

# Weekly Emerging Markets Review

WEEK ENDING JULY 1ST, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads widened 8 basis points (bps) to 388 bps over US Treasuries, while local debt yields fell 14 bps to 6.28%. The US dollar-pay JP Morgan EMBI Global Diversified returned +10.3%, while the local currency JP Morgan GBI EM Global Diversified returned +14.3% (year-to-date through June 30, 2016).

## News

Argentina released a much-anticipated revision to its GDP series which indicated that growth increased by 0.5% y/y in Q1-16. Under the last administration, Argentine statistics were believed to be misreported due to political pressures. In Vietnam, second quarter GDP printed +5.6% y/y. After registering an expansion of 6.7% y/y in 2015, economic activity slowed in H1-16 (5.5% y/y) on a drought which weighed on the agricultural sector. In China, high frequency PMI manufacturing data was released, exhibiting a slightly weaker outturn relative to May. The Caixin and official PMI readings registered 48.6 and 50.0, respectively.

Turning to monetary policy, the central bank of Mexico (Banxico) surprised markets by hiking 50 bps points, leaving its policy rate at 4.25%. In its statement, Banxico underscored the risks of pass through—associated with sharp peso depreciation—on inflation expectations. In the Middle East, the central bank of Israel (BOI) left its policy rate at 0.1%, in line with expectations. The BOI has been on hold since February 2015.

In other news, Indonesia passed a tax amnesty bill which will be implemented over the next nine months. The move was greeted positively by markets given the country's low tax burden. Separately, Mongolia held parliamentary elections this week, with the Mongolian People's Party (MPP; social democrats) winning a solid victory; it garnered 65 out of 76 seats in the parliament. The MPP ran on a platform of fiscal responsibility and reinvigorating foreign direct investment (FDI).

In Turkey, the terrorist attack at Ataturk International Airport dominated headlines; it is expected to weigh further on the country's tourism sector which has suffered in the last year due to increased concerns about security. In other political developments, Turkish President Erdogan moved to normalize the country's relationship with Russia and Israel.

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

Spreads	06/30/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	388	415	353	308	257	404
Investment Grade	237	268	222	203	149	275
BB-rated	332	364	328	324	228	333
B-rated	580	576	462	668	669	870

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

Yields	06/30/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.28	7.09	6.50	6.85	5.45	6.57
Brazil	11.13	15.99	12.59	12.32	8.16	10.58
Indonesia	7.57	8.92	7.96	8.73	5.75	6.57
Turkey	8.92	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan