

# Weekly Emerging Markets Review

WEEK ENDING JULY 29TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads widened by ten basis points (bps) to 365 bps over US Treasuries, while local debt yields declined by 3 bps to 6.29%. The US dollar-pay JP Morgan EMBI Global Diversified returned +12.2%, while the local currency JP Morgan GBI EM Global Diversified returned +13.6% (year-to-date through July 28, 2016).

## News

In monetary policy news, the Central Bank of Israel (BOI) maintained its reference rate at 0.1%, in line with expectations. The BOI has been on hold since February 2015. Similarly, the Hungarian central bank left its policy rate unchanged at 0.9%, marking its third month on hold. In its statement, it noted that while the activity was picking up, there was still slack in the economy and inflation was contained. The Russian central bank also left its reference rate steady as 10.5% following 50 bps of easing last month. In Sri Lanka, the central bank, under its new governor Indrajit Coomaraswamy, hiked rates by 50 bps. Its communiqué cited inflation concerns linked to supply side effects (weak monsoon and tax revisions) as well as aggregate demand pressures.

In Saudi Arabia, Q1-16 growth printed an expansion of 1.5% y/y, with a pullback in government services weighing on activity. In Mexico, the preliminary estimate for second quarter GDP pointed to a deceleration in activity. While the economy expand by 2.4% y/y, it contracted on a sequential basis (quarter-on-quarter, seasonally adjusted) by 0.3%.

In Indonesia, President Joko Widodo replaced his Finance Minister in the context of a cabinet reshuffle. Widodo tapped Sri Mulyani Indrawati as his new Finance Minister; she is a well-respected World Bank Managing Director who has served as Finance Minister previously. Separately, Egyptian authorities confirmed that the country is negotiating a \$12 billion, three year loan with the IMF. The Egyptian government is reportedly looking to secure additional funding from other international organizations such as the World Bank and African Development Bank.

Turning to ratings, Fitch put Colombia's 'BBB' sovereign rating on 'negative' outlook, citing a deterioration in the country's fiscal trajectory as well as an increase in the current account deficit. Fitch is the second rating agency, after S&P, to put Colombia's credit rating on 'negative' outlook.

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

Spreads	07/28/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	365	415	353	308	257	404
Investment Grade	225	268	222	203	149	275
BB-rated	310	364	328	324	228	333
B-rated	535	576	462	668	669	870

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

Yields	07/28/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.29	7.09	6.50	6.85	5.45	6.57
Brazil	11.75	15.99	12.59	12.32	8.16	10.58
Indonesia	7.17	8.92	7.96	8.73	5.75	6.57
Turkey	9.42	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan