

# Weekly Emerging Markets Review

WEEK ENDING JULY 22ND, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads were largely flat at 355 bps over US Treasuries, while local debt yields increased 11 bps to 6.31%. The US dollar-pay JP Morgan EMBI Global Diversified returned +12.5%, while the local currency JP Morgan GBI EM Global Diversified returned +13.95% (year-to-date through July 21, 2016).

## News

In Turkey, factions within the military launched a failed coup attempt last Friday. The Erdogan government has since reestablished control, declared a three month state of emergency, and moved to fire tens of thousands that are believed to have sympathized with the coup attempt. In light of the political uncertainty, Moody's has put the country's Baa3 rating on review for downgrade. S&P lowered Turkey's rating from BB+ to BB and maintained a 'negative' outlook.

In the wake of the coup attempt, the central bank of Turkey cut the upper band of its interest rate corridor by 25 bps to 8.75%; it kept its other policy rates unchanged. In other monetary policy developments, Brazil's Ilan Goldfajn hosted his first monetary policy meeting as governor. In line with expectations, the Brazilian central bank (BCB) maintained its policy rate unchanged at 14.25%. Similarly, South Africa's monetary policy committee stood pat at 7%. In its communique, the central bank lowered its inflation and growth forecasts. In Indonesia, the central bank paused, leaving its policy rate at 6.5%. Most analysts had been looking for 25 bps in easing. Official statements following the meeting were interpreted as dovish, with policy makers acknowledging there is further scope for rate cuts.

Ecuador's Q1-16 GDP print confirmed that the economy has moved into recessionary territory. In the first quarter, GDP registered -3% y/y, led by a plunge in investment spending (-8.9% y/y). Separately, the Peruvian President-elect, Pedro Pablo Kuczynski, announced his cabinet appointments; his economic team will be led by Alfredo Thorne, a respected economist with private sector experience. In ratings news, S&P affirmed Honduras's 'B+' credit rating, but upgraded the country's outlook to 'positive,' citing better fiscal management.

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

Spreads	07/21/16	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	216	268	222	203	149	275
BB-rated	303	364	328	324	228	333
B-rated	523	576	462	668	669	870

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

Yields	07/21/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.31	7.09	6.50	6.85	5.45	6.57
Brazil	11.67	15.99	12.59	12.32	8.16	10.58
Indonesia	7.19	8.92	7.96	8.73	5.75	6.57
Turkey	9.93	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan