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# Global Uncertainties, Local Challenges

Latin American Corporate Credit Outlook

# Global Uncertainties, Local Challenges: Latin American Corporate Credit Outlook

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Global Macroeconomic Headwinds Continue

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Latam Credit Conditions

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Conclusions

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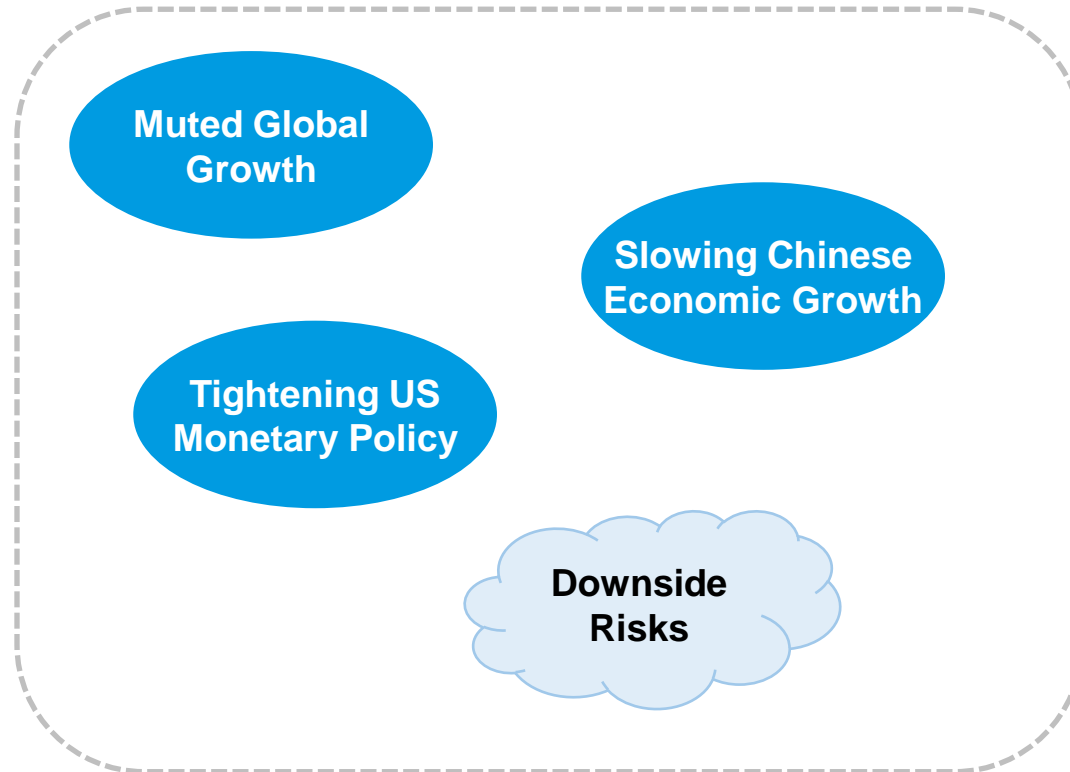
# Global Macroeconomic Headwinds Continue

# Signs of Recovery?

- » Higher commodity prices → but still at weak levels
- » Improved sentiment in some Latam countries → but soft GDP and ongoing adjustments
- » Pick up in capital markets activity → but access is limited to riskier credits

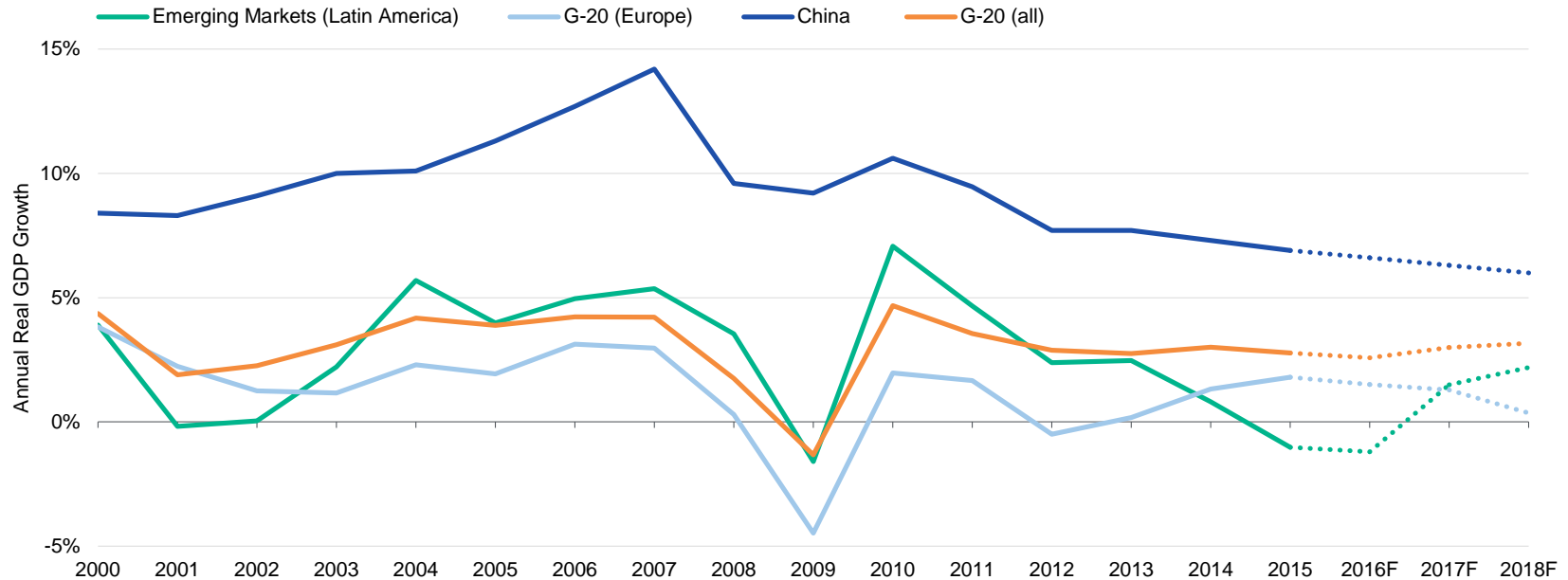
**Lower for Longer: bottom may have been reached, but progress is vulnerable**

# Continued Influence From Key Global Macro Parameters



# No Help From the Global Economy

## Real GDP Growth (%) – Muted Expectations

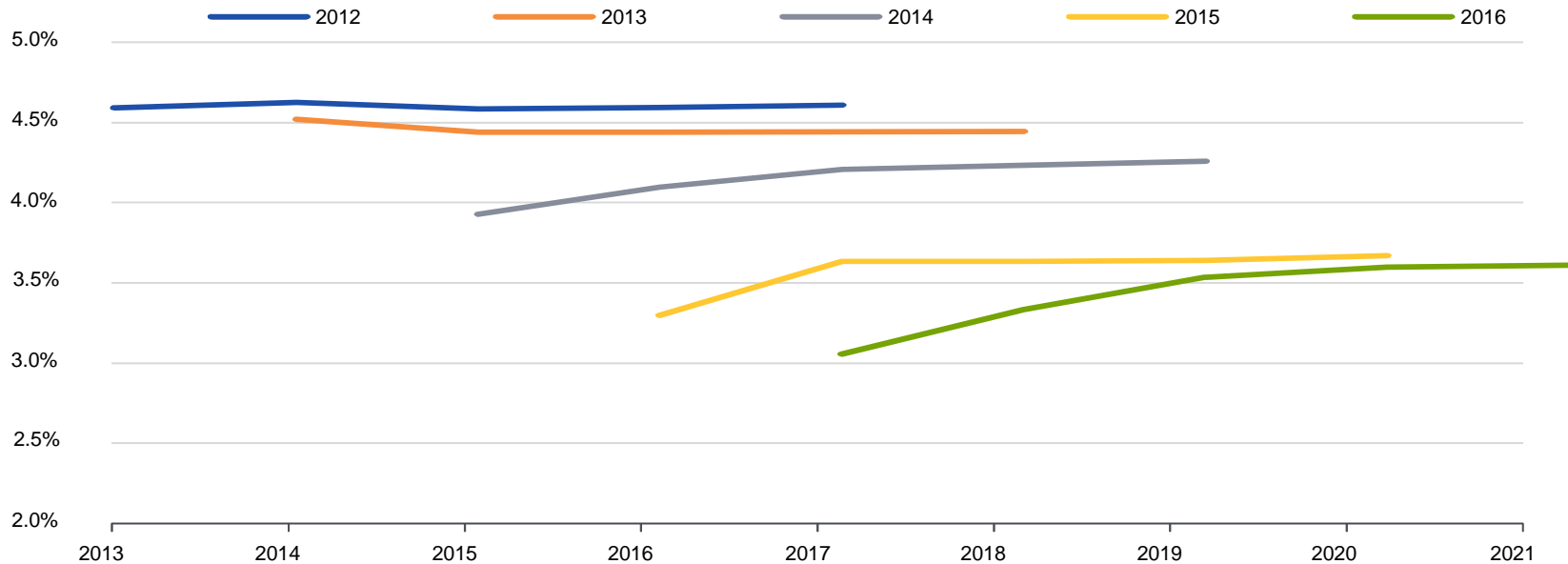


Source: Moody's Investors Service as of August 2016

- » Future growth lower than historic experience – for a prolonged period
- » No “pull” from the outside to benefit Latin America: headwinds abating, but risks remain

# The Age of Diminished Expectations

## Successive Forecasts Show Lower Growth for Longer Periods



Source: Source: International Monetary Fund (World Economic Outlook), Average of historic 5-yr Forecasts of real GDP growth for selected large LatAm economies

# China, Fed and Other Downside Risks

## China's Trilemma

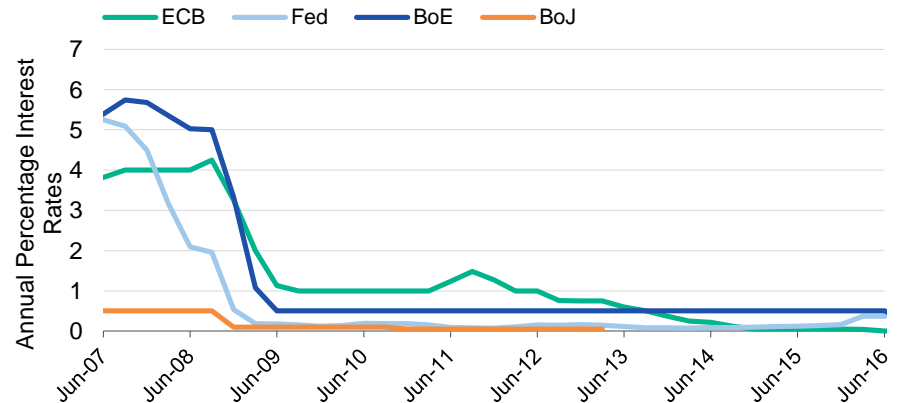
- » Risk of sudden growth deterioration
- » Effectiveness of policy stimulus may wane over time

## (Geo-) Political

- » Rising nationalist/protectionist pressures
  - Pending US election outcome
  - Fragmentation of Europe (Brexit-plus)
- » South China Sea sovereignty disputes, Syrian conflict, refugee crisis

## Central Bank Policy Rates are Near Zero

Main central bank policy rates



Source: Moody's Investors Service

- » Fed may increase interest rates
- » But other CBs have fewer options



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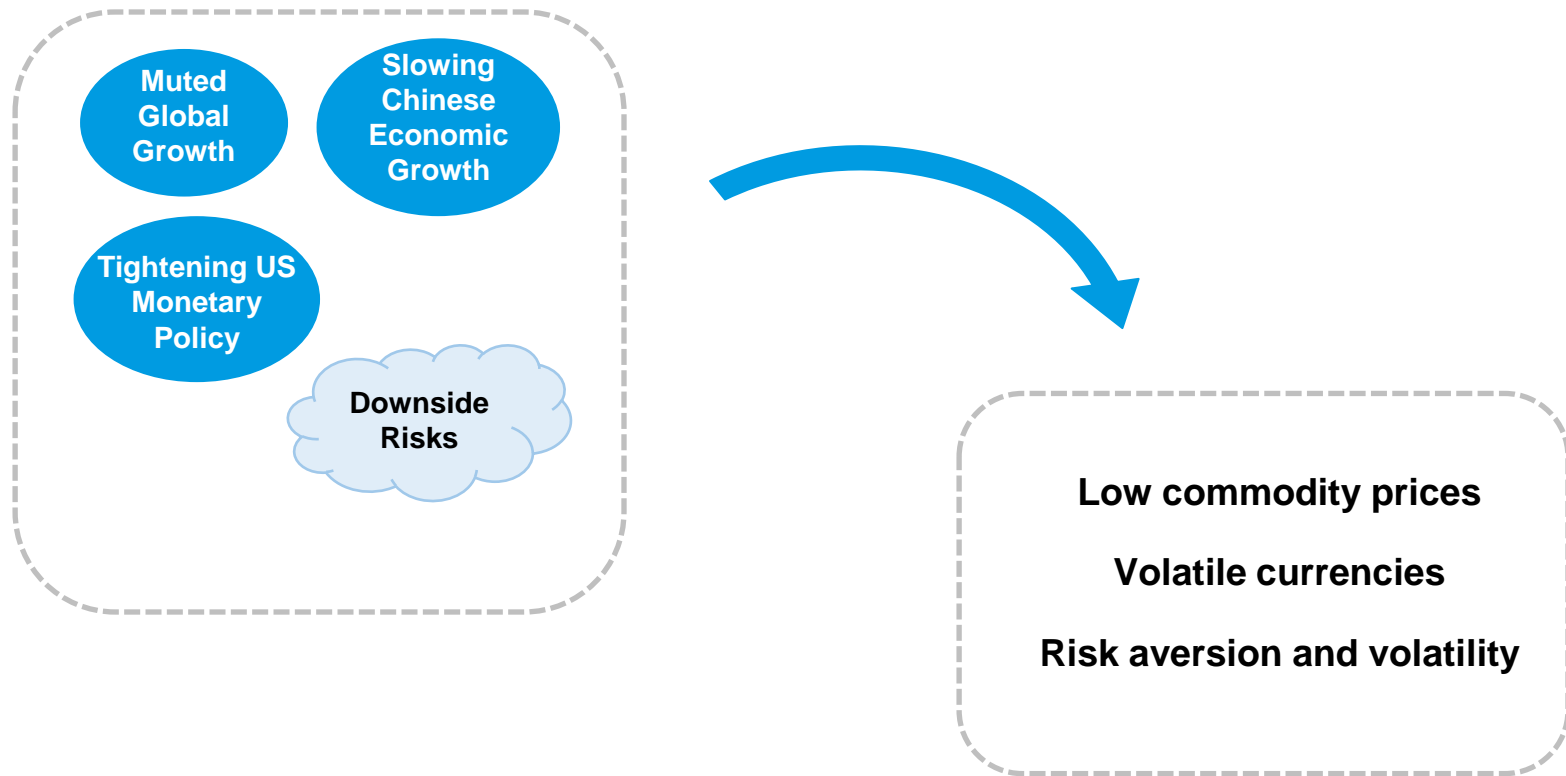
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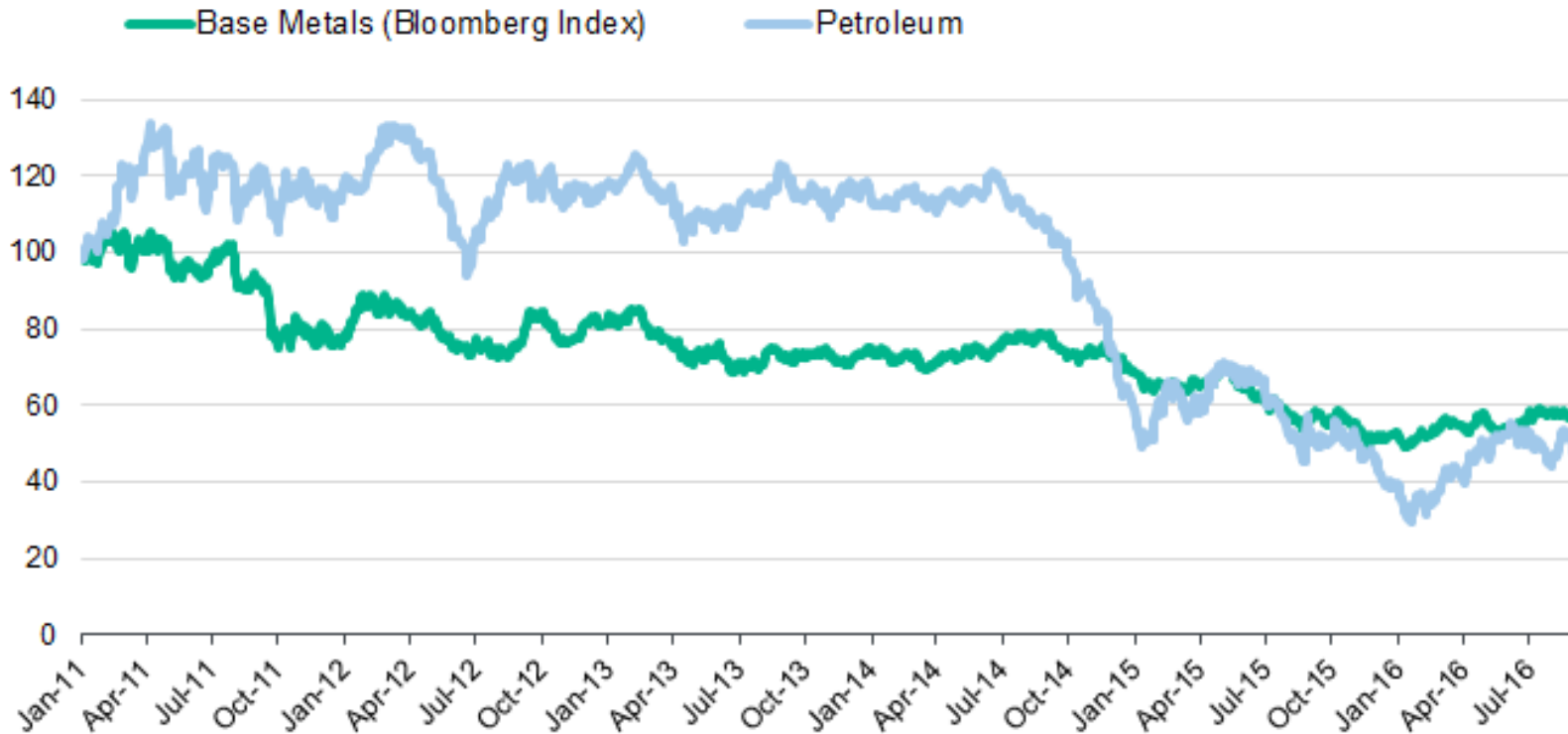
LatAm Credit Conditions

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# Corporates share some similar challenges within LatAm



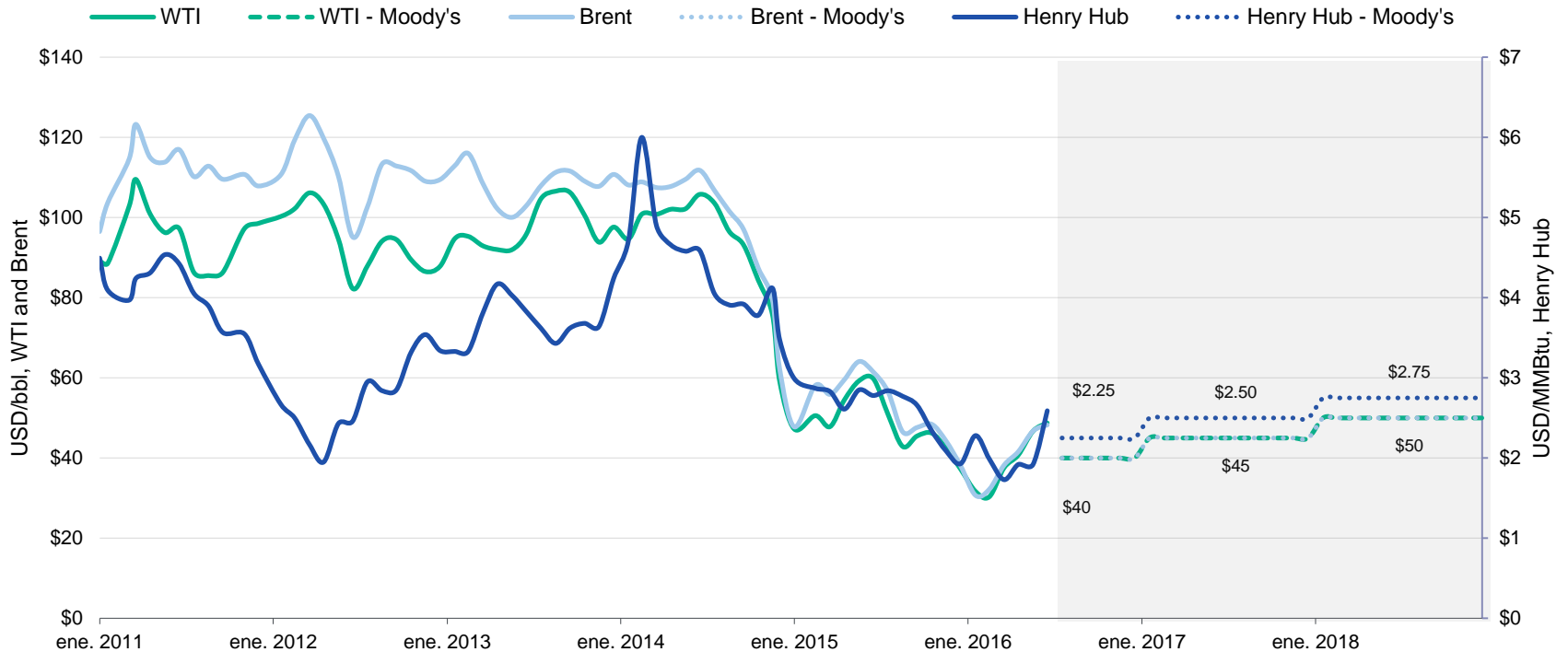
# Commodities – The China Effect



Source: IMF (January 2011 = 100; Base Metals includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium; Petroleum = Brent; January 2011 to August 2016)

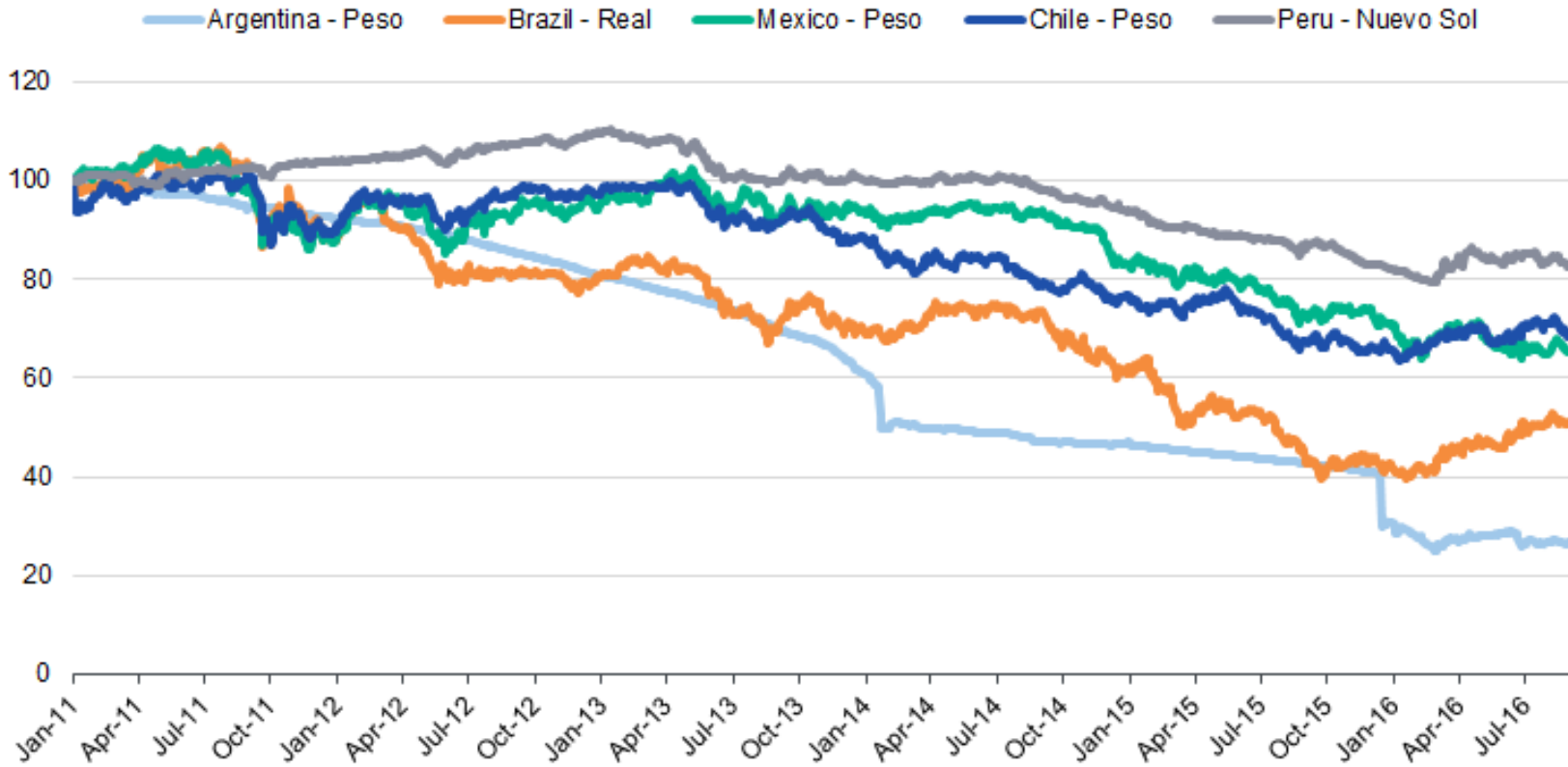
# Globally Traded Commodities – Excess Supply

## Globally Traded Commodities Searching for Equilibrium



Source: US Energy Information Administration, Moody's Investors Service

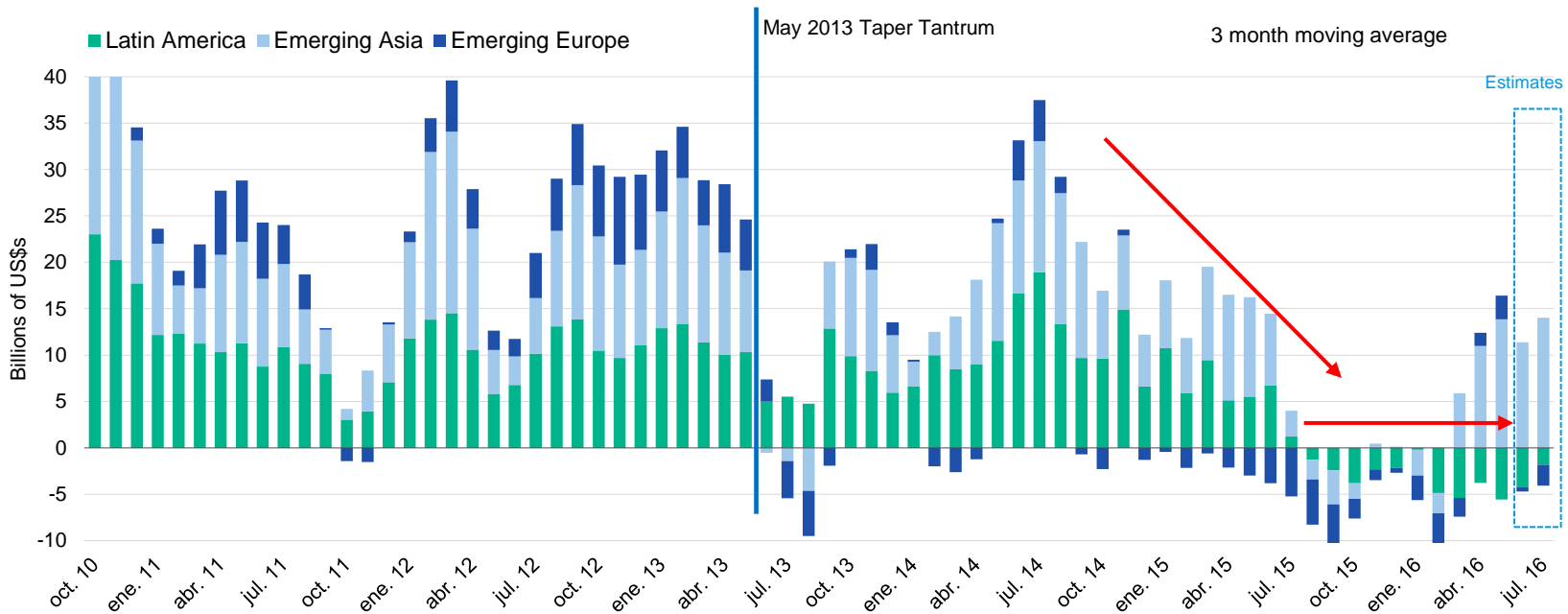
# Exchange Rates Weaken Along With Economic Activity



Source: FactSet (January 2011 = 100)

# Lower External Capital Flows into LatAm

## Net Capital Flows – Neutral after Post-“Taper Tantrum” Volatility



Source: Institute of International Finance (3-month moving average (October 2010 to July 2016)), and Moody’s Investors Service as of August 2016

- » Capital flows have been volatile since the May 2013 “Taper Tantrum”
- » Prospect of higher yields in the US diverts capital flows

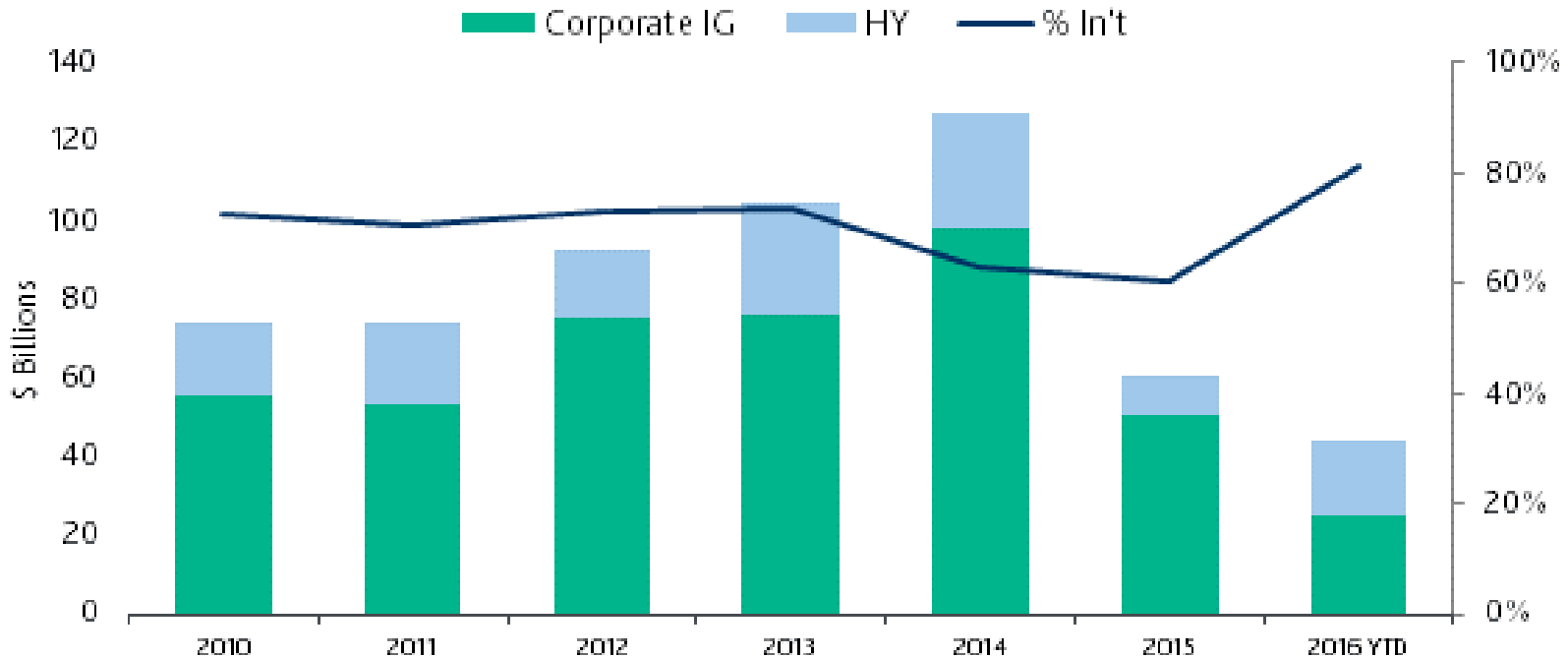
# LATAM Corporates: The Main Specific Concerns

- » **Slowdown in growth trends, weaker commodity prices and risk aversion will continue to negatively affect all Latam corporates to some extent**
  - Weaker Credit Metrics and cash generation
  - Fewer Funding Alternatives and Increased Debt Service Cost
  - Weaker FX may be harmful or helpful
  - Fewer Viable Capex Projects

**Country, sector, and capital structure will determine the impacts on credit quality**

# Debt Capital Markets: Tentative Signs of Renewal

## Latin American Issuance: Tentative Recovery After Weak 2015



Source: Dealogic up to 31 August 2016 (non-financial corporate issuers)

- » Selective supply returning in search of yield:
  - Stabilizing commodity prices cause improved receptivity



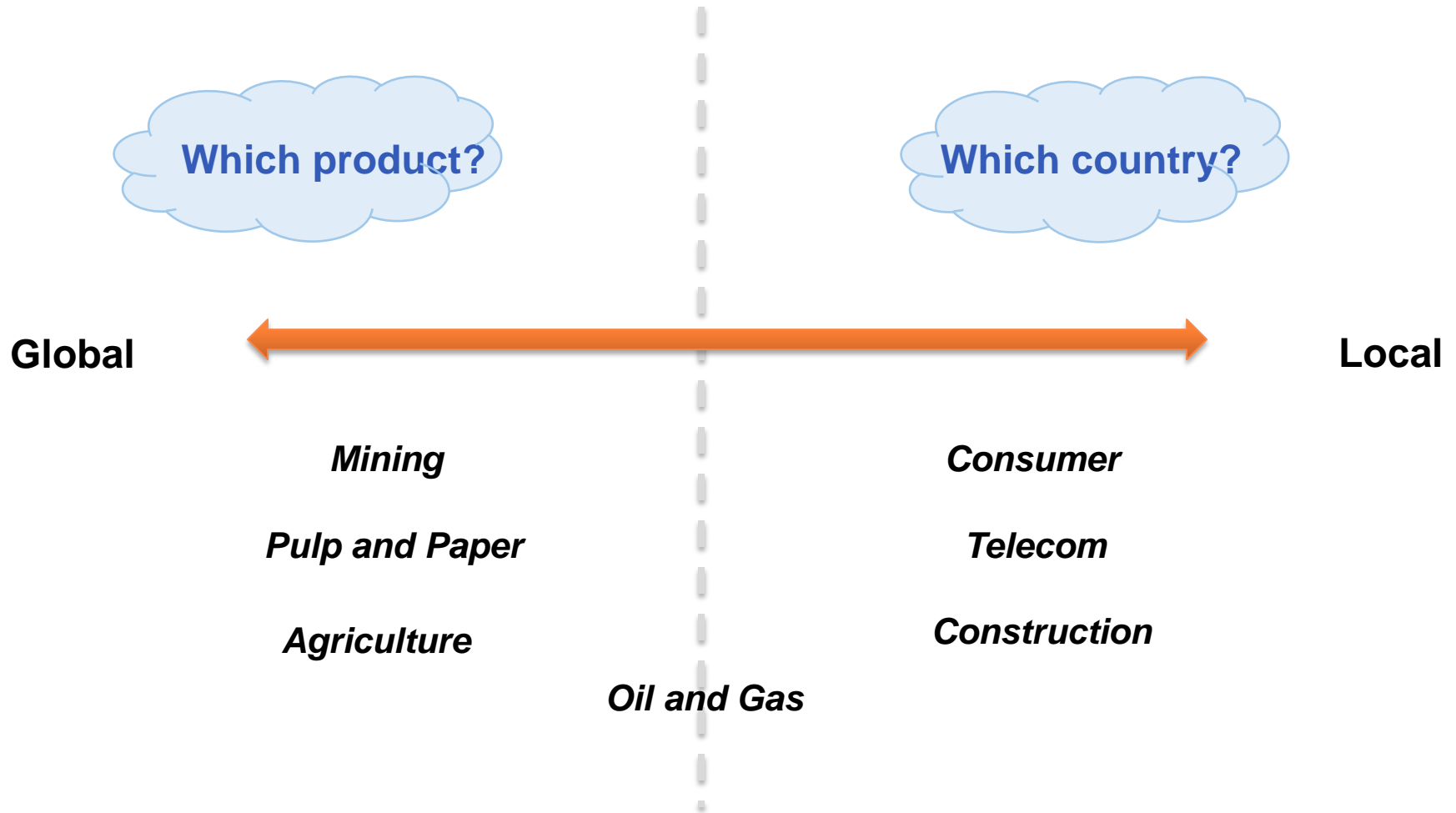
# Corporate Sector Dynamics Differ

Global ←————→ Local

	Metals	Pulp & Paper	Agriculture /Sugar Ethanol	Protein	Oil & Gas	Construction	Telecom	Consumer
Commodity Prices	Negative	Neutral	Neutral	Positive	Negative	Neutral	Neutral	Mixed
Depreciated Exchange Rates	Positive	Positive	Positive	Positive	Mixed	Neutral	Weak	Mixed
Tighter Funding Environment	Negative	Neutral	Negative	Neutral	Weak	Negative	Mixed	Mixed
Exposure to Domestic Economies	Low	Low	Low	Medium	Medium	High	High	High

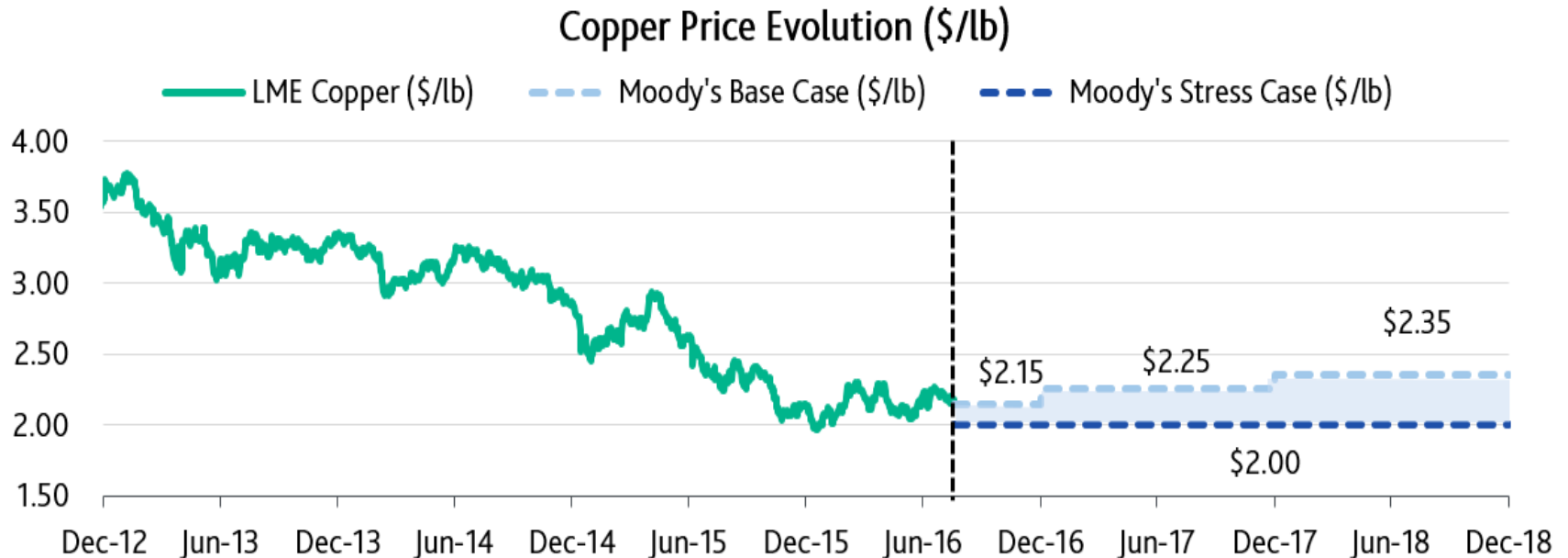
■ Positive   
 ■ Neutral   
 ■ Weak   
 ■ Negative

# 'Global' and 'Local' Sectors Face Different Challenges



# 'Global' industries - Mining

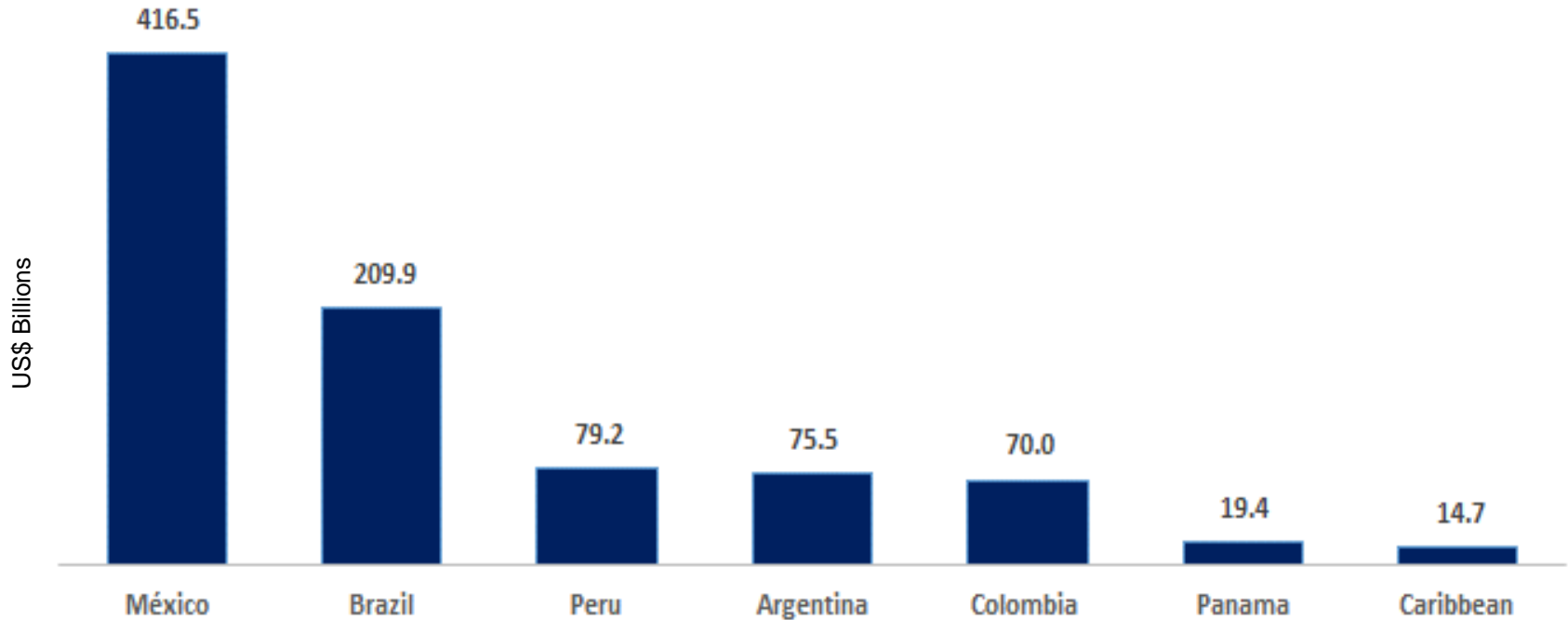
- » Metal price improvements from the lows reflect the favorable impact of various Chinese government stimulus actions taken to offset the decelerating GDP trajectory.
- » Copper continues to be in oversupply as a result of weak fundamentals and new supply coming on line in the next 2 years, despite some production curtailments.



Source: Moody's Investor Service and LME

# 'Local' Industries - Construction

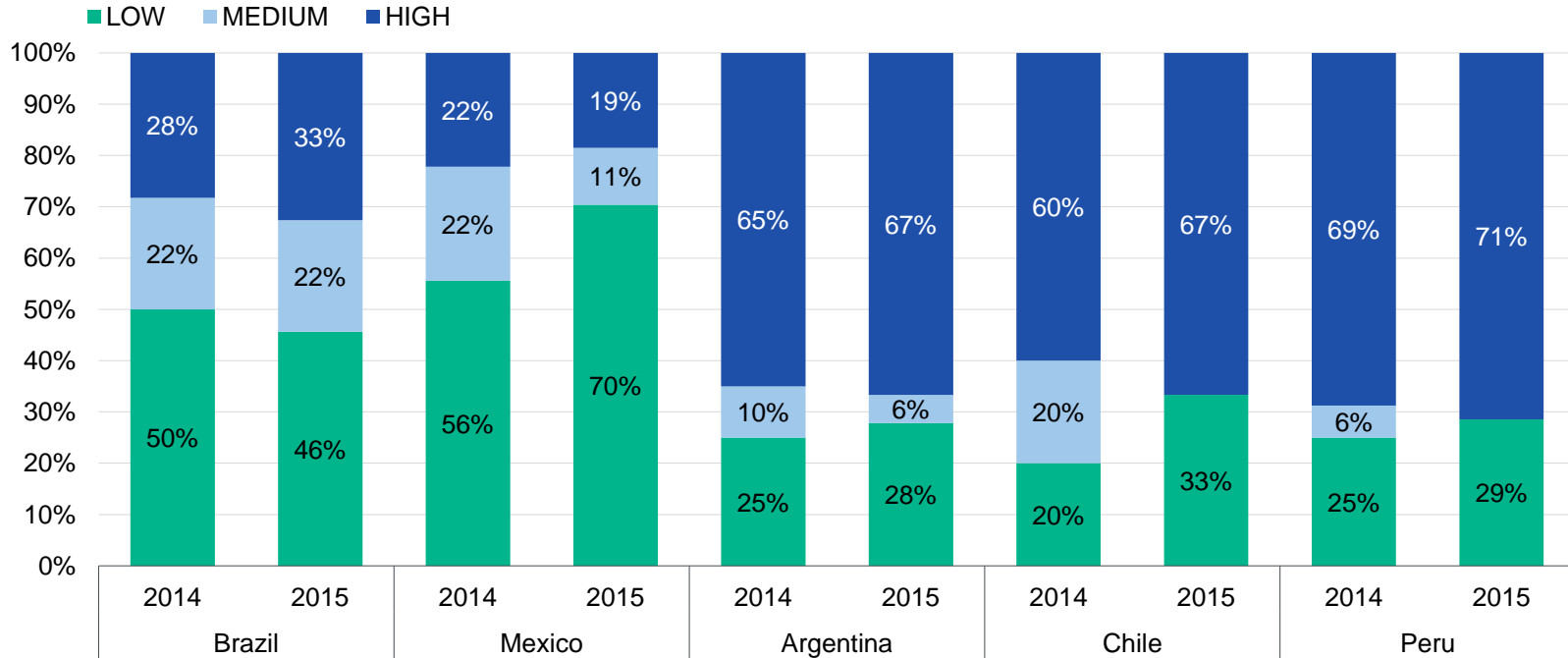
Infrastructure Pipelines: pressured fiscal accounts increase need for private funding



Source: Local governments infrastructure programs

# Liquidity Trends Reflect Concerns

## Refinancing Risk – per Country

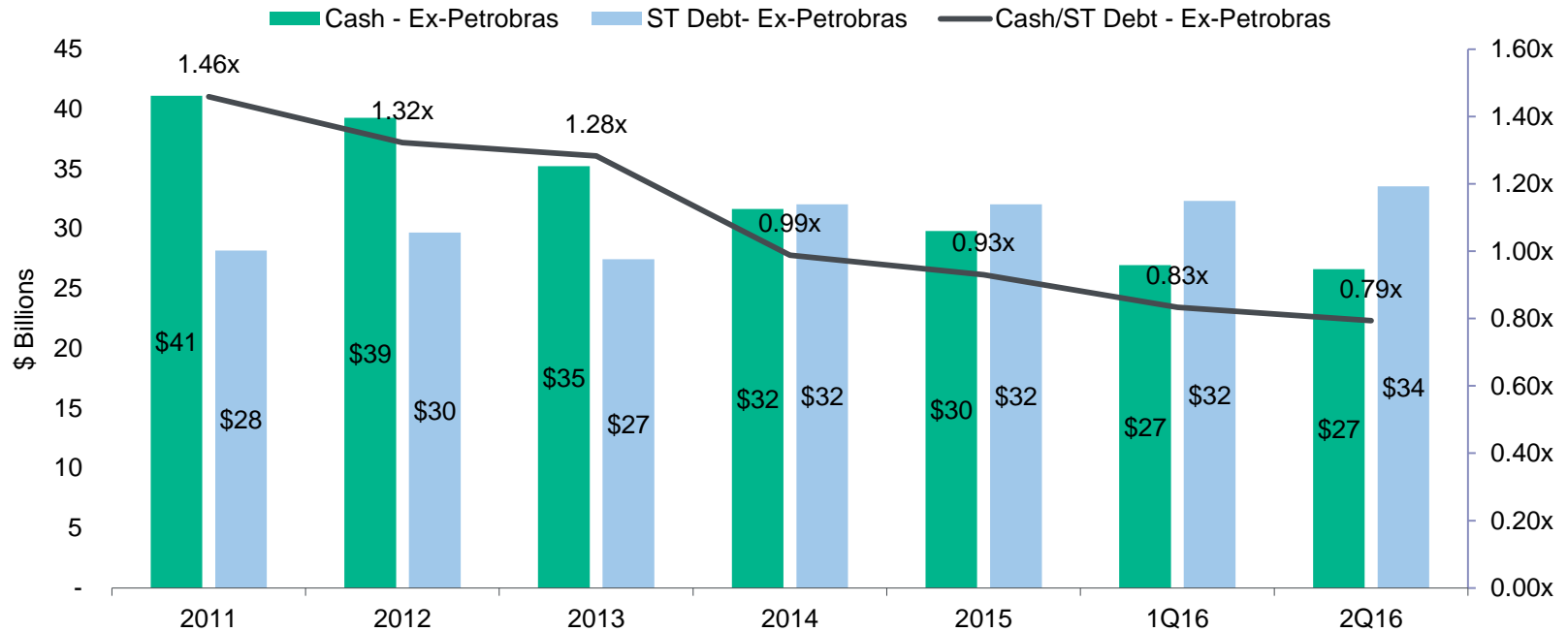


Source: Moody's Investor Service

Note: We define exposure to funding risk as low for companies with sufficient cash, free cash flow and committed credit facilities to cover more than 150% of debt maturities over the next 24 months; medium if liquidity sources are sufficient to cover more than 150% of maturing debt over the next 12 months, but not the next 24 months; and high if liquidity sources will cover less than 150% of debt maturities over the next 12 months.

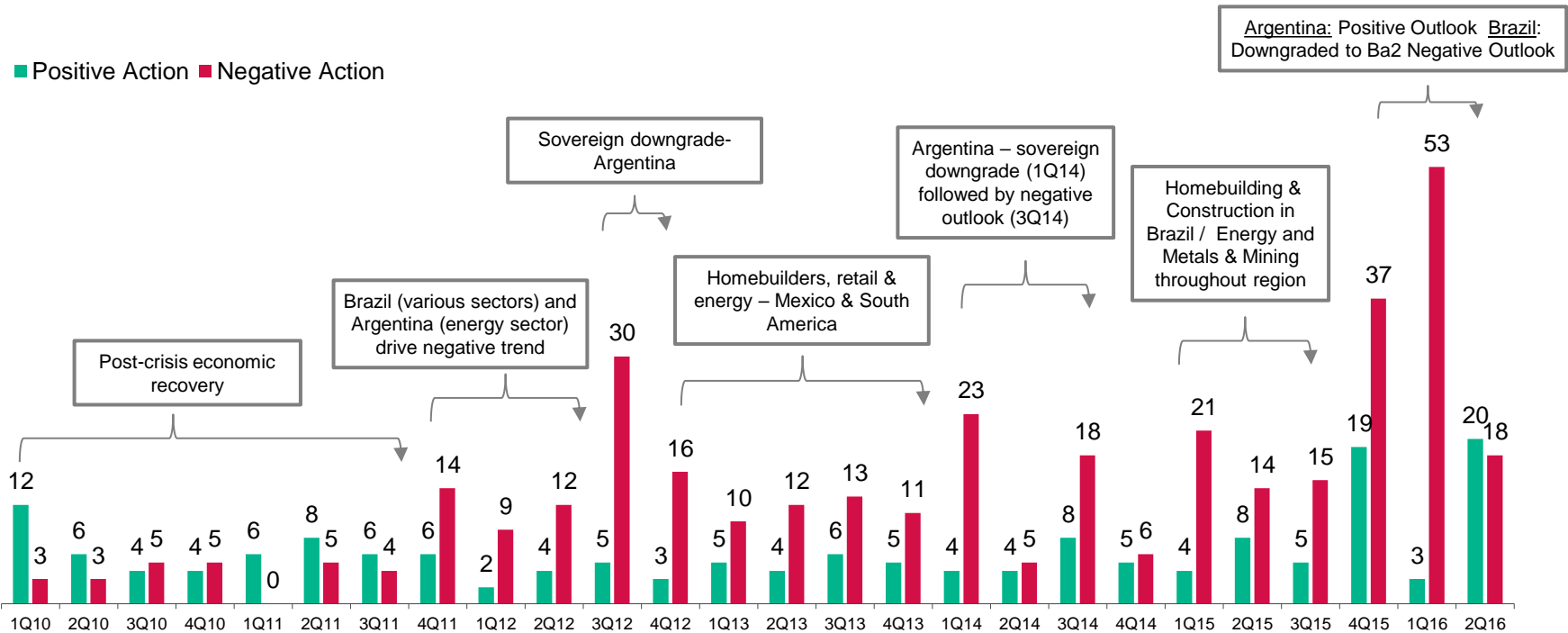
# Liquidity Trends Reflect Concerns

## Refinancing Risk – High Yields



Source: Moody's Investor Service

# Negative Ratings Activity Slowing



**Note:** Only one action counted for consecutive actions in the same direction that occur more than once within the same quarter for the same issuer. Consecutive positive and negative actions during the same quarter for a single issuer are neutral for the purposes of this analysis. Positive actions include the stabilization of a rating. Does not consider new notes or new rating assignments. Excludes REITs, public utilities, toll roads and project finance issuers.

Source: Moody's Investor Service, June 2016

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Conclusions



# Conclusion - Key Takeaways

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Global Macro Headwinds Continue – Lower for Longer

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LatAm Credit Conditions Adjusting but Remain Weak

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Recovery Will be Prolonged and Vulnerable –  
Retaining Financial Flexibility Will Remain Critical

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2015



Project Finance Firm  
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2015



Best Islamic Finance  
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2015



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#1 US Rating Agency: 2015  
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Team: 2014



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2014, 2015



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