

Weekly Emerging Markets Review

WEEK ENDING JULY 15TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads tightened 26 basis points (bps) to 355 bps over US Treasuries, while local debt yields fell 9 bps to 6.21%. The US dollar-pay JP Morgan EMBI Global Diversified returned +12.6%, while the local currency JP Morgan GBI EM Global Diversified returned +15.8% (year-to-date through July 14, 2016).

News

Economic data from China generally surprised to the upside. For the second quarter of 2016, GDP growth expanded 6.7% year-over-year (y/y), similar to the first quarter and ahead of expectations for a modest slowdown to 6.6% y/y. Industrial production for June improved to 6.2% y/y (from 6.0% the prior month), while retail sales grew 10.6% y/y (from 10.0%). Data on domestic lending and financing also printed significantly above consensus. Among the weaker data points were fixed asset investment, which slowed to 9.0% year-to-date y/y (from 9.6% the prior month). Also, while the contraction in exports (4.8% y/y) was anticipated, imports declined 8.4% y/y, a larger drop than expected.

Among monetary policy decisions, Bank Negara Malaysia surprised markets by cutting rates 25 bps to 3.0%. Officials anticipated modest inflation dynamics through 2016, while expressing higher concern about a softer global growth backdrop. Kazakhstan also unexpectedly cut its benchmark rate by 200 bps to 13%, as officials believe the country's high inflation is set to decline, while economic activity remains slow. Central banks in Chile and Peru left policy rates unchanged at 3.5% and 4.25%, respectively. Chilean officials maintained a hawkish bias as inflation continues to hover just above its 2-4% target range, while policymakers in Peru expect inflation to sustain its recent decline and move back into the 1-3% range.

The IMF's executive board approved disbursement of \$364 million to Ecuador under the institution's rapid financing instrument. Ecuador had requested IMF assistance in light of the highly damaging earthquake that hit the country in April, which has exacerbated funding pressures brought on by the oil shock.

US Dollar-Denominated EM Bonds (in bps)

Spreads	07/14/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	355	415	353	308	257	404
Investment Grade	213	268	222	203	149	275
BB-rated	302	364	328	324	228	333
B-rated	527	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	07/14/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.21	7.09	6.50	6.85	5.45	6.57
Brazil	11.68	15.99	12.59	12.32	8.16	10.58
Indonesia	7.26	8.92	7.96	8.73	5.75	6.57
Turkey	8.76	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan