

# Weekly Emerging Markets Review

WEEK ENDING JUNE 24TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads tightened 32 basis points (bps) on the week to 379 bps over US Treasuries, while local debt yields fell 11 bps to 6.42%. The US dollar-pay JP Morgan EMBI Global Diversified returned +9.0%, while the local currency JP Morgan GBI EM Global Diversified returned +13.2% (year-to-date through June 23, 2016).

## News

Although too early to assess the full impact of the UK's decision to leave the European Union (EU), initial market reaction on Friday, June 24 saw EM currencies selling off 1-4% versus the US dollar. Moves in Asian and Latin American currencies were relatively mild, while the reaction was stronger among EU-linked countries like Poland and Hungary. Spreads on dollar-pay bonds widened roughly 20-25 bps, driven largely by lower US Treasury yields.

Monetary policy was in focus, particularly with the somewhat surprising announcement that Reserve Bank of India Governor Raghuram Rajan would be stepping down in September, at the end of his first term. Typically, governors' terms are extended for an extra cycle, but it appeared that politics played a role in Rajan's departure as supporters of the ruling party did not take well to his willingness to speak out on topics beyond monetary policy. Early market reaction to the news was subdued, given expectations for India to sustain its favorable economic trajectory.

In Colombia, the central bank hiked the overnight lending rate by 25 bps to 7.5%, in line with consensus. The monetary policy committee signaled that the move could be its final of this tightening cycle, which has seen 300 bps in cumulative hikes to offset high inflation and current account pressures. The National Bank of Hungary matched expectations by leaving the base rate on hold at 0.9%, but noted that it was prepared to use unconventional tools if inflation undershot its target.

The Central Bank of Turkey continued its gradual path to monetary policy simplification by cutting the overnight lending rate (the upper end of its policy corridor) by 50 bps to 9.0%, and highlighting the recent deceleration in core inflation. In Thailand, the monetary policy committee was on hold at 1.5%, balancing slow growth against a desire to maintain space for further easing in the event of added external shocks. The Philippines' central bank also left the policy rate unchanged at 3%, maintaining its view for contained inflation and solid growth prospects.

## US Dollar-Denominated EM Bonds (in bps)

Spreads	06/23/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	379	415	353	308	257	404
Investment Grade	230	268	222	203	149	275
BB-rated	326	364	328	324	228	333
B-rated	554	576	462	668	669	870

## Local Currency-Denominated EM Bonds (in %)

Yields	06/23/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.42	7.09	6.50	6.85	5.45	6.57
Brazil	12.01	15.99	12.59	12.32	8.16	10.58
Indonesia	7.70	8.92	7.96	8.73	5.75	6.57
Turkey	9.12	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan