

Weekly Emerging Markets Review

WEEK ENDING JULY 8TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads narrowed 7 basis points (bps) to 381 bps over US Treasuries, while local debt yields fell 3 bps to 6.3%. The US dollar-pay JP Morgan EMBI Global Diversified returned +11.5%, while the local currency JP Morgan GBI EM Global Diversified returned +13.0% (year-to-date through July 7, 2016).

News

June manufacturing PMI data were largely unchanged in Emerging Markets versus May, with the aggregate EM PMI at 49.3. Notably, PMI data in Brazil and Russia, which are in the midst of recession, registered healthy improvements. Brazilian and Russian manufacturing PMIs printed 43.2 (+1.6 pts m/m) and to 51.5 (1.9 pts m/m), respectively. In contrast, Turkey and Mexico were notable underperformers, falling to 47.4 (-2pts m/m) and 47.5 (-4.4 pts m/m), respectively.

Costa Rican GDP picked up in Q1-16, printing a 4.8% y/y expansion; the manufacturing sector demonstrated solid momentum (+5.1% y/y) following a weak 2015. In the Dominican Republic, the economy grew by 6.1% y/y in the first quarter, a modest deceleration from the 7% y/y growth registered in Q4-15. In Senegal, GDP increased by 6.4%, with the tertiary sector (services) growing 7.8% y/y.

Turning to monetary policy, the Polish central bank left its benchmark rate unchanged at 1.5%. The decision was in line with market expectations, with the new central bank governor, Adam Glapinski, highlighting authorities' focus on financial stability following the UK's EU referendum. In China, June reserves increased by a higher-than-expected \$13.5 billion; FX reserves registered \$3.2 trillion.

In other news, the Sri Lankan Central Bank appointed a new Governor, Dr. Indrajit Coomaraswamy. The announcement was positive, with Dr. Coomaraswamy expected to exercise more independence than the former central bank governor. Brazil's economic team announced its fiscal target for 2017, an event that garnered interest in the context of the new administration's promised fiscal adjustment. Next year's primary deficit is expected to register 2.1% of GDP a modest improvement from the 2.6% of GDP deficit expected in 2016.

US Dollar-Denominated EM Bonds (in bps)

Spreads	07/07/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	381	415	353	308	257	404
Investment Grade	231	268	222	203	149	275
BB-rated	328	364	328	324	228	333
B-rated	572	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	07/07/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.30	7.09	6.50	6.85	5.45	6.57
Brazil	11.93	15.99	12.59	12.32	8.16	10.58
Indonesia	7.49	8.92	7.96	8.73	5.75	6.57
Turkey	8.87	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan