
Reuters: S&P Revises U.S. Credit Outlook to 'Stable' from Negative.

(Reuters) – Standard & Poor's on Monday removed the near-term threat of another credit rating downgrade for the United States by revising its outlook to stable from negative, citing an improved economic and fiscal outlook.

The change effectively means there is less than a one-third chance of a downgrade in the next two years.

S&P said a key factor to its revision in the U.S. rating outlook was the agreement reached by the U.S. Congress to avoid the 'fiscal cliff', which had threatened some $600 billion in automatic tax increases and spending cuts.

S&P cut the U.S. sovereign credit rating in August 2011 to AA-plus from the highly coveted top grade of AAA, citing political brinkmanship and gridlock in Washington that delayed an otherwise routine raising of the nation's debt ceiling.

"We did get some movement from both sides and we think that is encouraging, at least to the point of convincing us that the dynamics in Washington are not likely to get substantially worse in the medium term," Nikola Swann, S&P's lead sovereign analyst for the United States, said in a webcast with reporters.

Moody's Investors Service and Fitch Ratings give the U.S. credit their highest rating but both have negative outlooks.

The U.S. Treasury Department, which had argued that S&P's initial downgrade was misguided, welcomed the latest action. "We're pleased that they are recognizing the progress in the U.S. economy and fiscal results," Treasury Under Secretary Mary Miller told reporters.

S&P said it does not expect the debate later in 2013 regarding a raising of the debt ceiling to result in "a sudden unplanned contraction in current spending – which could be disruptive – let alone debt service."

The current rating already factors in a "lesser" ability of U.S. elected officials to move quickly and effectively to deal with public finance pressures.

S&P estimates the government will need to authorize a further increase in the amount of debt it can issue near the end of the fiscal year in September.

"We think that this (debate) is likely to not be any more dramatic than was the equivalent vote in August of 2011," said Swann.

The non-partisan Congressional Budget Office announced on May 14 that the U.S. federal budget deficit is shrinking faster than previously thought.

The CBO cut the deficit forecast for the current fiscal year by $203 billion from estimates made in February of $642 billion, making it the smallest budget shortfall since 2008.

The deal struck by Congress on New Year's Day 2013 meant much of the threatened tax hikes did not come to fruition.

"The news is better on the tax side," John Chambers, chairman of S&P's sovereign ratings committee, said on the webcast.

Chambers said the boost in tax revenues was due to investors taking profits on investments sooner than they might otherwise have done because of uncertainty over whether tax rates on capital gains might rise if no agreement were to be reached. The tax rates by and large did not rise in the end.

Another factor helping the U.S. fiscal position were the automatic spending cuts, known as sequestration. They were meant to be so severe that Republics and Democrats would be forced to reach an agreement on a budget to avoid them. They failed, resulting in cuts going into effect on March 1.

"In the meantime we think that policymakers and elected official have a bit more time to get the fiscal house in order," said Chambers.

S&P said it expects the U.S. debt-to-GDP ratio to stabilize around 84 percent over the next three to five years. Economic growth is expected in the 2 to 3 percent range, on average, over the same period.

Financial market reaction to S&P's decision was muted.

Initially, the news led to gains in U.S. stock prices, although they proved short-lived. The U.S. dollar added value against the euro and yen, extending gains already in place from European and Asian trading hours. Prices for U.S. Treasuries fell and in the case of the 30-year bond, the yield hit a 14-month high before receding.

"The strong stock market has created tax revenues, which is certainly positive, and the economy continues a slow but steady growth path, so while we continue to print money, the overall debt numbers have stabilized and I think that's what the S&P is reflecting," said Tim Ghriskey, chief investment officer at Solaris Group in Bedford Hills, New York.

Fitch affirmed its AAA rating in January, effectively stepping back from its threat to downgrade the U.S. credit after a deal was reached to avoid the fiscal cliff.

Moody's has maintained that it is looking for improvement in the ratio of the United States' debt to gross domestic product and setting a downward trajectory on the overall level of debt.

"Few people actually take notice of the rating on the government's debt. The change makes sense, though, since the trajectory of the deficit has improved," said Brian Jacobsen, chief portfolio strategist at Wells Fargo Funds Management in Menomonee Falls, Wisconsin.

"Of course, S&P should not have downgraded the debt to begin with. If the credit rating is supposed to assess the probability of default, it's silly to give the U.S. government anything but a AAA," said Jacobsen.