Economic Commission for Latin America and the Caribbean

ECLAC WASHINGTON OFFICE

Capital Flows to Latin America and the Caribbean

Q1 2016

UNITED NATIONS

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Highlights

- Financial markets across Latin America and the Caribbean (LAC) ended the first quarter of 2016 on a high note. Monetary easing by major central banks, a firming of commodity prices, and increasing confidence that the U.S. Federal Reserve was not planning to raise interest rates again, powered stocks and bonds higher.

- Latin American stocks gained almost 19% in the first quarter, according to the MSCI Latin American Index, erasing in March most of the decline they sustained during the selloff at the start of the year. Currencies also came back from recent lows against the U.S. dollar.

- LAC bond spreads tightened by 32 basis points in the first quarter of 2016, following a widening of almost 100 basis points in 2015. After peaking in January, the U.S. dollar moderated against major currencies, supporting the tightening in spreads.

- New bond issuance reached almost US$ 14 billion in March, the highest monthly issuance since June 2014. Even Brazil tapped international debt markets in March for the first time since September 2014, as rising oil prices, receding risks from U.S. rate hikes and more QE from other central banks, created an opening for bonds from emerging markets.

- The total amount of debt issued by LAC borrowers in the first quarter of 2016 reached almost US$ 30 billion, only 3% lower than the amount issued in the first quarter of 2015. The average bond maturity fell to 9 years from more than 18 years in 2015, however.

- Breaking with recent trends, sovereigns had the highest share of total issuance (53%), while corporates (47%) had their lowest share of the total since 2005.

- Issuance by banks and corporates in the first quarter of 2016 was 16% lower than in the first quarter of 2015 and 69% lower than in the first quarter of 2014. On the other hand, issuance by quasi-sovereign corporates was almost 500% higher than in the first quarter of 2015.

- There are five main takeaways from the bond issuances in the first quarter of 2016:

    Increased size: the trend towards large bond issuances continued, with half of the issuances above the US$ 1 billion mark.

    LAC borrowers turned to euro-denominated debt issuance: the share of issuances in Euros increased to 41% of the total from 20% in 2015, while the dollar share declined to 56% from 73% in 2015, as a result of the dollar appreciation and the increased QE program in Europe.

    International markets were mostly inaccessible to corporate issuers, especially high-yield borrowers: while issuance by banks and corporates in the first quarter of 2016 declined sharply in comparison to previous years, issuance by quasi-sovereign corporates surged.

    Focus on infrastructure increased: there were three water bonds issued by CAF during the quarter, aimed at funding water-related projects in the region; Colombia's Pacifico 3 issued a bond to finance a toll road concession that it is developing as part of Colombia's 4G; and some of the proceeds of a ten-year bond issued in March by Paraguay are expected to be used to finance public infrastructure projects.

    More Argentine issuers tapped the cross-border bond market: the Province of Buenos Aires, YPF and IRSA Propiedad Comercial tapped international markets in the first quarter, anticipating the sovereign's return to cross-border markets in April.

Overview

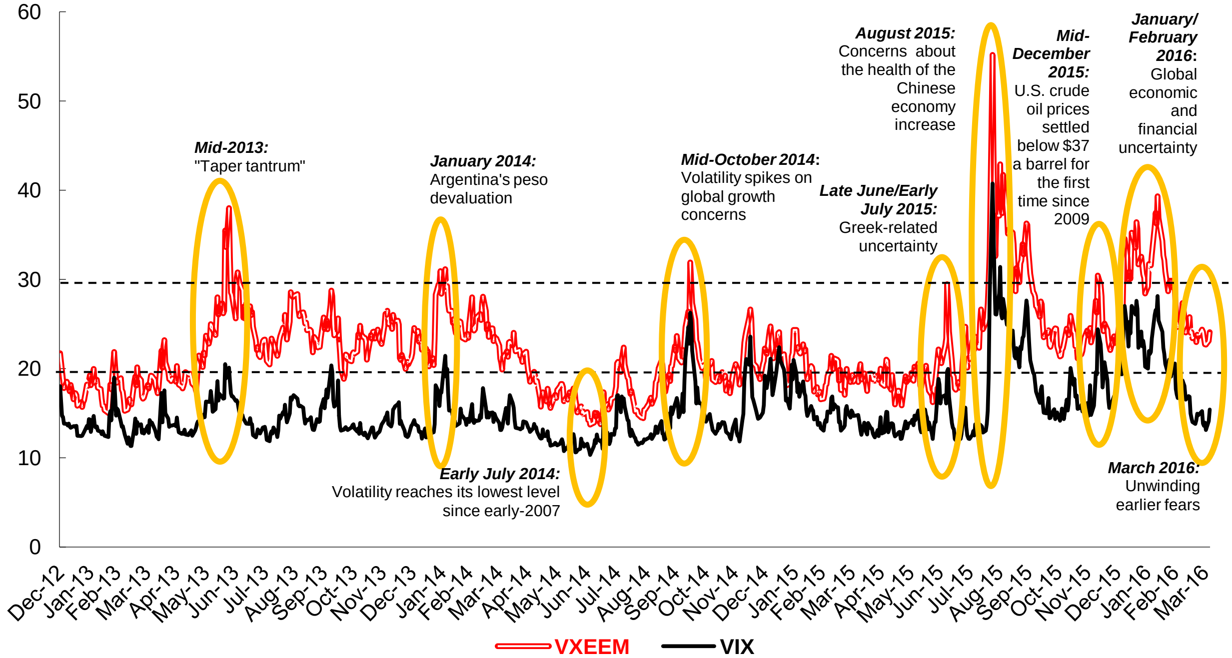
Market sentiment and portfolio flows to Latin America and the Caribbean (LAC) ended the first quarter of 2016 on a more optimistic note than it started. There was a large rally in LAC assets in March, but its intensity was also a function of the very challenging start of the year, when credit and equity investors were deeply concerned about the risk of further slowdown in China's GDP and the possibility of further devaluation of its currency, and about signs that the U.S. growth could be slowing while interest rates were set to increase.

The main threats of the beginning of the year – higher U.S. interest rates, further oil-price declines and a Chinese economic slump – had receded by the end of the quarter. Monetary easing by major central banks, as well as a firming of commodity prices during much of the quarter powered stocks and bonds higher. Volatility, as a result, receded to its lowest levels since mid-August, when China devalued its currency. In the first quarter of 2016, 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 – reached a peak of 28 in mid-February, coming down to less than 14 at the end of March (chart 1).

The unwinding of the fears that had prevailed in the beginning of the quarter may have had more to do with the Fed than with China. Most of the relief came from the weaker U.S. dollar, which is important because many borrowers in the region, particularly in the corporate sector, have taken a lot of dollar debt. The share of issuance in U.S. dollars in the first quarter of 2016 declined to 56% from 73% in 2015, while the share of issuance in Euros increased to 41% from 20% in 2015, a result of the strengthening of the U.S. dollar in the past two years and a renewed bout of quantitative easing in Europe.

Investors' willingness to bet in emerging markets illustrates how money managers are searching for yield at a time when central banks in Europe and Japan have pushed some interest rates into negative territory, and U.S. bond yields remain near record lows. Despite concerns about significant slowdown in serveral economies of the region, highly capitalized investors in search of yield showed willingness to take the risk during the first quarter.

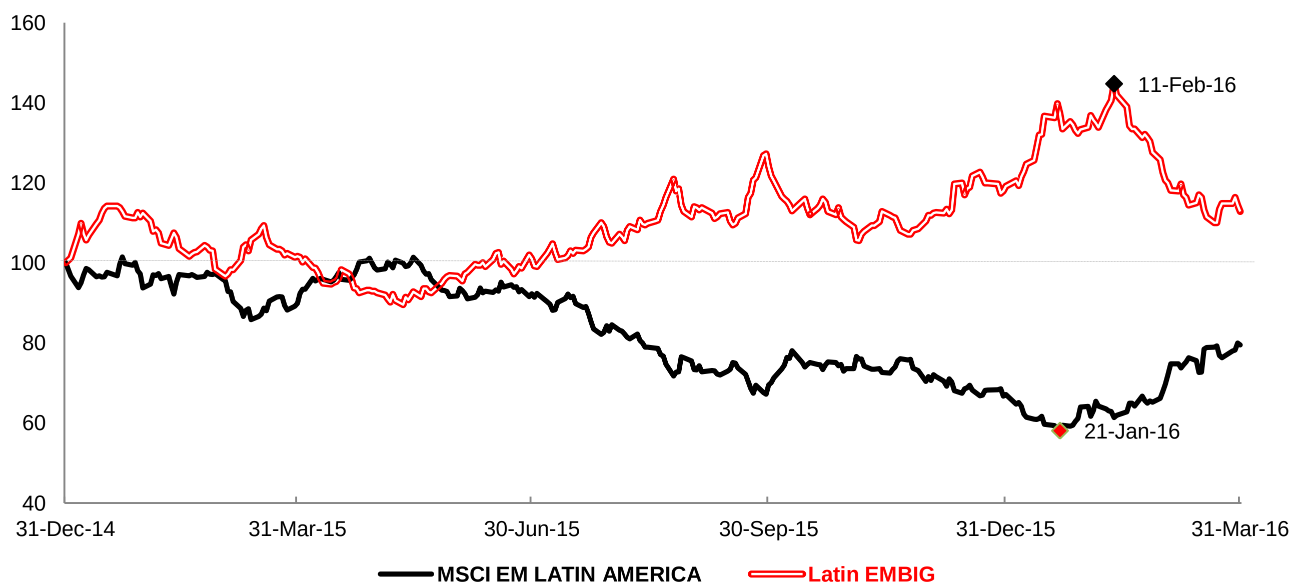
CHART 1:
CBOE VOLATILITY INDEX
(VIX and VXEEM close)



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).

CHART 2:
LATIN AMERICAN EQUITY PRICES VS BOND SPREADS
(MCSI and EMBIG indices)

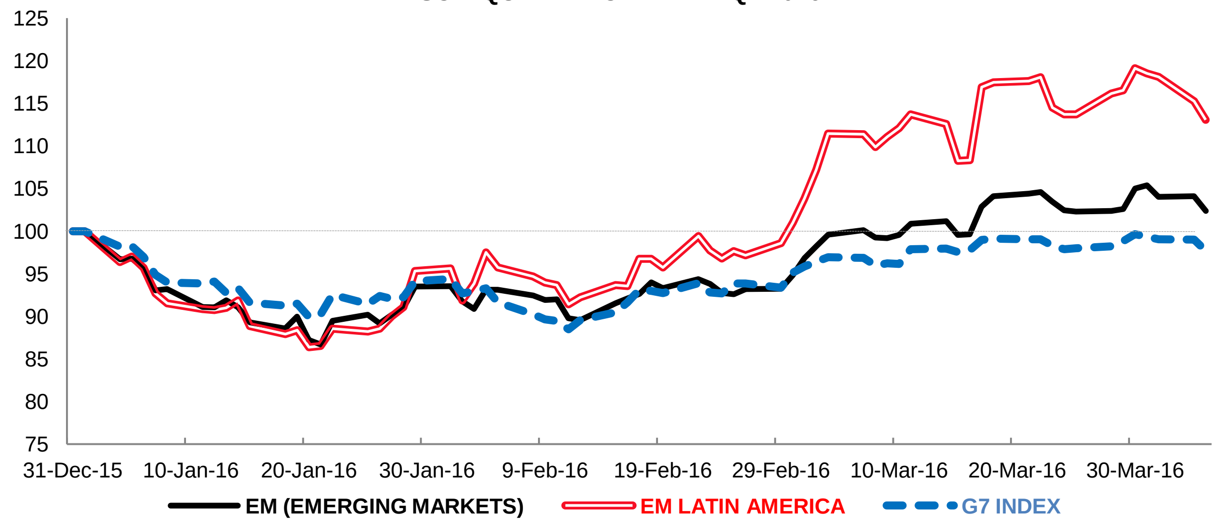


Source: ECLAC, on the basis of data from MSCI Equity Indices and J.P. Morgan.

The first quarter of 2016 was a tale of two halves. The first part of the quarter was marked by deterioration in economic data in developed and emerging market economies, further drop in commodity prices, and a pickup in financial market volatility. By March, however, sentiment improved, with commodity prices regaining lost ground, and downside economic data surprises diminishing. A number of LAC assets were fueled by stabilizing commodity prices and increasing confidence that the U.S. Federal Reserve was not planning to raise interest rates soon. The unwinding of earlier fears towards the end of the quarter led to an increase in equity prices and a tightening in Latin American bond spreads as a result (chart 2).

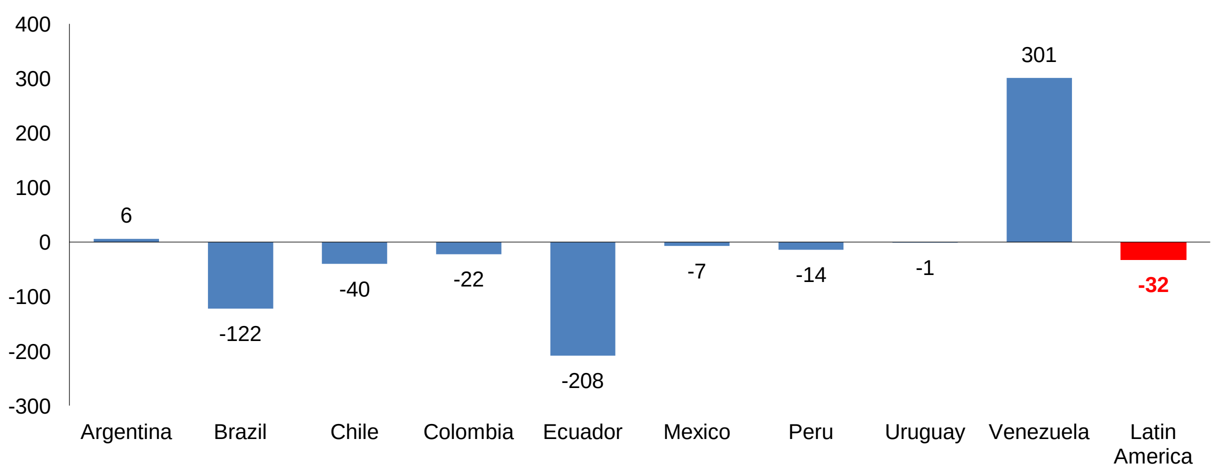
Latin American stocks gained almost 19% in the first quarter, according to the Morgan Stanley Capital International (MSCI) Latin American Index, erasing in March most of the decline they sustained during the selloff at the start of the year. The March rally represented a sharp turnaround from January, when China's slowdown, falling oil prices and a rise in U.S. interest rates in December drove investors to take money from LAC markets at a record pace. While the MSCI Latin American Index gained 18.5% in the first quarter, emerging markets as a whole gained 5.4% and G7 countries lost almost 1% (chart 3).

CHART 3:
MSCI EQUITY PRICE INDEX: Q1 2016



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

CHART 4:
EMBI GLOBAL SPREAD DIFFERENTIALS: Q1 2016
(Basis points)

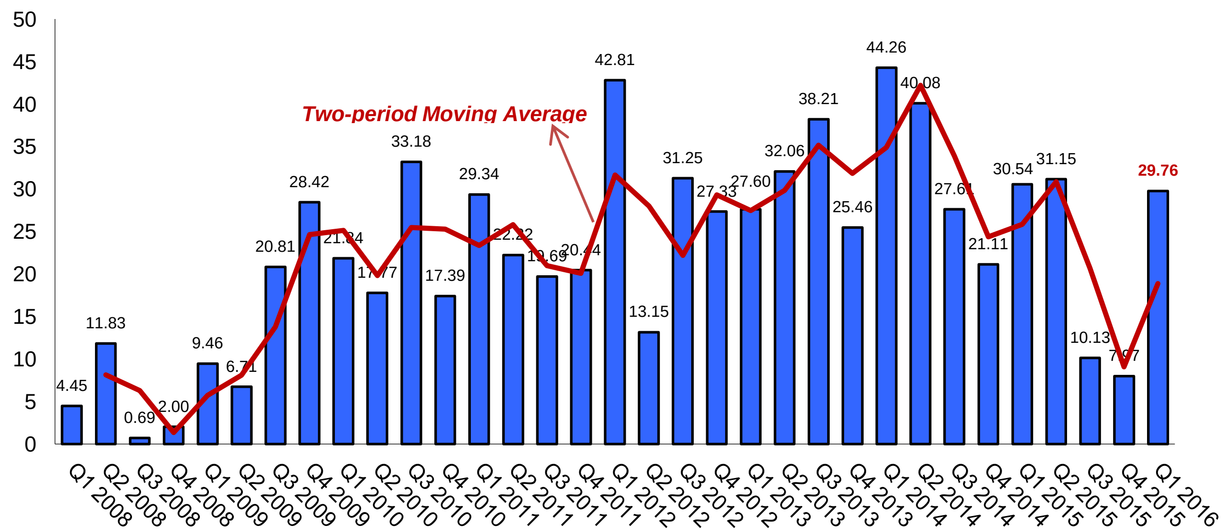


Source: ECLAC, on the basis of data from JPMorgan.

LAC bond spreads tightened 32 basis points in the first quarter of 2016, following a widening of almost 100 basis points in 2015. After peaking in January, the U.S. dollar moderated against major currencies, supporting the tightening in spreads. Spreads widened sharply for Venezuela and mildly for Argentina, but tightened for all the other countries in our sample (chart 4).

While debt spreads tightened, debt issuance increased. Although heightened market volatility in the early part of the first quarter made issuance difficult for even the best rated issuers, a strong rally in March made for better issuance conditions. The total amount of debt issued by LAC borrowers in the first quarter of 2016 reached almost US$ 30 billion (chart 5). Bond issuance in the first quarter of 2016 was 3% lower than in the first quarter of 2015, but it was a huge improvement from the total amount issued in the fourth quarter of 2015 (273% higher). However, the average bond maturity fell to 9 years from more than 18 years in 2015.

CHART 5:
QUARTERLY LAC ISSUANCE
(US$ Billions)



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

TABLE 1:
LATIN AMERICA AND THE CARIBBEAN, DEBT ISSUANCE BY ISSUER
(US$ Millions)

	TOTAL ISSUANCE	Sovereign	Corporate (Total)*	Quasi-sovereign	Supranationals	Banks and Corporates
Q1 2012	42,808	7,950	34,858	12,826	837	20,995
Q1 2013	27,600	5,470	22,130	4,797	520	16,813
Q1 2014	44,257	9,360	34,897	20,549	778	14,348
Q1 2015	30,537	15,773	14,764	1,417	8,137	5,211
Q1 2016	29,764	15,659	14,105	8,480	1,243	4,382
Q1 2016	29,764	15,659	14,105	8,480	1,243	4,382
% change/Q1 2012	-30%	97%	-60%	-34%	48%	-79%
% change/Q1 2013	8%	186%	-36%	77%	139%	-74%
% change/Q1 2014	-33%	67%	-60%	-59%	60%	-69%
% change/Q1 2015	-3%	-1%	-4%	498%	-85%	-16%

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

Note: Corporate (Total) includes corporates, banks, quasi-sovereigns and supranationals; sovereigns include states and provinces' issuances.

Breaking with recent trends, sovereigns had the highest share of total issuance (53%), while corporates (47%) had their lowest share of the total since 2005. Issuance by banks and corporates in the first quarter of 2016 was 16% lower than in the first quarter of 2015 and 69% lower than in the first quarter of 2014. On the other hand, issuance by quasi-sovereign corporates was almost 500% higher than in the first quarter of 2015 (table 1). Excluding sovereign borrowers, just nine issuers from the region sold US$ 14 billion of cross-border bonds in the first quarter, and over half of that volume (US$ 7.5 billion) came from Mexican state-owned oil producer Pemex. In the same period last year, sixteen corporate borrowers raised US$ 14.8 billion.

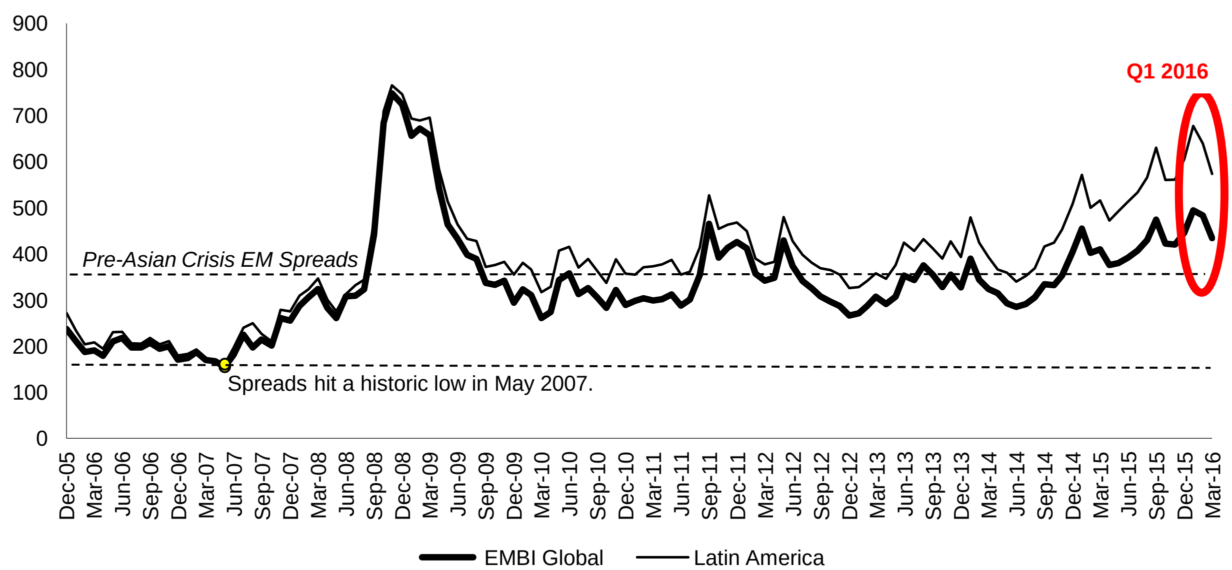
Despite the improved sentiment at the end of the quarter, the external environment remains challenging and the credit quality of some of the region's borrowers has raised invertors' concerns. There were nine sovereign negative credit rating actions in the first quarter and only two positive actions.

In addition, the global issues that weighed on investor sentiment earlier in the year have not disappeared entirely and could threaten another bout of "risk off" selling. Crude oil prices, the Chinese economy, the real impact of negative rates on the European system and, particularly, the future trajectory of the U.S. monetary policy remain as question marks. A common view is that there is one major factor that will determine the future swings in LAC assets: the future path of the U.S. interest rates. A gradual increase in U.S. interest rates may take the shine off the recent rebound in LAC financial assets. With a turnaround in the U.S. dollar, investors would likely make the transition from "risk" to "risk off."

I. Bond markets and debt management

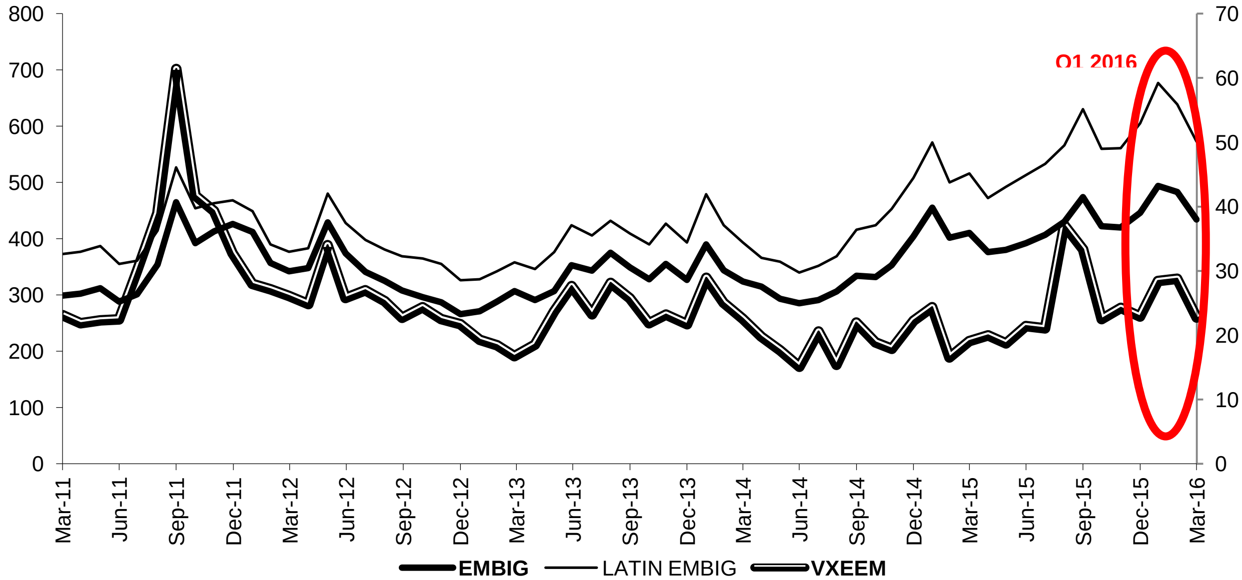
EMBI Global bond spreads tightened 12 basis points while its Latin component tightened 32 basis points in the first quarter of 2016. Following the performance of the U.S. dollar, which after peaking in January moderated against major currencies, LAC spreads widened in January and tightened in February and March, with the moderation in the U.S. dollar later in the quarter supporting the tightening (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

In the first quarter of 2016, there were two positive sovereign credit rating actions in Latin America and the Caribbean – Jamaica's upgrade and Nicaragua's first rate assignment – and nine negative (table 1). Among the nine negative actions, four were downgrades (Costa Rica, Brazil, downgraded by two agencies, and Suriname), four were downward outlook revisions (Costa Rica, Colombia, Venezuela and Mexico), and one was a review for possible downgrade (Trinidad & Tobago).

The decline in commodity prices, as well as fiscal constraints, loomed large behind the negative actions taken in the first quarter. On February 8, Moody's affirmed Costa Rica's Ba1 rating and changed its outlook to negative from stable, citing high fiscal deficits, which were expected to continue and to lead to a continued increase in government debt, as the reason for the negative outlook. Later in the month, on February 25, S&P downgraded Costa Rica's long-term foreign and local currency sovereign credit ratings to BB- from BB with a negative outlook, saying continued fiscal deterioration has resulted in a growing debt burden and rising interest payments.

Brazil was donwgraded by two rating agencies in February. On February 17, S&P downgraded Brazil long-term ratings to BB from BB+, keeping a negative outlook, citing significant political and economic challenges. This was the second downgrade in less than six months, after the rating agency dropped the country's long-term debt to sub-investment grade. On February 24, Moody's downgraded Brazil's issuer and bond ratings to Ba2 from Baa3 with a negative outlook, a two-notch cut to junk status, becoming the third agency to drop the sovereign from the ranks of investment grade.

Still in February, reflecting the adverse impact of the decline in commodity prices, S&P affirmed Colombia's BBB long-term foreign currency sovereign credit rating on February 16 and revised the outlook to negative from stable. The change in outlook reflected "the risk that Colombia's external position could deteriorate further." On February 26, Fitch downgraded Suriname's rating to B+ from BB- with a negative outlook, citing weakening external finances driven by a shock to commodity export prices.

In March, the outlook of both Venezuela and Mexico was revised downwards, while Trinidad & Tobago was put under review for a possible downgrade. On March 4, Moody's affirmed Venezuela's Caa3 issuer and government bond ratings and changed the outlook to negative from stable, arguing that "rising uncertainty around political or economic events could increase the loss severity for bondholders in the event of a default, for which the agency is assigning a high probability of occurrence." Also on March 4, Moody's placed Trinidad and Tobago's Baa2 rating on review for downgrade. On March 31, Moody's changed Mexico's outlook to negative from stable and affirmed its A3 rating. The drivers of the worsening outlook were challenging fiscal consolidation efforts on the back of subdued growth and continued external headwinds, and contingent liabilities in the form of possible government support to Pemex, which could further undermine the fiscal consolidation process.

At the end of March, four of the rated sovereigns in the region – Argentina, Cuba, 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 eight – the Bahamas, Barbados, Brazil, Costa Rica, Guatemala, Mexico, Suriname and Venezuela – had a negative outlook, while Trinidad & Tobago was under a negative review (appendix A, table 1).[1]

TABLE 2:
SOVEREIGN CREDIT RATING ACTIONS IN LATIN AMERICA AND THE CARIBBEAN, Q1 2016

Date	Country	Action	
Q1 2016	**2 positive and 9 negative actions**		
8-Feb-16	Costa Rica	Moody's affirms Costa Rica's Ba1 rating and changes outlook to negative from stable	*Negative*
11-Feb-16	Jamaica	Fitch upgrades Jamaica's rating to B from B- with a stable outlook	*Positive*
11-Feb-16	Nicaragua	S&P assigns B+ first-time rating to Nicaragua with stable outlook	*Positive*
16-Feb-16	Colombia	S&P revises the outlook on Colombia's BBB rating to negative from stable	*Negative*
17-Feb-16	Brazil	S&P downgrades Brazil long-term rating to BB from BB+ keeping a negative outlook	*Negative*
24-Feb-16	Brazil	Moody's downgrades Brazil's rating to Ba2 from Baa3 with a negative outlook	*Negative*
25-Feb-16	Costa Rica	S&P downgrades Costa Rica's rating to BB- from BB with a negative outlook	*Negative*
26-Feb-16	Suriname	Fitch downgrades Suriname's rating to B+ from BB- with a negative outlook	*Negative*
4-Mar-16	Venezuela	Moody's affirms Venezuela's Caa3 rating and changes outlook to negative from stable	*Negative*
4-Mar-16	T&T	Moody's places Trinidad & Tobago's Baa2 rating on review for downgrade	*Negative*
31-Mar-16	Mexico	Moody's affirms Mexico's A3 rating and changes outlook to negative from stable	*Negative*

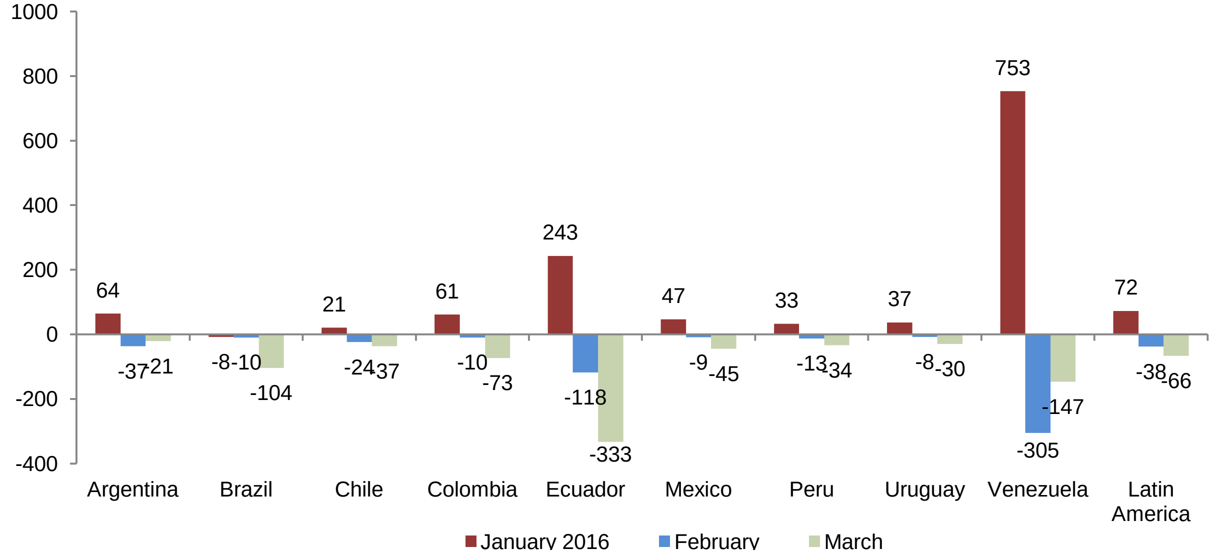
Source: JPMorgan, Emerging Markets Outlook and Strategy and rating agencies.

A. Sovereign Spreads

The JPMorgan's EMBIG narrowed 12 basis points in the first quarter of 2016 – from 446 basis points at the end of December 2015 to 434 basis points at the end of March 2016 – while its Latin component narrowed 32 basis points, from 605 to 573 basis points. In this period, spreads widened sharply for Venezuela and mildly for Argentina, but tightened for all the other countries in our sample, with Brazil and Ecuador showing the biggest spread-tightening in the quarter. On a monthly basis, spreads widened in January and tightened in February and March (chart 8).

[1] Moody's has already followed-up on some of those outlooks: on April 1, Barbados was downgraded to Caa1 from B3; on April 15, Trinidad & Tobago was downgraded to Baa3 from Baa2 after Moody's concluded its review process; and also on April 15 Argentina was upgraded to B3 with a stable outlook. Argentina's upgrade came ahead of the US$ 16.5 billion four-tranche bond deal that took place on April 19.

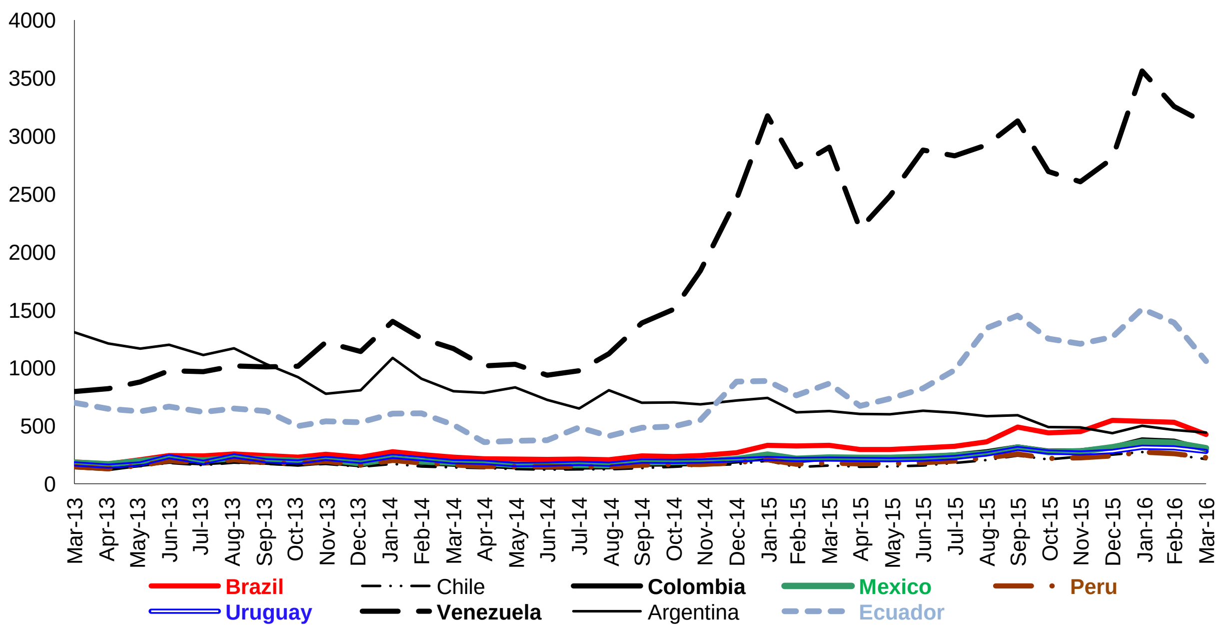
CHART 8:
EMBIG MONTHLY SPREAD DIFFERENTIALS: Q1 2016
(Basis points)



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

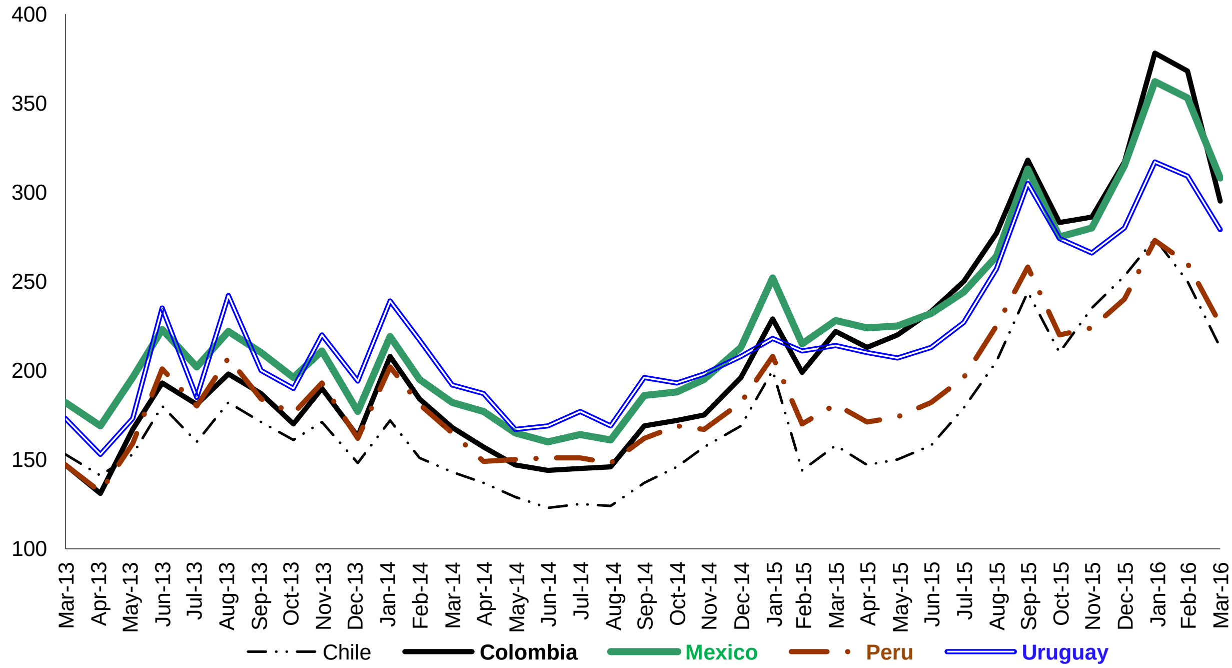
The recent evolution of the EMBIG spreads shows Venezuelan spreads widening sharply relative to the rest of Latin American countries in the EMBIG. Spreads for Brazil and Argentina have converged, while spreads for the investment grade countries have widened but remain low in comparison to the non-investment grade countries (see chart 9, 10 and 11).

CHART 9:
EMBIG LATIN: COUNTRY SPREADS
(Basis points)



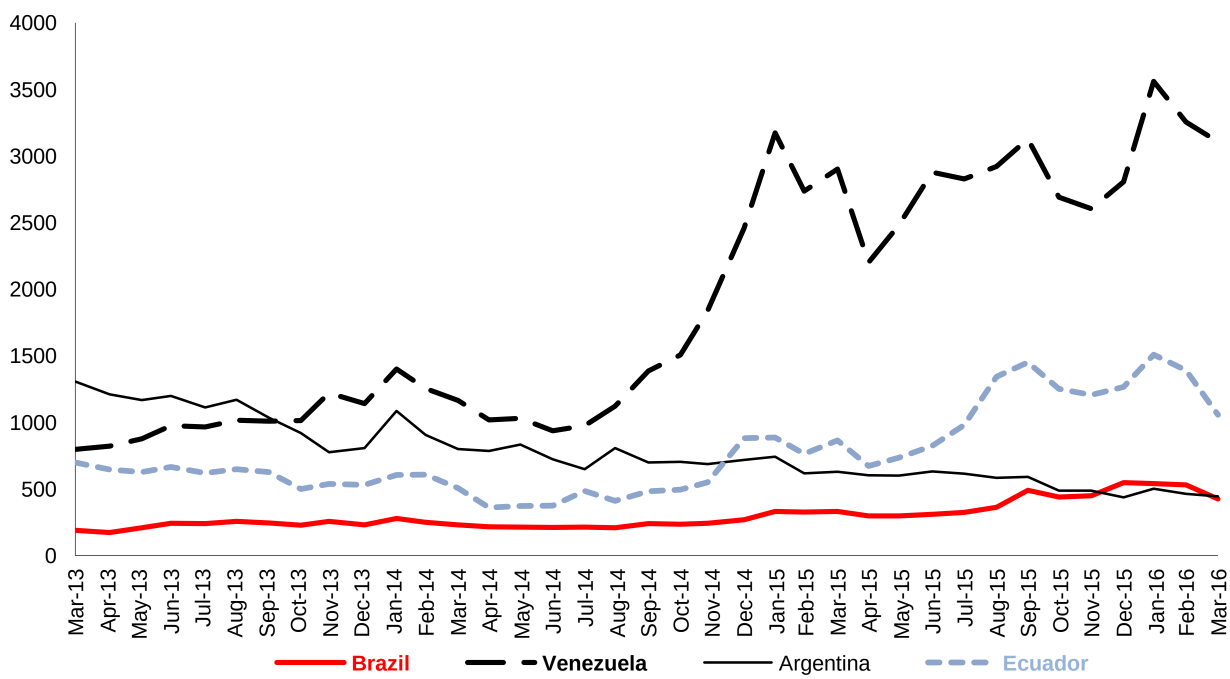
Source: ECLAC, on the basis of data from JPMorgan.

CHART 10:
EMBIG LATIN: INVESTMENT GRADE ISSUERS
(Basis points)



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

CHART 11:
EMBIG LATIN: NON-INVESTMENT GRADE ISSUERS
(Basis points)



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

Chile had the lowest spreads in the EMBIG composite at the end of March 2016: 213 basis points (appendix B, table 2). They narrowed 40 basis points in the first quarter. After weakening sharply at the end of 2015, there has been some improvement in the latest economic data.

Peruvian spreads were at 226 basis points at the end of March. They tightened 14 basis points in the first quarter. Peru's recent elections have had no major impact on financial markets, as investors expect market-friendly policies to continue regardless of the results.

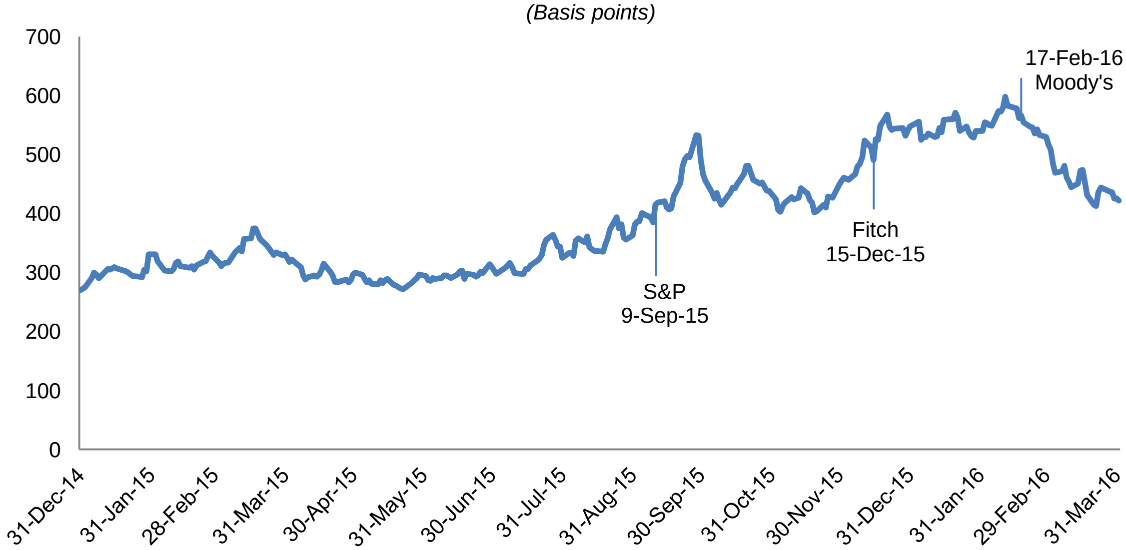
Uruguayan spreads were at 279 basis points at the end of March. They remained basically unchanged in the first quarter, showing a tightening of only 1 basis point. The economy is in good shape, but remains weak, and inflationary pressures persist.

Colombian spreads were at 295 basis points at the end of March. They tightened 22 basis points in the first quarter. While investors remain constructive on the medium-term fundamentals, they recognize potential risks to the economy derived from lower oil prices.

Mexican spreads were at 308 basis points at the end of March 2016. They tightened 7 basis points in the first quarter. Mexico's economy has remained subdued. Nonetheless, investors feel that the structural reform package that has been steadily implemented in recent years will eventually start to bear fruit and lift economic growth, although it may take time.

Brazilian spreads were at 426 basis points at the end of March. They tightened 122 basis points in the first quarter. The political crisis has deepened, but markets have rallied on the hope that a resolution may be imminent. In the past six months Brazil was downgraded by the three main credit rating agencies to junk status, with spreads increasing as a result. The first downgrade by S&P in September 2015 seems to have had the biggest impact on spreads, while investors' reaction seemed mute to the last downgrade by Moody's (chart 12). The political and economic uncertainty may create increasingly difficult situations ahead, however. The Brazilian market will likely see some large restructurings in 2016, as the capital markets remain off limits for many distressed issuers.

CHART 12:
BRAZILIAN BOND SPREADS REACT TO DOWNGRADES TO JUNK STATUS
(Basis points)



Source: ECLAC, on the basis of data from JPMorgan, Standard & Poor's, Moody's and Fitch..

Argentina's spreads were at 444 basis points at the end of March. After a long period of descent since January 2014, spreads widened six basis points in the first quarter. Prospects for Argentina's bond spreads in the near future are favorable, however. The approval of a deal with holdout creditors in the first quarter opened the way for the end of Argentina's 15-year absence from the international debt market. Global investors welcomed a US$ 16.5 billion bond sale from Argentina on April 19, the largest ever bond issue from an emerging market economy, with orders reaching almost US$ 70 billion.

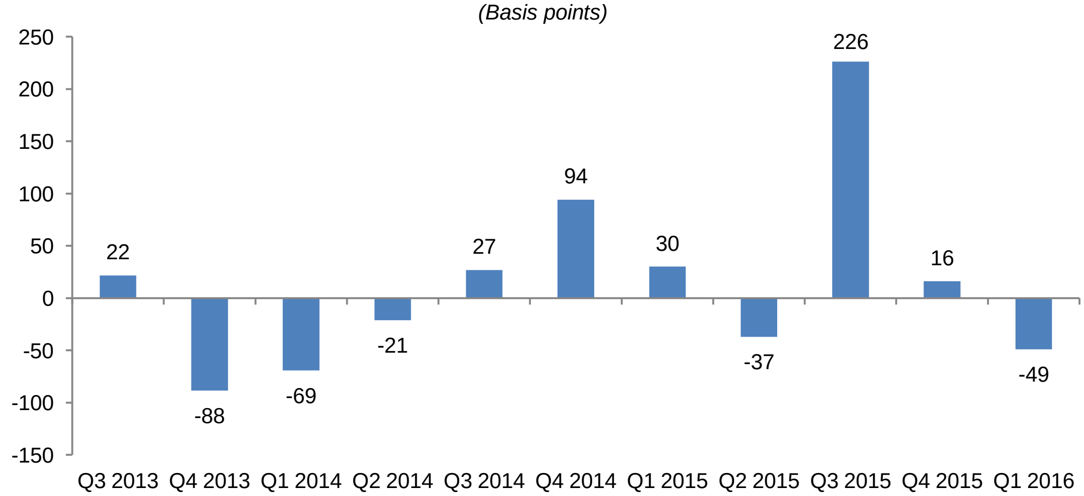
Ecuadorian spreads were at 1,058 basis points at the end of March. Spreads tightened 208 basis points in the first quarter, as oil prices showed signs of stabilizing towards the end of the quarter. The Ecuadorian economy has been hit by a double blow of depressed oil prices and a strong U.S. dollar, which has posed challenges to the competitiveness of the fully dollarized economy. A 7.8 magnitude earthquake in April has added to the country's problems, leaving it hard-pressed to pay for reconstruction. According to the government, Ecuador may turn to the cross-border bond markets to help the country finance reconstruction efforts.

Venezuela maintains the highest debt spreads of any country in the EMBIG. Venezuelan spreads widened 301 basis points in the first quarter, as lower oil prices and resulting economic pressure have led to increasing market doubts regarding Venezuela's ability to pay its debt. Investors have pointed out that Venezuela needs to meet US$ 10 billion in bond repayments to foreign creditors and a further US$ 6 billion in Chinese loans also fall due this year. Venezuela's foreign exchange reserves have decreased to US$ 13.6 billion in February 2016, according to Banco Central de Venezuela, down by more than half in less than two years, a direct result of low oil prices. Spreads were at 3,108 basis points at the end of March.

B. Corporate Spreads

Latin America and the Caribbean corporate bond spreads followed the behavior of their sovereign counterparts and tightened in the first quarter of 2016, as stabilization in oil prices, better news regarding China's economic growth, and expectations that the Fed would move with caution before raising interest rates again, supported risk assets. As the external environment improved, the cost of holding dollar-denominated debt declined. The Latin component of JPMorgan's Corporate Emerging Markets Bond Index (CEMBI) tightened 49 basis points in the first quarter of 2016 (chart 13).

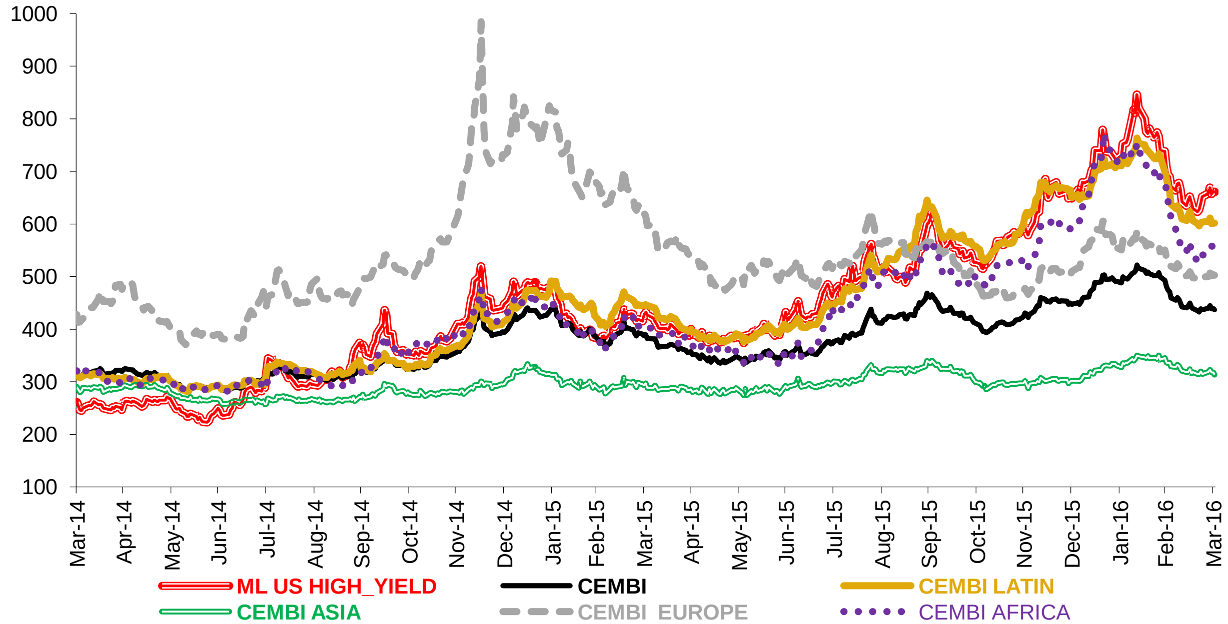
CHART 13:
CORPORATE EMBI SPREADS: LATIN COMPONENT
(Basis points)



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

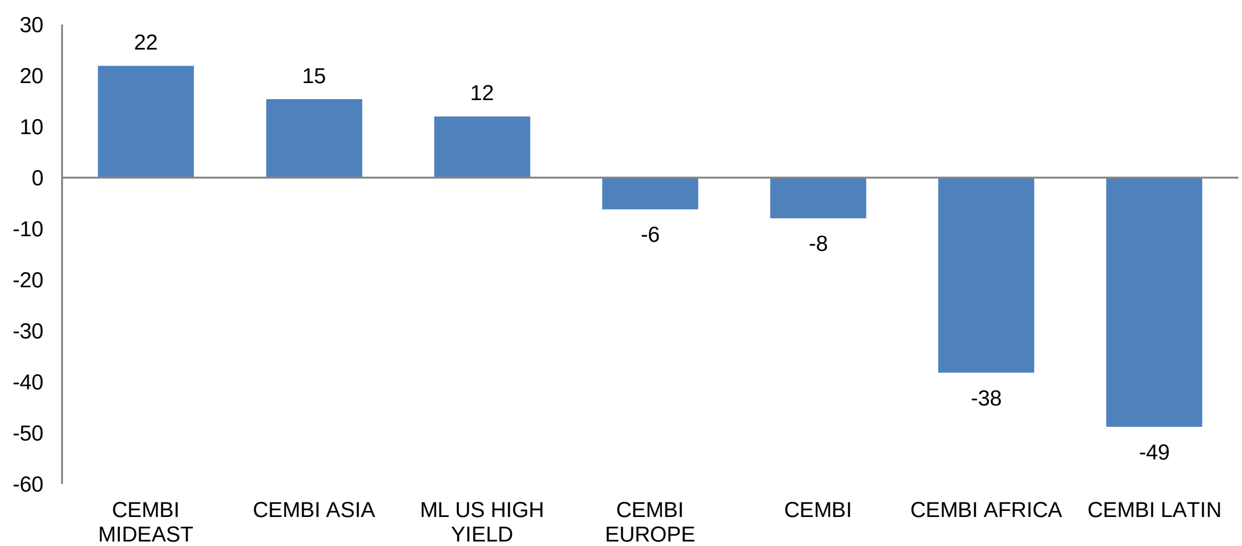
CEMBI spreads tightened 8 basis points, less than the Latin component. Given the region's relatively high exposure to commodity exports and large corporates with very high levels of foreign currency borrowing, as the dollar strengthened and oil prices stabilized in the first quarter, Latin American corporate credit spreads tightened more than spreads for any other region (charts 14 and 15).

CHART 14:
SPREAD DIFFERENTIAL CORPORATE EMBI SPREADS VS U.S. HIGH-YIELD COPORATE SPREADS: Q1 2016
(Basis points)



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

CHART 15:
CEMBI AND ML US HIGH YIELD QUARTERLY SPREAD DIFFERENTIALS: Q1 2016
(Basis points)

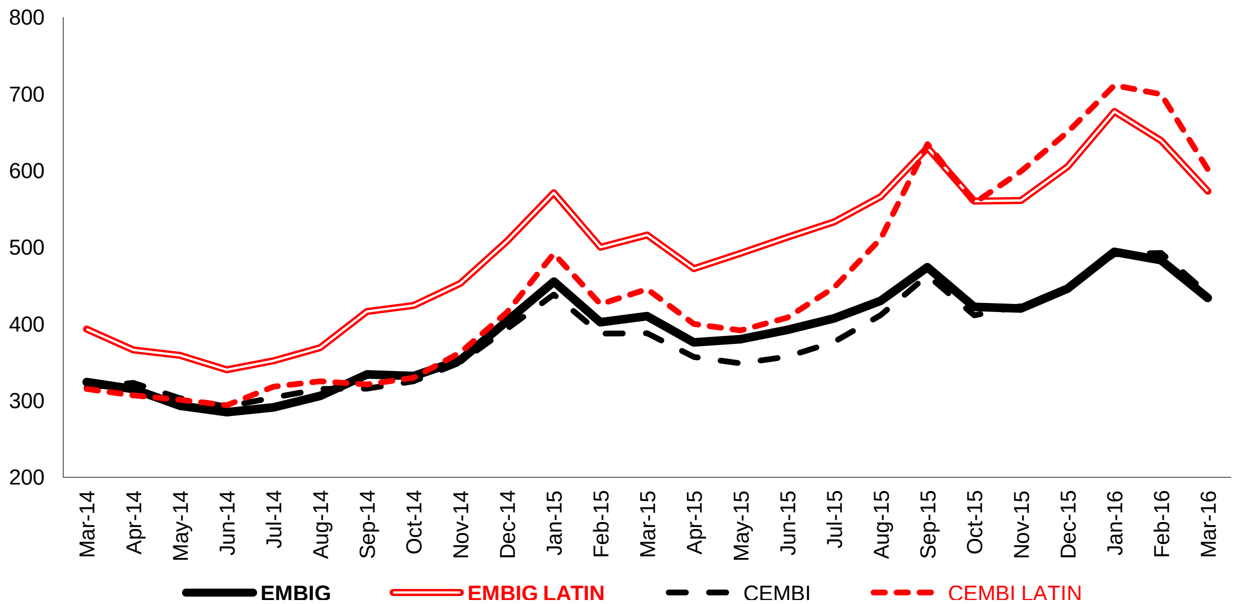


Source: ECLAC, on the basis of data from JPMorgan CEMBI and Merrill Lynch U.S. High-Yield Master II Index (H0A0).

The region's corporate spreads tightened more than sovereign spreads in the first quarter as well. Latin CEMBI spreads were higher than their sovereign counterpart at the end of March (chart 16).

CHART 16:
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.

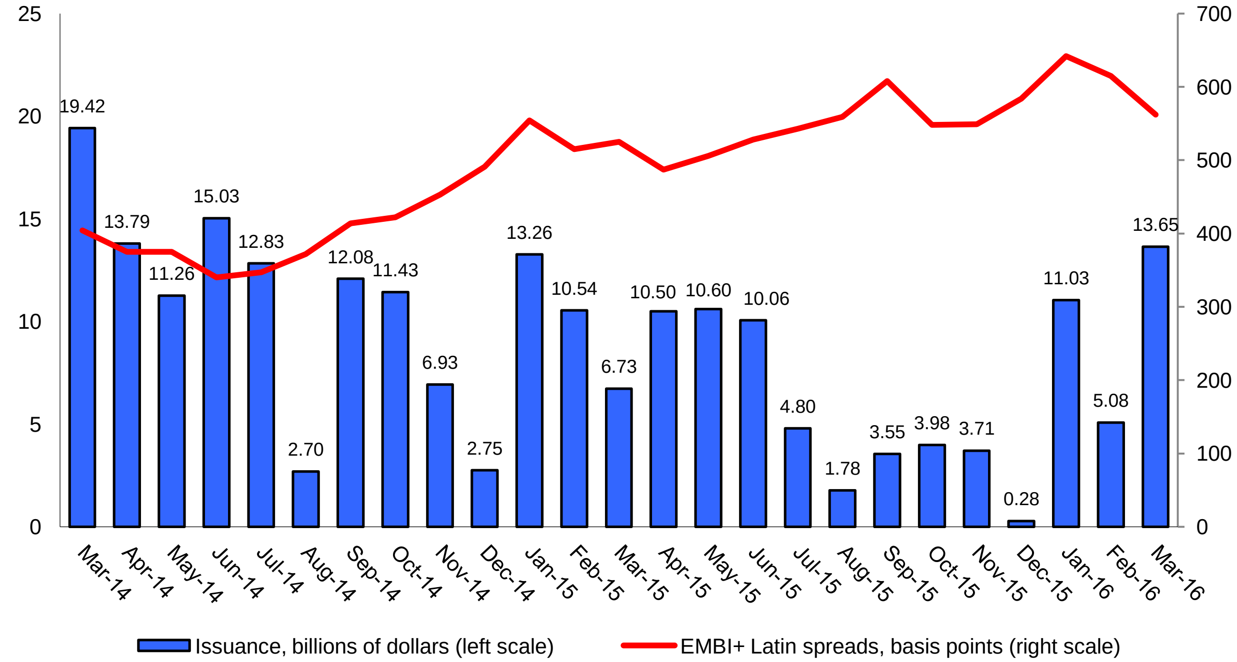
C. New Debt Issuance

Heightened market volatility in the early part of the first quarter made issuance difficult for even the best rated issuers, but a strong rally in March made for better issuance conditions. March's issuance was the highest monthly issuance since June 2014 (chart 17). Total LAC debt issuance reached US$ 29.76 billion in the first quarter of 2016, compared to US$ 30.54 billion in the same period in 2015, 3% lower. But it was a big improvement from the US$ 18.10 billion issued in the whole second half of 2015 (there was a considerable slowdown in LAC debt issuance from July to December 2015, as volatility and lower commodity prices loomed over the region).

Mexico had the largest share of bond issuances – sovereign and corporate combined – in the first quarter of 2016, followed by Chile, Argentina, Colombia and Brazil. Up until the third quarter of 2015 Brazil had been consistently included in the top two. Mexico, Chile, Argentina, Colombia and Brazil issued (sovereign and corporate combined) US$ 16.29, US$ 2.65, US$ 2.61, US$ 1.76 and US$ 1.50 billion, respectively. Issuances from Mexico account for 55% of the total LAC issuance in the first quarter (chart 18).

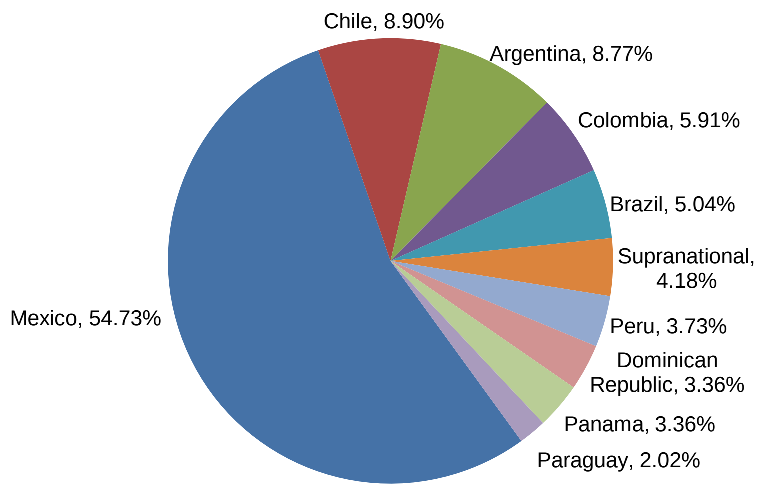
Some of the largest issuances in the quarter have come from sovereigns and quasi-sovereigns, with banks and corporates largely staying on the sidelines. Sovereigns, quasi-sovereigns and development banks accounted for 85% of the total amount issued in the first quarter. Mexican state-owned oil producer Pemex accounted for 25% of the total amount issued in the quarter. For the most part, only the highest-rated Latin American borrowers accessed the cross-border markets in the first quarter.

CHART 17:
MONTHLY LAC ISSUANCE
(Left axis: US$ Billions; right axis: Basis Points)



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

CHART 18:
LAC DEBT ISSUANCE IN Q1 2016: COUNTRY BREAKDOWN
(Country shares in percentage)



Source: ECLAC on the basis of data from LatinFinance.

i. Sovereign Issuance

Eight sovereigns – Chile, Mexico, Dominican Republic, Peru, Panama, Brazil, Colombia and Paraguay – tapped international debt markets in the first quarter (appendix C, table 3).

In ***January***, *Chile* became the first Latin American sovereign to tap the cross-border bond market in 2016 with a dual currency issue, a 10-year 1.75% EUR 1.2 billion and a 10-year 3.125% US$ 1.35 billion bond. *Mexico* and the *Dominican Republic* followed suit. Mexico issued a US$ 2.25 billion 4.125% 2026 bond, with Mexican officials saying they wanted to take dollar issuances out of the way early in the year as they anticipate a potential increase in interest costs. They see volatility arising from the Fed decisions and the window in the dollar market being much more limited than in other markets later on in the year. The Dominican Republic issued a US$ 1 billion 6.875% 2026 bond, showing that investors had the cash for higher quality high-yield sovereign papers.

In ***February***, *Mexico* priced a EUR 2.5 billion (US$ 2.8 billion) dual tranche, its second cross-border issue of the year and the first benchmark size trade in weeks. *Peru* became the third LAC sovereign to go to the euro market this year. With Peru's issuance, LAC issuers have sold more euro bonds than ever on a year-to-date basis of comparison.

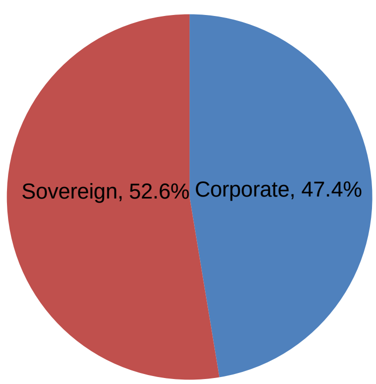
In ***March,*** four sovereigns tapped the cross-border debt markets. *Panama* issued a US$ 1 billion 3.875% 2028 bond. *Brazil* issued a US$ 1.5 billion 6% 2026 bond, its first benchmark since its sovereign ratings were cut to junk status. *Colombia* returned to the European bond market after a 15-year hiatus and completed its cross-border funding needs for the year with a EUR 1.35 billion 3.875% 2026 bond. *Paraguay* issued a US$ 600 million 5% 2026 bond, likely completing its cross-border financing plan for the year, according to market participants. The government is expected to use the proceeds to pay back US$ 350 million in outstanding debt and also finance public infrastructure projects.

Also in March, the Province of Buenos Aires issued a US$ 1.25 billion 9.125% 2024 bond, the first sub-sovereign cross-border sale from Argentina this year.

ii. Corporate Issuance

In the first quarter of 2016, the corporate sector (including corporations, banks, quasi-sovereigns and supranationals) accounted for 47.4% of total LAC issuance, their lowest share since 2005 (see chart 19). The share of corporate issuance has been declining since 2012, when it reached a peak of 85%.

CHART 19:
LAC CORPORATE AND SOVEREIGN ISSUANCE IN Q1 2016
(Percentage)

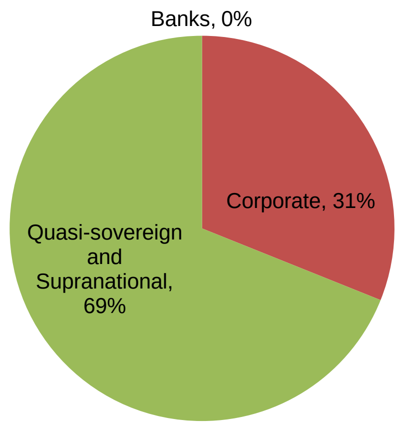


Source: ECLAC on the basis of data from LatinFinance.

Quasi-sovereign and supranational issuers accounted for 69% of total LAC corporate issuance in international markets in the first quarter, a significant increase from the 55%, 46%, 39% and 31% shares in 2015, 2014, 2013 and 2012, respectively. Corporations accounted for the other 31% (charts 20 and 21).

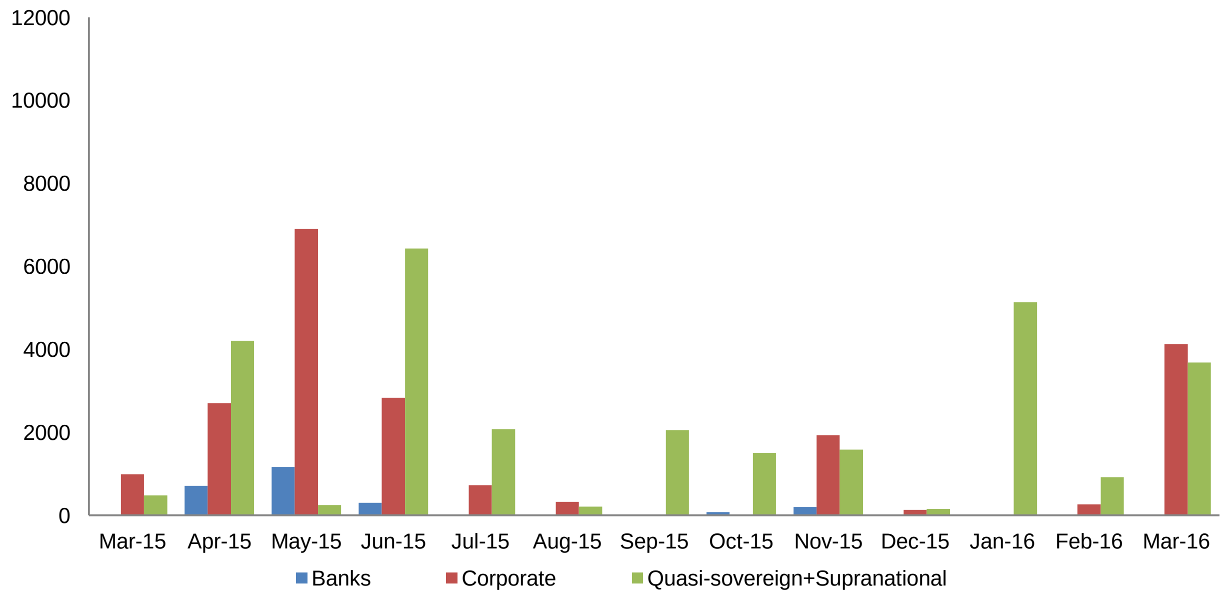
Excluding sovereign borrowers, just nine issuers from the region sold US$ 14 billion of cross-border bonds in the first quarter, and over half of that volume (US$ 7.5 billion) came from Mexican state-owned oil producer Pemex. In the same period last year, sixteen corporate borrowers raised US$ 14.8 billion.

CHART 20:
LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY TYPE IN Q1 2016
(Percentage)



Source: ECLAC on the basis of data from LatinFinance.

CHART 21:
CORPORATE ISSUANCE BY TYPE IN Q1 2016
(US$ million)



Source: ECLAC on the basis of data from LatinFinance.

According to UBS Investment Bank, the reason emerging market corporates have been able to avoid serious stress so far is that about 35% of EM corporate sector's outstanding papers are issued by partially or wholly government-owned companies. In energy, a sector still under pressure despite the modest rebound in oil prices, the government ownership ratio is close to 70%. The IMF has showed concern regarding the situation of Latin America's government-owned companies (such as Pemex (Mexico), Petrobras (Brazil) and Codelco (Chile)). The risk is that quasi-sovereign companies' deteriorating credit conditions could weaken sovereign balance sheets precisely at a time when many are already under fiscal pressure.

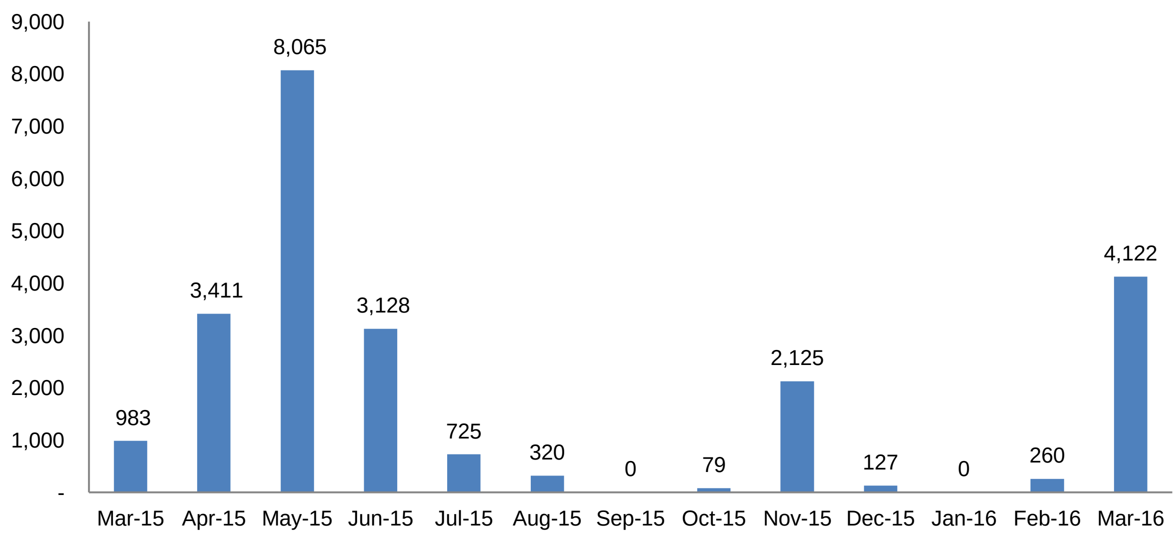
In the first quarter, two quasi-sovereigns – Mexico's Pemex and Argentina's YPF – and two supranationals – CAF and CABEI – tapped the cross-border markets, issuing a total of US$ 9.7 billion (appendix C, table 3). In ***January***, CAF, the Development Bank of Latin America, debuted water bonds in the Uridashi market (two four-year bonds issued in Turkish lira and South African rand, with a 10.73% and 9% coupons, respectively), aimed at funding water-related projects in Latin America and the Caribbean. CAF's Uridashi bond was the first water bond sold in the Japanese market and first-ever water bond in any market by a Latin American borrower. Mexico's Pemex issued the first corporate bond in the region in 2016, a three-part US$ 5 billion trade (a US$ 750 million 5.5% 2019, a US$ 1.25 billion 6.375% 2021, and a US$ 3 billion 6.875% 2026 bond).

In ***February,*** CABEI, the Central American Bank for Economic Integration, issued a Swiss franc bond and CAF tapped cross-border markets five times, issuing a Samurai water bond – a JPY 4.5 billion (US$ 38 million equivalent) 0.45% 2026 bond – three Swiss franc bonds, and reopening its 1% 2020 bond, to add EUR 250 million (US$ 278 million equivalent), bringing the size of the bond to EUR 1 billion outstanding.

In ***March***, YPF issued a US$ 1 billion 8.5% 2021 bond, Pemex issued a two-part euro bond totaling EUR 2.25 billion (US$ 2.48 billion) and CAF issued two Kangaroo bonds, an AUD 150 million 4% 2021 and an AUD 110 million 4.5% 2026 bond.

Regarding issuances from the **private corporate sector** in the first quarter of 2016, not including quasi-sovereigns and supranationals, there was no activity in January, low activity in February, and some activity in March (chart 22).

CHART 22:
LAC MONTHLY PRIVATE CORPORATE SECTOR BOND ISSUANCE IN Q1 2016
(US$ Millions)



Source: ECLAC on the basis of data from LatinFinance.

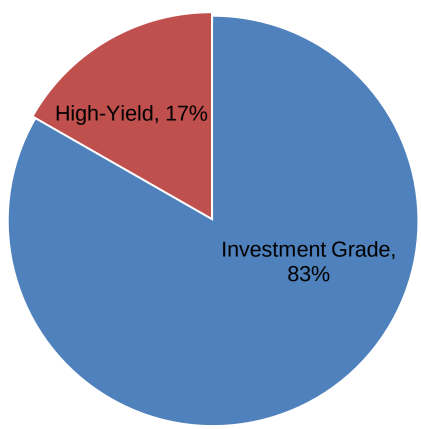
Note: issuance from the private corporate sector only (including companies and banks); quasi-sovereigns and supranationals are not included in the chart.

In ***February,*** Colombia's Pacifico 3 (Fideicomiso P.A. Pacifico Tres) issued a two-part project bond to finance a toll road concession that it is developing as part of Colombia's 4G (Fourth Generation of the Road Concessions Program). It included a 2019-year UVR-denominated bond in the local market and a US$ 260 million 2035 8.25% dollar-denominated bond in international markets. Pacifico 3 will back the dollar-denominated bond with future toll revenues.

In ***March***, Mexico's America Movil became the first Latin American corporate borrower to tap the European bond market in 2016 (the fifth borrower in euros this year), issuing a dual-tranche EUR 850 million 1.5% 2024 and a EUR 1.35 billion 3.75% 2019 bond. Mexico's Cemex issued a US$ 1 billion 7.75% 2026 bond, the first cross-border high-yield trade from a Latin American corporate issuer in nine months. Mexico's Femsa, the largest independent Coca-Cola bottler, issued its first euro-denominated bond, totaling EUR 1 billion (US$ 1.11 billion). Fitch gave the bond an A rating. Finally, Argentina's IRSA Propiedad Comercial issued a US$ 360 million 8.75% 2023 bond.

Investment grade companies dominated corporate issuance in the first quarter of 2016. The share of high-yield issuance was only 17% (see chart 23), below the 2015 share of 21%, the 2014 share of 23% and the 2013 share of 30%. 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 23:
BREAKDOWN OF LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY RATING, Q1 2016
(Percentage of total)



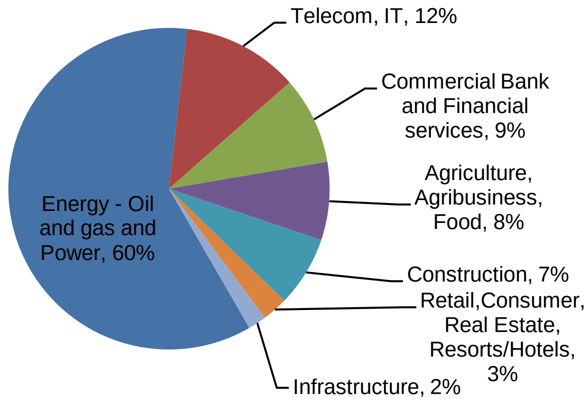
Source: ECLAC, on the basis of data from LatinFinance,.

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

From a sectoral perspective, 60% of LAC corporate debt issuance (including corporate, banks, quasi-sovereigns and supranationals) in the first quarter of 2016 came from one sector: energy (chart 24). That was because of Mexico's state-owned oil producer Pemex, which issued a quarter of the total amount issued in the first quarter (corporate and sovereign combined), 53% of the total amount issued by the corporate sector, and 77% of the total amount issued by quasi-sovereigns.

The telecommunications sector was the second most relevant sector in terms of aggregate volume (12% of total corporate issuance), followed by the financial sector, including banks as well as financial services companies, which accounted for 9%.

CHART 24:
LAC INTERNATIONAL CORPORATE BOND ISSUANCE BY SECTORS, Q1 2016
(Percentage of total)



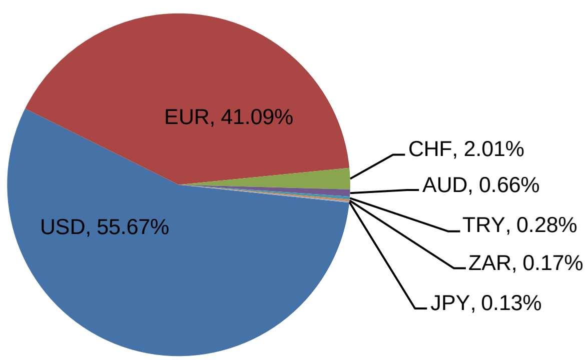
Source: ECLAC, on the basis of data from LatinFinance.

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

iii. Currency Composition

LAC borrowers turned to euro-denominated debt issuance in the first quarter of 2016, to access competitive funding. Most of the international debt issuance in the region in the first quarter of 2016 was still denominated in U.S. dollars (56%), but this was a sharp decline from the 2015's share (73%). The share of issuances in euro, on the other hand, increased to 41% in the first quarter from 20% in 2015. Four sovereigns issued in euros in the first quarter. Mexican issuers, including the sovereign, accounted for almost 70% of the total amount issued in euros. There was also issuance in Swiss franc (2.01%), Australian dollar (0.66%), Turkish lira (0.28%), South African rand (0.17%) and Japanese yen (0.13%).

CHART 25:
CURRENCY BREAKDOWN, Q1 2016



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

II. Bond markets and credit management in the Caribbean

Hit badly by the global financial crisis, the Caribbean region[2] has struggled to recover ever since. After contracting in 2009 and 2010, average regional growth in real output has recovered very slowly and has not yet reached 2%. In its latest forecast, ECLAC estimates that the Caribbean region's GDP will grow 0.9% in 2016. Countries in the region have been plagued by debt, and a number of them restructured bond payments over the past few years, making this period one with the highest number of defaults on loan agreements in the Caribbean region.

The liabilities of the Caribbean region are far beyond what would be considered safe for small, open and undiversified economies. ECLAC has called for the creation of a Caribbean Resilience Fund as part of a debt alleviation strategy. Caribbean countries are vulnerable to external shocks, have inherent structural weaknesses and limited capacity to respond. Many Caribbean countries have been hit by the downturn in tourism that followed the global financial crisis, while others struggle with a stagnant financial services industry. The Caribbean is also one of the most disaster-prone regions in the world, and some countries are still struggling with fiscal and economic wounds left by severe tropical storms.

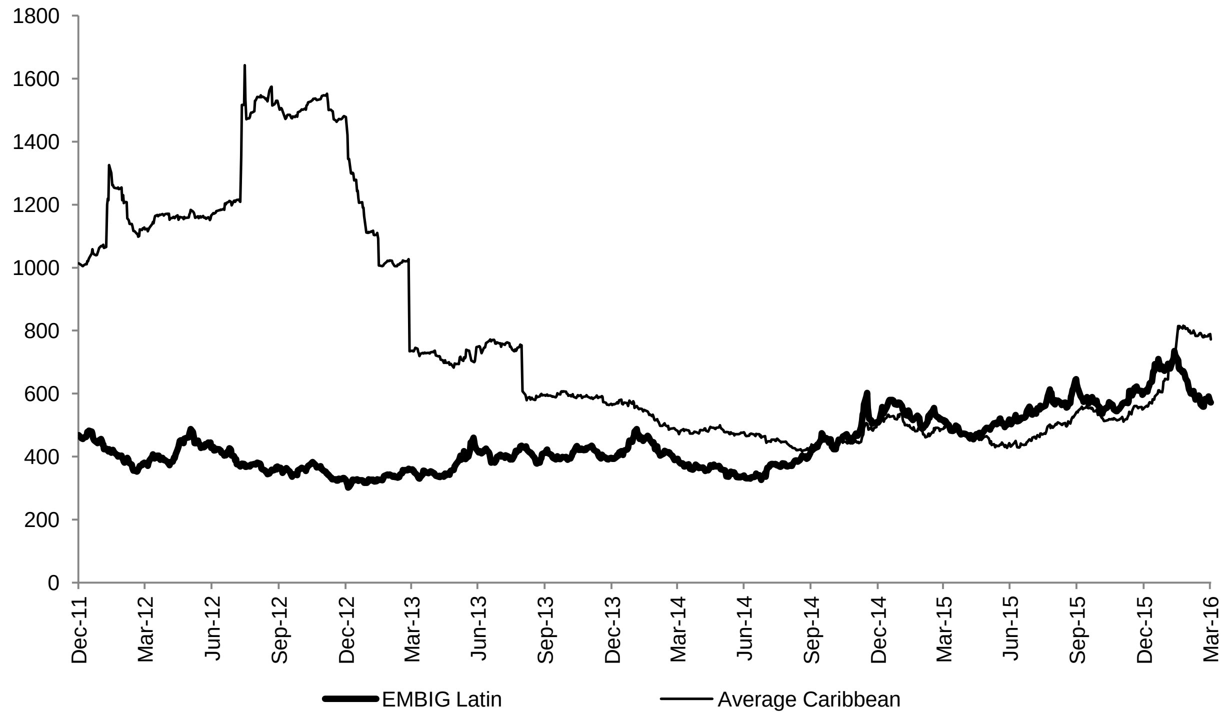
For some of the economies of the region, it is difficult to get a foothold in the capital markets borrowing, because bonds' benchmark sizes – US$ 500 million is the EMBI minimum – are in general too high for the size of their economies. The region's high level of indebtedness has compounded the problem. In a report released in February, "The Silent Debt Crisis," Moody's cautions investors that "a slow and steady build-up of debt has left the region's economies vulnerable to external shocks and the heightened risk of sovereign defaults."

From late 2010 to late 2012 the spread gap between the Caribbean countries and the EMBIG Latin component widened by almost 1,000 basis points as a result of the high number of defaults in the Caribbean region. In 2014 the spread gap was finally closed, as successful bond restructurings lowered spreads for the region, and in 2015 the gap was actually reversed, with Caribbean spreads lower than the EMBIG Latin component by 50 basis points at the end of the year. In the first quarter of 2016, however, the gap reappeared. Caribbean spreads ended the quarter higher than the EMBIG Latin component by 216 basis points (chart 26). While Latin American sovereign spreads tightened 32 basis points in the first quarter, according to the JPMorgan EMBIG Latin component, spreads for the Caribbean region widened 234 basis points, as oil prices stabilized and the dollar wekened. In 2015, Caribbean countries had benefited from lower oil prices and from

[2] 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.

an increase in tourism flows, with the rebound in the economies that rely on tourism offsetting the impact of softer commodity prices on growth among commodity producer economies.

CHART 26:
EMBIG SPREADS, CARIBBEAN VERSUS LAC
(Basis points)



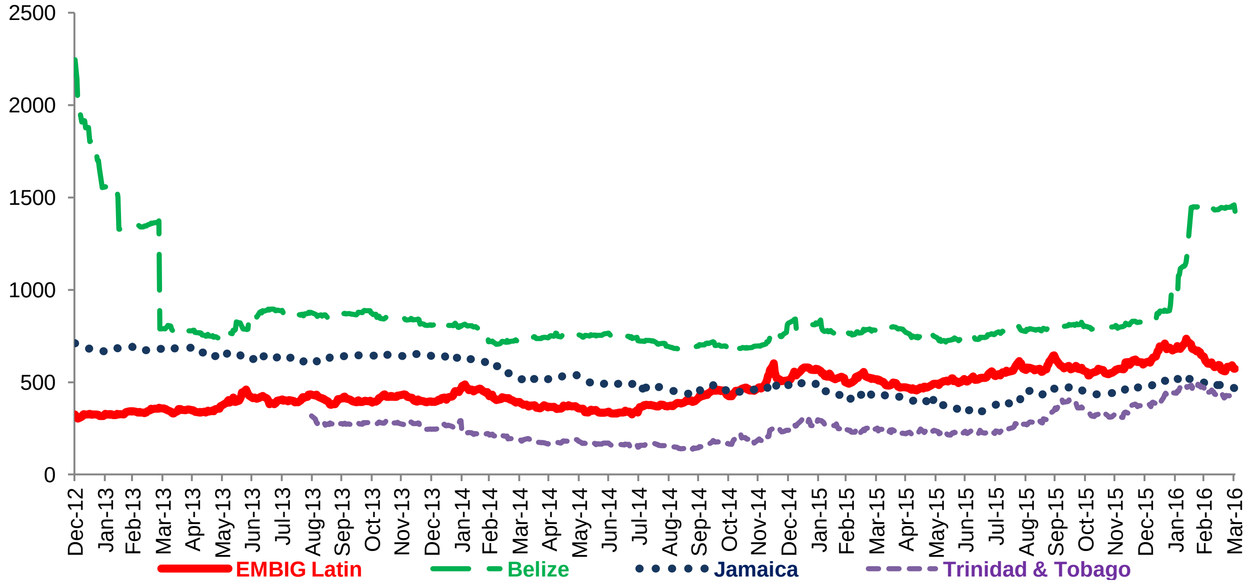
Source: ECLAC, on the basis of data from JPMorgan. The Caribbean average includes Belize and Jamaica, and since 30 August 2013, it also includes Trinidad & Tobago.

The widening in Caribbean spreads was driven by a 638 basis points widening in Belize's spreads, where there was concern about the country's ability to service a stepped-up coupon. Belize's spreads widened to 1,460 basis points at the end of March from 822 basis points at the end of December 2015 (chart 27).

Trinidad & Tobago's spreads – which were added to the JPMorgan EMBIG index on 30 August 2013 – widened 65 basis points, to 438 basis points at the end of March from 373 basis points at the end of December 2015. In early March, Moody's placed the sovereign under review for possible downgrade, "to assess the extent of the impact of the further sharp fall in oil and gas prices on the country's economic performance and the balance sheet of its government in the coming years." On April 15, Moody's downgraded Trinidad and Tobago's rating to Baa3 negative, concluding the review for downgrade. The agency concluded that low oil and gas prices will continue to "negatively and materially undermine the country's economic and government financial strength at least throughout 2018." Nonetheless, spreads for Trinidad & Tobago, which still has an investment grade from Moody's and Standard & Poor's, remain below the LAC average.

Jamaica's spreads showed no change in the first quarter, remaining at 469 basis points at the end of March. In February, Fitch upgraded Jamaica's rating to B from B- with a stable outlook, citing fiscal surpluses and improved external finances. After peaking at over 140%, the debt-to-GDP ratio has gone down to about 125%, and is forecast by the IMF to fall below 100% by 2019-20. After the latest review in December of its program with Jamaica, the IMF complimented Jamaica's record of strong program implementation under the Extended Fund Facility, adding that structural reforms have progressed well and vulnerabilities have reduced substantially.

CHART 27:
CARIBBEAN COUNTRIES, Q1 2016 EMBIG SPREADS
(Basis points)



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

Credit Rating Actions

There were one positive and two negative credit rating actions in the Caribbean in the first quarter of 2016 (table 3).

TABLE 3:
SOVEREIGN CREDIT RATING ACTIONS IN THE CARIBBEAN, Q1 2016

Date	Country	Action	
Q1 2016	**1 positive and 2 negative actions**		
11-Feb-16	Jamaica	Fitch upgrades Jamaica’s rating to B from B- with a stable outlook	Positive
26-Feb-16	Suriname	Fitch downgrades Suriname’s rating to B+ from BB- with a negative outlook	Negative
4-Mar-16	Trinidad & Tobago	Moody's places Trinidad and Tobago's Baa2 rating on review for downgrade	Negative

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

The positive action was taken in February. Citing fiscal surpluses and improved external finances, Fitch upgraded Jamaica’s B- rating to B on February 11.

The negative actions were taken in February and March. On February 26, Fitch downgraded Suriname’s rating to B+ from BB- with a negative outlook, citing weakening external finances driven by a shock to commodity export prices. On March 4, Moody's placed Trinidad and Tobago's Baa2 rating on review for downgrade, “to assess the extent of the impact of the further sharp fall in oil and gas prices on the country's economic performance and the balance sheet of its government in the coming years.”

Debt issuance

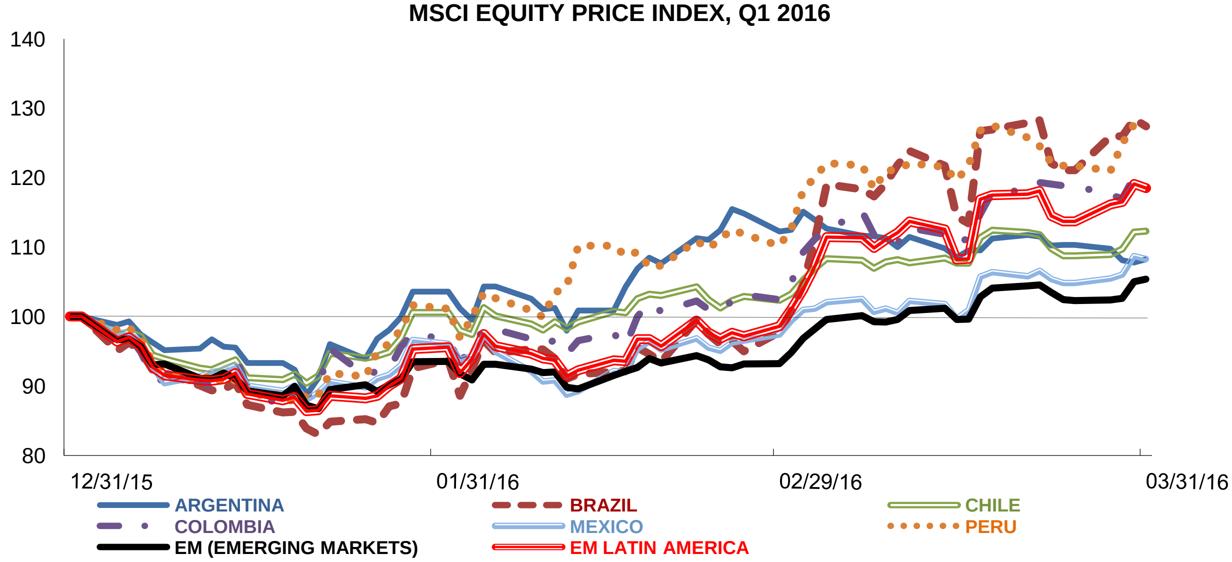
There was no issuance from the Caribbean region in the first quarter of 2016.

III. Portfolio equity flows

Latin American equities faced headwinds early in the year. China's stock market circuit breaker, which suspends trading for the day if the index falls by 7%, was triggered twice in January. Mutual funds moved large amounts of capital out of Latin America and other emerging markets as a result. Linkages between China and the rest of the world have intensified dramatically, so economies are hurt when the Chinese economy falters.

Latin American equities rallied towards the end of the quarter, however, as Chinese data improved and the U.S. Federal Reserve hinted that further interest rates in 2016 would be minimal. Moreover, monetary easing by major central banks, as well as a firming of commodity prices during much of the quarter powered stocks higher.

CHART 28:
MSCI EQUITY PRICE INDEX, Q1 2016



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.

Increasing confidence that the U.S. Federal Reserve was not planning to raise interest rates soon, stabilizing commodity prices and diminishing concerns about China's economy fueled Latin American stocks, which gained 18.51% in the first quarter (chart 28, table 4), according to the MSCI Latin American Index, erasing in March most of the decline they sustained during the selloff at the start of the year.

Within the region, Brazil's MSCI index had the sharpest gain in the first quarter (27.39%). Brazil, the fifth-largest market by capitalization weighting in the MSCI Emerging Markets index, became a big bet late in the quarter with the stabilization of commodity prices, reassuring words from the Fed, and a sense that its political crisis could veer into a more market-friendly direction. The gain in Brazilian equity prices was followed by Peru's (26.97%), Colombia's (21.98%), Chile's (12.32%), Mexico's (8.27%) and Argentina's (8.24%).

TABLE 4:
MSCI EQUITY INDICES, Q1 2016

	Price Index in USD			Variation		
	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Q4 2015	2015	**Q1 2016**
Emerging markets	792.049	794.139	836.803	0.26%	-16.96%	**5.37%**
Latin America	1,894.554	1,829.812	2,168.492	-3.42%	-32.92%	**18.51%**
Argentina	1,891.126	2,376.295	2,572.163	25.66%	-1.21%	**8.24%**
Brazil	1,083.243	1,036.234	1,320.007	-4.34%	-43.45%	**27.39%**
Chile	1,295.421	1,277.847	1,435.245	-1.36%	-18.89%	**12.32%**
Colombia	503.131	452.693	552.214	-10.02%	-43.89%	**21.98%**
Mexico	5,349.303	5,262.186	5,697.365	-1.63%	-15.98%	**8.27%**
Peru	884.052	811.957	1,030.976	-8.16%	-32.49%	**26.97%**

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

IV. Bank Lending

High volatility in financial markets discouraged Latin American borrowers from seeking funding in the loan markets in the first quarter of 2016. Corporate loans in Latin America and the Caribbean totaled US$ 5.16 billion in the first quarter, roughly a third of the US$ 14.5 billion in loans granted in the same period last year, according to data from Dealogic.

Low commodity prices, greater caution among lenders and higher costs of capital led to the reduced number of loan deals in the region. Brazilian companies that have usually sought financing in the loan markets also contributed to the slow start, as many of them stayed away in the first quarter. These companies faced a hard environment. As the perception of risk in the country increased, even investment grade companies faced high spreads in the syndicated loan market.

The stabilization of commodity prices – oil prices in particular – towards the end of the quarter is expected to have a downward effect on the pricing of loans in the near term, however, partially offsetting some of the increased pricing that resulted from the volatility at the beginning of the year.

V. Prospects

At the beginning of 2016, fund managers shunned LAC markets, along with other emerging markets and other riskier investments such as commodities and stocks. But later in the quarter, with interest rates in Japan and parts of Europe in negative territory, and with the Federal Reserve saying it would move cautiously when raising rates, investors' willingness to take on risk increased. As a result, portfolio flows into emerging-market debt reached a 21-month high of US$ 37 billion in March, according to the Institute of International Finance.

On April 15, Argentina ended a 15-year absence from the international debt markets with the largest emerging-market debt sale on record, a US$ 16.5 billion four-tranche bond deal. Demand for its debt was so strong that Argentina was able to increase the initial size of the deal while also lowering the yields it offered to investors. The robust interest in Argentina's bonds highlights how sharply investor attitude toward risk has changed this year.

However, there have been signs that the strong recovery in emerging market assets that took place in March seems to be already losing momentum in April, as most of the relief came from a weaker U.S. dollar. Investors' enthusiasm for risky assets could recede if U.S. interest rates rise again or if the U.S. dollar strengthens, which would raise the costs for borrowers to pay back dollar-denominated debt. Weaker global growth and commodity prices that remain well off their recent peaks are also risks to the outlook for LAC markets. There are significant domestic risks as well, including a deep recession in Brazil, the region's largest economy, which pose challenges to portfolio inflows towards the region.

Amid expectations of global volatility and uncertainty over U.S. interest rates, LAC borrowers will concentrate on finding windows of opportunity for capital markets fundraising. A keen sense of timing and an ability to navigate volatile markets will be imperative for LAC issuers in 2016.

Appendix

A. Credit Rating

TABLE 1:
CREDIT RATINGS IN LATIN AMERICA AND THE CARIBBEAN, Q1 2016

	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 (+) from stable	24-Nov-15	Affirmed, O/L stable	1-Apr-15	**Affirmed, O/L stable**	**22-Mar-16**
Bahamas	Baa2		BBB-	(-)			Downgrade, O/L stable	2-Sep-14	Downgrade, O/L (-)	25-Aug-15		
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 stable from (+)	25-Nov-15		
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	**Ba2**	**(-)**	**BB**	**(-)**	BBB-	(-)	**Downgrade, O/L (-)**	**24-Feb-16**	**Downgrade, O/L (-)**	**17-Feb-16**	Downgrade, O/L (-)	16-Dec-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+	(-)	**O/L changed to (-), Affirmed**	**8-Feb-16**	**Downgrade, O/L (-)**	**25-Feb-16**	O/L changed to (-), Affirmed	22-Jan-15
Cuba	Caa2		NR		NR		Affirmed, O/L changed to (+)	10-Dec-15				
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+		O/L changed to (-), Affirmed	19-Nov-15	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	**Upgrade, O/L stable**	**11-Feb-16**
Mexico	**A3**	**(-)**	BBB+		**BBB+**		**O/L changed to (-), Affirmed**	**31-Mar-16**	Upgrade, O/L stable	19-Dec-13	**Affirmed, O/L stable**	**26-Feb-16**
Nicaragua	B2		**B+**		B+		Upgrade, O/L stable	10-Jul-15	**First-time rating, O/L stable**	**16-Feb-16**	First-time rating, O/L stable	16-Dec-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-16**
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	Affirmed, O/L stable	28-Aug-15	**Affirmed, O/L stable**	**23-Mar-16**
Suriname	Ba3		BB-		**B+**	**(-)**	O/L changed to stable from (+)	14-Feb-14	O/L changed to stable from (+)	28-Apr-14	**Downgrade, O/L (-)**	**26-Feb-16**
Trinidad & Tobago	**Baa2**	**-**	A		NR		**Review (-)**	**4-Mar-16**	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		**O/L changed to (-), Affirmed**	**4-Mar-16**	**Affirmed, O/L (-)**	**20-Feb-16**	Affirmed, O/L stable	2-Jul-15

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

Changes for Q1 2016 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, Q1 2016

There have been 2 positive and 9 negative actions in Latin America and the Caribbean in Q1 2016.

Positive Actions: 2 (Bold)

February
- Jamaica (February 11): **Fitch upgrades Jamaica's rating to B from B- with a stable outlook**, citing fiscal surpluses and improved external finances.
- Nicaragua (February 11): **S&P assigns B+ first-time rating to Nicaragua with a stable outlook,** citing the country's steady economic growth in recent years, along with pragmatic policies and cooperation between the government and the private sector.
- Panama (February 19): Fitch affirms Panama's BBB rating with a stable outlook (*no change*).
- Mexico (February 26): Fitch affirms Mexico's BBB+ rating with a stable outlook (*no change*).

March
- Argentina (March 22): Fitch affirms Argentina's long-term foreign currency rating at RD *(no change)*, but the long-term local-currency rating was upgraded to B from CCC.
- Peru (March 23): Fitch affirms Peru's rating at BBB+ with a stable outlook *(no change)*.

Negative Actions: 9 (Bold)

February
- Costa Rica (February 8): **Moody's affirms Costa Rica's Ba1 rating and changes outlook to negative from stable**, citing high fiscal deficits, which are expected to continue and to lead to a continued increase in government debt, as the reason for the negative outlook.
- Colombia (February 16): **S&P affirms Colombia's BBB long-term foreign currency sovereign credit rating and revises the outlook to negative from stable**. The change in outlook reflects "the risk that Colombia's external position could deteriorate further."
- Brazil (February 17): **S&P downgrades Brazil long-term ratings to BB from BB+, keeping a negative outlook**, citing significant political and economic challenges. This was the second downgrade in less than six months, after the rating agency dropped the country's long-term debt to junk.
- Brazil (February 24): **Moody's downgrades Brazil's issuer and bond ratings to Ba2 from Baa3 with a negative outlook**, a two-notch cut to junk status, becoming the third agency to drop the sovereign from the ranks of investment grade. The agency said that the country's debt levels are likely to rise and a challenging political landscape will delay economic reforms.
- Costa Rica (February 25): **S&P downgrades Costa Rica's long-term foreign and local currency sovereign credit ratings to BB- from BB with a negative outlook**, saying continued fiscal deterioration has resulted in a growing debt burden and rising interest payments.
- Suriname (February 26): **Fitch downgrades Suriname's rating to B+ from BB- with a negative outlook**, citing weakening external finances driven by a shock to commodity export prices.
- Venezuela (February 29): S&P affirms Venezuela's CCC rating with a negative outlook (*no change*).

March
- Venezuela (March 4): **Moody's affirms Venezuela's Caa3 issuer and government bond ratings and changes the outlook to negative from stable**, arguing that "rising uncertainty around political or economic events could increase the loss severity for bondholders in the event of a default, for which the agency is assigning a high probability of occurrence."
- Trinidad & Tobago (March 4): **Moody's places Trinidad and Tobago's Baa2 rating on review for downgrade.**
- Mexico (March 31): **Moody's changes Mexico's outlook to negative from stable; affirms A3 rating.** The drivers of the worsening outlook were: challenging fiscal consolidation efforts on the back of subdued growth and continued external headwinds, and contingent liabilities in the form of possible government support to Pemex, which could further undermine the fiscal consolidation process.

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

B. Latin American Spreads

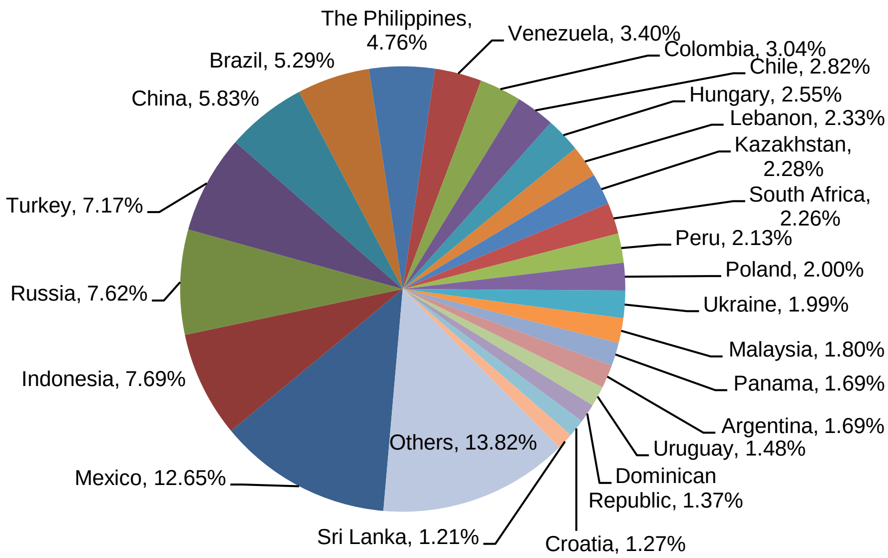
TABLE 2:
SOVEREIGN SPREADS ON JPMORGAN EMBI GLOBAL AND LATIN AMERICAN COMPOSITES
(Basis Points)

	EMBI Global	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela	Latin America
31-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
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
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
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
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
31-Aug-15	430	584	363	205	277	1344	264	225	257	2922	566
30-Sep-15	474	591	491	244	318	1451	313	258	305	3129	630
31-Oct-15	422	489	139	210	283	1252	275	220	274	2692	560
30-Nov-15	420	487	450	235	286	1207	280	224	266	2605	561
31-Dec-15	446	438	548	253	317	1266	315	240	280	2807	605
29-Jan-16	494	502	540	274	378	1509	362	273	317	3560	677
29-Feb-16	483	465	530	250	368	1391	353	260	309	3255	639
31-Mar-16	434	444	426	213	295	1058	308	226	279	3108	573

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

Note: EMBI Global composition (end-March 2016): **by country:** Brazil, Colombia, Mexico, Venezuela and Chile account for 27.20% of the total weighting; **by region:** Latin: 39.37%; Non-Latin: 60.63%.

EMBI GLOBAL COMPOSITION (AS OF MARCH 2016)



Others:	**%**
Lithuania	0.97%
Romania	0.96%
Costa Rica	0.87%
Serbia	0.81%
El Salvador	0.72%
Jamaica	0.63%
Ivory Coast	0.58%
India	0.56%
Ecuador	0.54%
Pakistan	0.51%
Egypt	0.41%
Azerbaijan	0.40%
Kenya	0.39%
Zambia	0.36%
Mongolia	0.34%
Morocco	0.34%
Angola	0.33%
Ghana	0.31%
Iraq	0.28%
Vietnam	0.27%
Paraguay	0.26%
Slovakia	0.25%
Gabon	0.25%
Guatemala	0.22%
Trinidad & Tobago	0.21%
Nigeria	0.21%
Namibia	0.18%
Honduras	0.16%
Georgia	0.16%
Bolivia	0.16%
Senegal	0.15%
Armenia	0.14%
Ethiopia	0.14%
Tunisia	0.13%
Belarus	0.12%
Cameroon	0.11%
Latvia	0.10%
Mozambique	0.09%
Tanzania	0.08%
Jordan	0.08%
Belize	0.04%
Total	**13.82%**

C. New LAC Debt Issuance

TABLE 3:
LATIN AMERICAN AND CARIBBEAN DEBT ISSUANCE
FIRST QUARTER OF 2016

Country	Issuer	Amount (million)	Amount US$ (mm)	Coupon (%)	Maturity	
		Jan-15				
Supranational	CAF Development Bank of Latin America	TRY 192	82	10.730%	2020	
Supranational	CAF Development Bank of Latin America	ZAR 590	51	9.000%	2020	
Chile	Republic of Chile	EUR 1200	1,300	1.750%	2026	
Chile	Republic of Chile	USD 1350	1,350	3.125%	2026	
Mexico	United Mexican States	USD 2250	2,250	4.125%	2026	
Dominican Republic	Dominican Republic	USD 1000	1,000	6.875%	2026	
Mexico	Pemex	USD 750	750	5.500%	2019	
Mexico	Pemex	USD 1250	1,250	6.375%	2021	
Mexico	Pemex	USD 3000	3,000	6.875%	2026	
			11,033			
		Feb-15				
Supranational	Central American Bank for Economic Integration (CABEI)	CHF 200	196	0.371%	2022	
Supranational	CAF Development Bank of Latin America	CHF 150	148	0.150%	2022	
Supranational	CAF Development Bank of Latin America	JPY 4500	38	0.450%	2026	
Colombia	Pacifico 3 (Fideicomiso P.A. Pacifico Tres)	USD 260	260	8.250%	2035	
Mexico	United Mexican States	EUR 1500	1,679	1.875%	2022	
Mexico	United Mexican States	EUR 1000	1,120	3.375%	2035	
Supranational	CAF Development Bank of Latin America	CHF 125	127	0.304%	2024	
Supranational	CAF Development Bank of Latin America	CHF 125	127	0.510%	2026	
Supranational	CAF Development Bank of Latin America	EUR 250	278	1.000%	2020	(r)
Peru	Republic of Peru	EUR 1000	1,110	3.750%	2030	
			5,083			
		Mar-15				
Mexico	America Movil	EUR 850	936	1.500%	2024	
Mexico	America Movil	EUR 650	716	2.125%	2028	
Mexico	Pemex	EUR 1350	1,488	3.750%	2019	
Mexico	Pemex	EUR 900	992	5.125%	2023	
Argentina	Province of Buenos Aires	USD 1250	1,250	9.125%	2024	
Mexico	Cemex SAB	USD 1000	1,000	7.750%	2026	
Panama	Republic of Panama	USD 1000	1,000	3.875%	2028	
Brazil	Republic of Brazil	USD 1500	1,500	6.000%	2026	
Mexico	Femsa	EUR 1000	1,110	1.750%	2023	
Colombia	Republic of Colombia	EUR 1350	1,500	3.875%	2026	
Argentina	YPF	USD 1000	1,000	8.500%	2021	
Argentina	IRSA Propiedades Comerciales	USD 360	360	8.750%	2023	NC4
Paraguay	Republic of Paraguay	USD 600	600	5.000%	2026	
Supranational	CAF Development Bank of Latin America	AUD 150	113	4.000%	2021	
			13,648			
		Q1 2016 Total	**29,764**			

Source: LatinFinance (Bonds Database).

Notes:

(r): retap.
NC4: only callable after 4 years.