	22-Dec-14	Downgrade, O/L stable	9-Jul-15
Grenada			SD						Downgrade	12-Mar-13		
Guatemala	Ba1	(-)	BB		BB		O/L changed to (-), Affirmed	26-May-15	Affirmed, O/L stable	11-Oct-13	Downgrade, O/L stable	20-Jun-14
Honduras	B3	(+)	B+		NR		O/L changed to (-), Affirmed	11-May-15	Upgrade, O/L stable	20-Jul-15		
Jamaica	Caa2	(+)	B		B-	(+)	Upgrade, O/L (+)	28-May-15	Upgrade, O/L stable	3-Jun-15	O/L changed to (+), Affirmed	19-Feb-15
Mexico	A3		BBB+		BBB+		Upgrade, O/L stable	5-Feb-14	Upgrade, O/L stable	19-Dec-13	Affirmed, O/L stable	25-Feb-15
Nicaragua	B2		NR		NR		Upgrade, O/L stable	10-Jul-15				
Panama	Baa2		BBB		BBB		Upgrade, O/L stable	31-Oct-12	Affirmed, O/L stable	1-Aug-13	Affirmed, O/L stable	19-Feb-15
Paraguay	Ba1		BB		BB		Upgrade, O/L stable	22-Mar-15	Upgrade, O/L stable	11-Jun-14	Upgrade, O/L stable	29-Jan-15
Peru	A3		BBB+		BBB+		Upgrade, O/L stable	2-Jul-14	Upgrade, O/L stable	19-Aug-13	Affirmed, O/L stable	30-Sep-14
Suriname	Ba3		BB-		BB-		O/L changed to stable from (+)	14-Feb-14	O/L changed to stable from (+)	28-Apr-14	Affirmed, O/L stable	12-May-14
Trinidad & Tobago	Baa2		A		NR		Downgrade, O/L (-)	30-Apr-15	Affirmed, O/L stable	24-Dec-13		
Uruguay*	Baa2		BBB		BBB-		Affirmed, O/L stable	21-May-15	Upgrade, O/L stable	5-Jun-15	Affirmed, O/L stable	4-Mar-14
Venezuela	Caa3		CCC	(-)	CCC		Downgrade, O/L stable	13-Jan-15	Downgrade, O/L (-)	9-Feb-15	Affirmed, O/L stable	2-Jul-15

Source: JPMorgan, Emerging Markets Outlook and Strategy and rating agencies.

Changes for 2015 YTD are in red.

Note: Moody's ratings are qualified by outlooks and reviews while S&P and Fitch ratings are qualified by outlooks and watches.

A review/watch [+ or -] is indicative of a likely short-term development.

An outlook [(+) or (-)] suggests that a review/watch or long/intermediate-term movement is likely.

*S&P issue rating is one notch above the issuer credit rating.

BOX 1

CREDIT RATING ACTIONS IN LATIN AMERICA AND THE CARIBBEAN, 2015 YEAR-TO-DATE

There have been 11 positive and 10 negative actions in Latin America and the Caribbean in 2015 YTD.

Positive Actions: 11 (Bold)*January*

- Paraguay (January 29): **Fitch upgrades Paraguay's rating a notch to BB with a stable outlook**, noting the country's solid economic performance on the back of higher productivity and export diversification.

February

- Ecuador (February 09): S&P affirms Ecuador's sovereign debt rating at B+ with a stable outlook (*no change*).
- Jamaica (February 19): **Fitch changes Jamaica's B- rating outlook to positive**, citing diminishing external financing risks and built-up reserves.
- Panama (February 29): Fitch affirms Panama's ratings at 'BBB'; outlook stable (*no change*).

March

- Paraguay (March 22): **Moody's upgrades Paraguay's rating to Ba1 from Ba2, with a stable outlook**. The agency cited the country's positive results in diversifying the economy, investing in infrastructure, implementing reforms that have strengthened the fiscal framework, and improving governance and institutional strength.

May

- Honduras (May 11): **Moody's changes Honduras' outlook to positive**, citing continued progress toward fiscal consolidation targets.
- Dominican Republic (May 20): **S&P's upgrades the rating of Dominican Republic to BB- from B+ with a stable outlook**, citing the country's improving monetary policy and inflation-targeting measure.
- Uruguay (May 21): Moody's affirms Uruguay's Baa2 sovereign rating; outlook stable (*no change*).
- Jamaica (May 26): **Moody's upgrades Jamaica's rating to Caa2 from Caa3, maintaining a positive outlook**, citing fiscal consolidation, strong commitment to structural reforms, improving balance of payments position and reduced external vulnerabilities.

June

- Jamaica (June 3): **S&P upgrades Jamaica's rating to B from B- with a stable outlook**, citing its ability to meet its fiscal targets in the past two years, which has led to stronger fiscal credibility and steady debt trajectory.
- Uruguay (June 5): **S&P upgrades Uruguay's rating a notch to BBB from BBB- with a stable outlook**, to reflect the country's sound macroeconomic policies and the improved regional environment.
- Belize (June 17): Moody's affirms Belize's Caa2 sovereign rating; outlook stable (*no change*).

July

- Venezuela (July 02): Fitch affirmed Venezuela's long-term foreign currency rating at CCC with a stable outlook (*no change*).
- Nicaragua (July 10): **Moody's upgrades Nicaragua's rating to B2 from B3 with a stable outlook**, as a result of a stronger economy.
- Bolivia (July 15): **Fitch upgrades Bolivia to BB from BB- with a stable outlook**, saying that the sovereign had made hydrocarbon production more sustainable.
- Honduras (July 21): **S&P upgrades Honduras' credit rating to B+ from B with a stable outlook**, considering improvements over the government's debt burden.

Negative Actions: 10 (Bold)*January*

- Venezuela (January 13): **Moody's downgrades Venezuela's sovereign rating to Caa3 from Caa1 and changes the outlook to stable from negative**, saying that the falling oil price has put the exporter at a greater risk of default.

Box 1– (conclusion)

- Costa Rica (January 22): **Fitch revises Costa Rica's BB+ rating outlook to negative**, saying financing conditions are deteriorating due to the lower absorption capacity of the domestic public sector investor base and the rising pressure on international interest rates.

February

- Venezuela (February 09): **S&P downgrades Venezuela's rating to CCC from CCC+ with a negative outlook**, pointing to a growing default risk thanks to plummeting oil prices and a shaky political and social situation.

April

- Argentina (April 1): S&P affirms Argentina's unsolicited foreign currency rating of 'SD' (*no change*).
- Brazil (April 9): **Fitch revises Brazil's BBB rating outlook to negative**, saying that the country's economy is underperforming and its fiscal accounts have deteriorated.
- Trinidad & Tobago (April 30): **Moody's downgrades Trinidad and Tobago's credit rating to Baa2 from Baa1, and changes the outlook to negative**, citing persistent fiscal deficits, decline in oil prices and weak macroeconomic policy framework.

May

- Guatemala (May 27): **Moody's lowers its rating outlook on Guatemala to negative**, but maintained its Ba1 credit rating. The rating agency cited the escalating political crisis as the main reason for the move.

July

- El Salvador (July 9): **Fitch downgrades El Salvador to B+ from BB- with a stable outlook**, citing rising public debt.
- Brazil (July 28): **S&P lowers Brazil's BBB- sovereign rating outlook to negative from stable**, on fears that reforms will not be implemented as planned.

August

- Brazil (August 11): **Moody's downgrades Brazil to Baa3 from Baa2 with a stable outlook**, due to expected higher government expenditures and a lack of political accord to pass fiscal reforms.
- Ecuador (August 12): **S&P downgrades Ecuador's credit rating to B from B+ with a stable outlook**, citing deteriorating fiscal and external metrics (higher debt and external risk).

Source: ECLAC, on the basis of information from various market sources.

B. Latin American Spreads

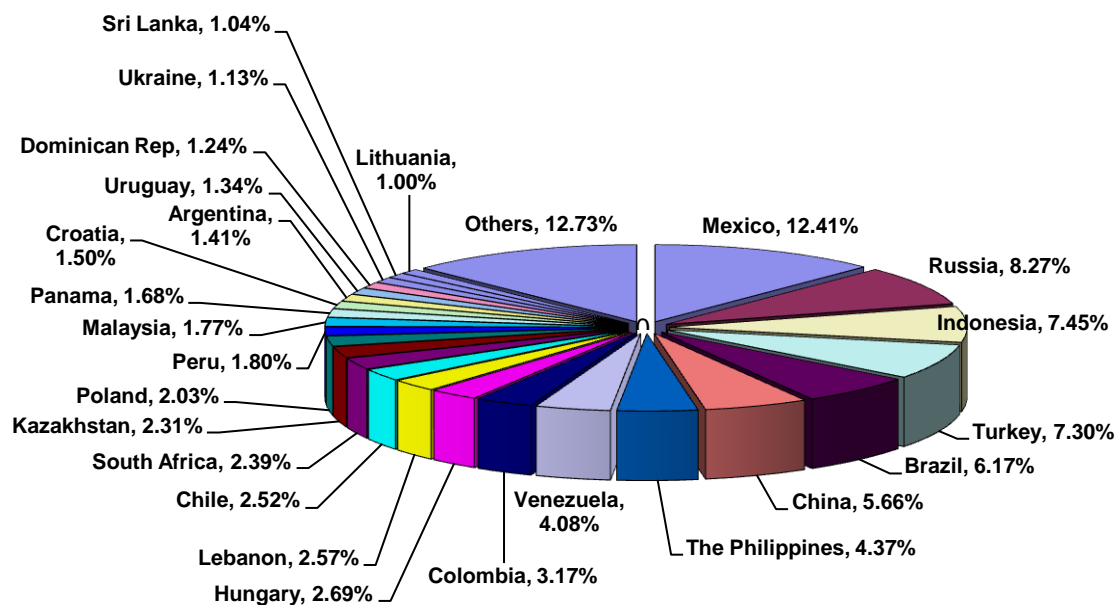
TABLE 2:
SOVEREIGN SPREADS ON JPMORGAN EMBI GLOBAL AND LATIN AMERICAN COMPOSITES
(Basis Points)

