Mexico Credit Rating Upgraded by Fitch to BBB+

Mexico had its credit rating raised by Fitch Ratings on the prospect that proposed legal changes will boost growth in Latin America's second-largest economy. The peso surged to the strongest level since August 2011.

Fitch increased the rating to BBB+, the third-lowest investment grade level, from BBB, putting it in line with Moody's Investors Service's Baa1 rating. The move reverses a cut that Fitch carried out in November 2009, when falling oil output and a recession curbed tax revenue. The peso rallied 0.4 percent to 11.9771 per U.S. dollar at 4 p.m. in Mexico City, extending its advance this year to 7.3 percent.
Fitch said in a statement that the increase reflects Mexico's economic resilience and that it sees "greater than anticipated commitment of the new administration and Congress to pass structural reforms." President Enrique Pena Nieto, who took office in December, has pledged to push through legal changes to boost tax collection and open the state-controlled industry to more private investment. Standard & Poor's raised the outlook on its BBB rating to positive in March.

The upgrade gives "a nod of approval" to Mexico's policies and its economic expansion, Alejandro Urbina, who helps manage about $800 million in emerging-market assets, including those from Mexico, at Silva Capital Management, said by phone from Chicago. "They've managed to have good growth and low inflation and good policies. Foreign investors like that," he said.

Growth Outlook

Central bank Governor Agustin Carstens said yesterday that the legislation changes could help Mexico's economy grow as fast as 6.5 percent annually. Policy makers have also said they expect the inflation rate to fall back to within their 2 percent-to-4 percent target range during the second half of this year from 4.72 percent in mid-April.

While the upgrade is based on Mexico's "strong economic fundamentals," the ratings company is waiting to see if the legislation passes and generates faster growth and improved fiscal flexibility, Shelly Shetty, a Fitch analyst, said in a telephone interview from New York.
"This is really aggressive because the fiscal and energy reforms haven't even been presented," Benito Berber, a Latin America strategist at Nomura Holdings Inc., said in an e-mailed message. "My view is that once Congress passes fiscal and energy reform, Fitch and Moody's will upgrade Mexico to the 'A' universe."

Yields on Mexico's dollar bonds due in 2022 fell three basis points, or 0.03 percentage point, to 2.47 percent. Similar-maturity Brazilian dollar bonds, which are rated one level lower by Fitch at BBB, yield 2.22 percent.

Yields on sovereign securities moved in the opposite direction of what ratings suggested in 53 percent of 32 increases, decreases and changes in credit outlook last year, according to data compiled by Bloomberg.

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