

Fitch reaffirms Mexico's *BBB+* rating

- **Fitch Ratings** affirmed today its “*BBB+*” rating, while maintaining its sovereign debt outlook in “stable”
- The drivers behind the decision, according to the document released today by the rating agency are:
 - (1) Mexico's diversified economy and disciplined economic policies characterized by macroeconomic stability
 - (2) By contrast, the country's moderate economic growth;
 - (3) The structural weaknesses in its public finances, as a result of a low revenue base and a moderately high, but declining oil revenue dependence; and
 - (4) The shallow credit penetration and Mexico's institutional weaknesses (given the high incidence of drug-related violence and corruption) continued to weigh negatively on the rating
- Fitch also mentioned that the main factors that could trigger a negative rating action are:
 - (1) A deterioration in Mexico's economic links with the US;
 - (2) A weakening in the macroeconomic framework and the undermining of the implementation of the structural reforms;
 - (3) An above-trend increase in the government debt burden; and a
 - (4) Materialization of contingent liabilities that could negatively impact the country's balance sheet
- Fitch also mentioned that Mexico's credit outlook could change to positive if the country's growth and investment prospects improve and the fiscal consolidation effort continues
- Mild positive reaction from sovereign bonds and the MXN following Fitch Ratings' decision to ratify Mexico's *BBB+* grade with a stable outlook, however highlighting some possible headwinds coming from NAFTA negotiations and the electoral process. Overall, this action in tandem with current views from Moody's and S&P suggest that Mexico holds a sound macroeconomic framework and its investment grade will continue depicting a firm footing. This backdrop results in attractive relative valuations in Mexican assets vis-à-vis other EM when adjusted by credit profile
- In this regard, we hold our trade idea in the mid-end of the Mbonos curve and although we expect a more volatile MXN during the Summer (with short-term long USD positions taking advantage of this situation), we reiterate our more constructive view on the currency with a mid-term horizon (with a 2018-end forecast of 18.60) highlight that Moody's continues to be the rating agency that has awarded Mexico with the highest sovereign rating. As shown in the table below, the A3 from Moody's is one notch above the *BBB+* by S&P and Fitch, even though they all have a negative outlook

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Mexico's credit ratings

	Rating	Investment Grade/ Speculative	Outlook	Last change in rating and/or outlook
Fitch	BBB+	Investment	Stable	3-Aug-17
Standard & Poor's	BBB+	Investment	Stable	18-Dec-17
Moody's	A3	Investment	Negative	31-Mar-16

Source: Bloomberg

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