	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
31-Jul-13	343	1112	241	160	181	620	202	180	185	966	406
30-Aug-13	375	1170	257	182	198	649	222	207	242	1017	432
30-Sep-13	355	1035	245	171	187	628	210	184	200	1010	412
31-Oct-13	328	921	229	161	170	499	196	176	190	1014	390
27-Nov-13	355	776	256	171	190	539	211	193	220	1221	427
31-Dec-13	327	808	230	148	163	530	177	162	194	1141	393
31-Jan-14	390	1085	278	172	208	605	219	202	239	1400	479
28-Feb-14	344	907	251	151	184	609	195	181	217	1255	424
31-Mar-14	324	799	230	143	168	508	182	165	192	1165	393
30-Apr-14	315	786	217	137	157	361	177	149	187	1018	366
30-May-14	293	833	214	129	147	372	165	150	167	1031	359
30-Jun-14	285	724	211	123	144	376	160	151	169	938	340
31-Jul-14	291	649	214	125	145	486	164	151	177	976	352
31-Jul-12	341	1087	183	154	140	852	176	145	172	1099	398
31-Aug-12	325	1051	179	146	137	791	186	145	158	1001	381
28-Sep-12	308	897	162	143	132	743	172	125	139	956	369
31-Oct-12	296	1066	154	126	122	824	166	118	136	959	365
30-Nov-12	287	1140	152	130	124	829	169	122	140	880	355
31-Dec-12	266	991	140	116	112	826	155	114	127	786	326
31-Jan-13	271	1102	154	124	132	704	165	129	132	746	328
28-Feb-13	288	1287	178	140	141	704	180	138	164	737	342
28-Mar-13	307	1307	190	153	147	700	182	147	173	797	358
30-Apr-13	291	1210	173	141	131	647	169	132	153	821	346
31-May-13	307	1167	208	153	167	626	196	159	173	878	376
28-Jun-13	353	1199	243	180	193	665	223	201	235	976	424
31-Jul-13	343	1112	241	160	181	620	202	180	185	966	406
30-Aug-13	375	1170	257	182	198	649	222	207	242	1017	432
30-Sep-13	355	1035	245	171	187	628	210	184	200	1010	412
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30-Jun-14	285	724	211	123	144	376	160	151	169	938	340
31-Jul-14	291	649	214	125	145	486	164	151	177	976	352
29-Aug-14	306	808	208	124	146	412	161	148	169	1123	369
30-Sep-14	334	700	241	137	169	484	186	162	193	1387	416
31-Oct-14	332	703	236	146	172	495	188	169	193	1507	424
26-Nov-14	353	687	243	157	175	550	195	167	198	1837	453
31-Dec-14	404	719	270	169	196	883	213	182	208	2457	508
30-Jan-15	455	742	331	200	229	887	252	208	218	3173	571
27-Feb-15	402	618	328	144	199	763	215	170	211	2736	500
31-Mar-15	410	629	331	158	222	865	228	181	214	2902	516
30-Apr-15	376	603	297	147	213	672	224	171	210	2200	472
29-May-15	380	601	297	150	220	735	225	174	207	2483	492
30-Jun-15	392	631	309	158	233	824	232	182	213	2879	513
31-Jul-15	407	615	325	179	250	980	244	196	227	2829	533

Source: "Emerging Markets Bond Index Monitors"; JPMorgan.

Note: EMBI Global composition (end-July 2015): **by country**: Brazil, Colombia, Mexico and Venezuela account for 25.83% of the total weighting; **by region**: Latin: 39.53%; Non-Latin: 60.47%.

EMBI GLOBAL COMPOSITION (AS OF JULY 2015)



Others:	%
Romania	0.96%
Costa Rica	0.91%
Serbia	0.83%
El Salvador	0.80%
Ivory Coast	0.59%
Ecuador	0.57%
Azerbaijan	0.51%
India	0.49%
Egypt	0.44%
Pakistan	0.43%
Latvia	0.43%
Kenya	0.40%
Ghana	0.36%
Mongolia	0.36%
Morocco	0.34%
Jamaica	0.34%
Iraq	0.31%
Gabon	0.28%
Vietnam	0.27%
Paraguay	0.27%
Zambia	0.24%
Trinidad & Tobago	0.24%
Slovakia	0.24%
Nigeria	0.22%
Guatemala	0.21%
Honduras	0.17%
Georgia	0.16%
Angola	0.15%
Bolivia	0.15%
Senegal	0.15%
Armenia	0.15%
Ethiopia	0.15%
Tunisia	0.14%
Belarus	0.12%
Mozambique	0.12%
Tanzania	0.09%
Total	12.75

C. New LAC Debt Issuance

**TABLE 3:
LATIN AMERICAN AND CARIBBEAN DEBT ISSUANCE
FIRST QUARTER OF 2015**

Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon (%)	Maturity
Jan-15					
Mexico	United Mexican States	USD 1500	1,500	4.600%	2046
Mexico	United Mexican States	USD 500	500	3.600%	2025 (r)
Mexico	Pemex	USD 1500	1,500	3.500%	2020
Mexico	Pemex	USD 1500	1,500	4.500%	2026
Mexico	Pemex	USD 3000	3,000	5.625%	2046
Chile	Banco del Estado de Chile	JPY 31000	263	0.520%	2020
Dominican Republic	Dominican Republic	USD 1000	1,000	5.500%	2025
Dominican Republic	Dominican Republic	USD 1500	1,500	6.850%	2045
Supranational	CAF Development Bank of Latin America	USD 1000	1,000	3-month L+55	2018
Colombia	Republic of Colombia	USD 1500	1,500	5.000%	2045
Mexico	United Mexican States	USD 1500	1,500	4.600%	2046
			13,263		
Feb-15					
Peru	Intercorp	USD 250	250	5.875%	2025
Argentina	YPF	USD 175	175	8.875%	2018 (r)
Argentina	YPF	USD 325	325	8.750%	2024 (r)
Supranational	CAF Development Bank of Latin America	CHF 200	216	0.500%	2026
Peru	GyM Ferrovias	PEN 629	205	4.750%	2039
Mexico	Pemex	MXN 17000	1,100	7.500%	2026
Chile	Cencosud	USD 650	650	5.150%	2025
Chile	Cencosud	USD 350	350	6.625%	2045
Argentina	Cablevision	USD 286	286	9.375%	2018
Argentina	City of Buenos Aires	USD 500	500	8.950%	2021
Uruguay	Oriental Republic of Uruguay	USD 1200	1,200	5.100%	2050 (r)
Jamaica	Digicel	USD 925	925	6.750%	2023
Mexico	Aeromexico	USD 196	196	2.329%	2027
Mexico	Cemex	EUR 550	616	4.375%	2023 NC4
Mexico	Cemex	USD 750	750	6.125%	2025 NC5
Mexico	United Mexican States	EUR 1250	1,400	1.625%	2024
Mexico	United Mexican States	EUR 1250	1,400	3.000%	2045
			10,544		
Mar-15					
Mexico	America Movil	MXN 3500	232.6	7.125%	2024 (r)
Costa Rica	Republic of Costa Rica	USD 1000	1,000	7.158%	2045
Mexico	Kimberly-Clark de Mexico	USD 250	250	3.250%	2025
Supranational	Central American Bank for Economic Integration (CABEI)	CNH 800	128	4.750%	2018
Panama	Republic of Panama	USD 1250	1,250	3.750%	2025
Supranational	CAF Development Bank of Latin America	JPY 8900	73		2025
Peru	Republic of Peru	USD 545	545	5.625%	2050 (r)
Peru	Republic of Peru	PEN 2250	728	6.950%	2031 (r)
Ecuador	Republic of Ecuador	USD 750	750	10.500%	2020
Colombia	Republic of Colombia	USD 1000	1,000	5.000%	2045 (r)
Colombia	Colombia Telecoms - ColTel	USD 500	500	8.500%	Perp NC5
Peru	Red Dorsal Finance	USD 273.7	274	5.875%	2031
			6,730		

Source: LatinFinance (Bonds Database).

Notes:

Q1 2015 Total **30,537**

(r): retap.

NC3, NC4, NC5: only callable after 3, 4 and 5 years, respectively.

**TABLE 4:
LATIN AMERICAN AND CARIBBEAN DEBT ISSUANCE
SECOND QUARTER OF 2015**

Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon (%)	Maturity
Apr-15					
Mexico	United Mexican States	EUR 1500	1,600	4.000%	2115
Mexico	Pemex	EUR 1000	1,097	1.880%	2022
Mexico	Pemex	EUR 1250	1,400	2.750%	2027
Panama	Global Bank	USD 150	150	5.130%	2019 (r)
Colombia	BBVA Colombia	USD 400	400	5.875%	2025
Mexico	Southern Copper	USD 500	500	3.875%	2025
Mexico	Southern Copper	USD 1500	1,500	5.875%	2045
Argentina	YPF	USD 1500	1,500	8.500%	2025
Chile	Empresa Electrica Guacola	USD 500	500	4.560%	2025
Supranational	Central American Bank for Economic Integration (CABEI)	CHF 200	207	0.190%	2022
Paraguay	Republic of Paraguay	USD 280	280	4.630%	2023 (r)
Uruguay	Puerta del Sur	USD 200	200	6.875%	2032
Chile	Santander Chile	CHF 150	161	0.380%	2022
Dom. Republic	Dominican Republic	USD 500	500	5.500%	2025 (r)
Dom. Republic	Dominican Republic	USD 500	500	6.850%	2045 (r)
			10,495		
May-15					
Mexico	JB y Compania	USD 500	500	3.750%	2025
Brazil	VotoCim (Votorantim Group)	EUR 500	564	3.500%	2022
Ecuador	Republic of Ecuador	USD 750	750	10.500%	2020
Chile	Latam Airlines	USD 845.213	845	4.200%	2029
Chile	Latam Airlines	USD 175.61	176	4.500%	2025
Chile	Banco de Credito e Inversiones	CHF 150	164	0.250%	2020
Brazil	Itaú Unibanco	USD 1000	1,000	2.850%	2018
Chile	Republic of Chile	EUR 440	456	1.625%	2025 (r)
Chile	Republic of Chile	EUR 950	1,082	1.875%	2030
Mexico	America Movil	EUR 3000	3,367	0.000%	2020
Brazil	JBS	USD 900	900	5.750%	2025 NC5
Supranational	CAF Development Bank of Latin America	NOK 1000	129	3.050%	2035
Supranational	CAF Development Bank of Latin America	AUD 150	115	4.500%	2025
Brazil	BRF Brazil Foods	EUR 500	549	2.750%	2022
			10,597		
Jun-15					
Brazil	Petrobras	USD 2500	2,500	6.850%	2115
Brazil	Globo	USD 325	325	4.843%	2025
Argentina	Province of Buenos Aires	USD 500	500	9.950%	2021
Chile	LatAm Airlines	USD 500	500	7.250%	2020
Mexico	Comision Federal de Electricidad (CFE)	MXN 9000	575	7.350%	2025 (r)
Brazil	Embraer	USD 1000	1,000	5.050%	2025
Mexico	Comision Federal de Electricidad (CFE)	USD 700	700	6.125%	2045
Peru	Metro de Lima Linea 2	USD 1155	1,155	5.875%	2034
Brazil	Oi	EUR 600	678	5.625%	2021
El Salvador	Banco Agricola	USD 300	300	6.750%	2020
Panama	AES Panama	USD 300	300	6.000%	2022
Colombia	Ecopetrol	USD 1500	1,500	5.375%	2026
Mexico	Grupo Posadas	USD 350	350	7.875%	2022 NC4
			10,383		

Source: LatinFinance (Bonds Database).

Notes:

(r): retap.

NC4: only callable after 4 years.

NC5: only callable after 5 years.

Q2 2015 Total **31,475**
H1 2015 **62,012**

**TABLE 5:
LATIN AMERICAN AND CARIBBEAN DEBT ISSUANCE
THIRD QUARTER OF 2015**

Country	Issuer	Amount (million)	Amount US\$ (mm)	Coupon (%)	Maturity
Jul-15					
Peru	Corporacion Financiera de Desarrollo S.A. - Cofide	USD 600	600	4.750%	2025
Peru	Corporacion Financiera de Desarrollo S.A. - Cofide	USD 200	200	3.250%	2019 (r)
Chile	AES Gener	USD 425	425	5.000%	2025
Mexico	Pemex	USD 525	525	2.460%	2025
Mexico	Kansas City Southern de Mexico	USD 300	300	4.950%	2045
Jamaica	Republic of Jamaica	USD 1350	1,350	6.750%	2028
Jamaica	Republic of Jamaica	USD 650	650	7.875%	2045
Supranational	Sable International Finance	USD 750	750	6.875%	2022 NC3
			4,800		

Source: LatinFinance (Bonds Database).

Q3 2015 Total 4,800

Notes:

2015 YTD 66,812

(r): retap.

NC3: only callable after 3 years.