

By Paula Sambo and Julia Leite

(Bloomberg) -- As far as swaps traders are concerned, Brazil is already a junk-rated country.

The South American nation -- mired in recession and scandal

-- is now riskier than nine countries with speculative grades by Standard & Poor's, including Turkey, Vietnam and Cyprus, according to trading in credit-default swaps.

Bond investors are relegating Brazil to junk as the biggest contraction in 25 years and growing support for impeaching President Dilma Rousseff increase the chances its investment grades will be slashed. Just last week, S&P joined Moody's Investors Service in revising its outlook on Brazil's rating to negative.

"The assessment of Brazil's creditworthiness has deteriorated significantly," Camila Abdelmalack, an economist at CM Capital Markets, said by telephone from Sao Paulo. "The scenario keeps getting increasingly bleak from both the political and economic standpoints."

The cost of protecting Brazil's bonds against nonpayment using five-year credit-default swaps rose to 3.26 percentage points Friday, the highest since March 2009. The real ended a six-day losing streak, climbing 0.7 percent to 3.5096 per dollar at 3:01 p.m. in New York.

Rousseff's latest effort to shore up Brazil's finances was rebuffed when the lower house of Congress voted to approve salary increases on Thursday. The move came after two parties broke from her ruling coalition.

Impeachment Push

A growing number of legislators in Brazil's largest party now see impeachment as an option to pull the country out of its deepening economic and political crisis. One-third of the Brazilian Democratic Movement Party in the lower house is working toward such a move within a constitutional framework, said Darcisio Perondi, a deputy leader of the party.

Support for Rousseff is also falling among Brazilians. In an Aug. 4-5 poll by Datafolha, 66 percent of respondents say Congress should open impeachment proceedings. Her approval rating fell to a record low 8 percent in the poll, and 71 percent said her presidency has been bad or terrible.

The presidential press office declined to comment on impeachment speculation.

"There is obviously a lack of confidence as seen in Rousseff's approval rating and the inability to get through fiscal-consolidation measures and structural reforms," said George Hogue, a Boston-based strategist at State Street Global Advisors, which has \$2.4 trillion under management.

Rating Outlook

Moody's, which met with officials in Brazil last month, cited the country's economic woes and deteriorating finances when it put the Baa2 rating on negative outlook in September.

The ratings company predicted in a July 16 report that the economy will contract 1.8 percent this year.

The country's problems have only mounted since then, with a bribery probe into a state-owned oil producer ensnaring more and more of the nation's companies. On Monday, Brazilian police arrested Jose Dirceu, who served as chief of staff under former President Luiz Inacio Lula da Silva, saying he helped put into place an alleged system of kickbacks at the oil company.

An S&P downgrade would push Brazil back into junk since the company rates the country BBB-, one level below Moody's.