

# Weekly Emerging Markets Review

WEEK ENDING AUGUST 5TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads narrowed four basis points (bps) to 361 bps over US Treasuries, while local debt yields declined by four bps to 6.24%. The US dollar-pay JP Morgan EMBI Global Diversified returned +12.7%, while the local currency JP Morgan GBI EM Global Diversified returned +14.9% (year-to-date through August 4, 2016).

## News

Purchasing Managers Index (PMI) data for July was released in several countries. The closely watched manufacturing PMI in China showed mixed results, with official statistics showing a slight decline to 49.9, while the Caixin print improved to 50.6. Other manufacturing PMI readings softened, including in Mexico, Russia, Poland and Indonesia. However, several PMI readings that incorporate non-manufacturing sectors showed improvement, including in Brazil and India.

India's upper house of parliament passed the long-awaited Goods and Services Tax (GST) Amendment Bill. Approval of the GST legislation has been watched by markets as a signal of President Modi's ongoing structural reform efforts. The bill seeks to unify India's fragmented tax structure, with the goal of lowering costs and improving tax efficiency.

In Poland, a closely watched plan to convert mortgages originally taken out in Swiss francs back to Polish zloty was announced. The proposal appeared that it would create less of a burden for the banking sector than markets expected, supporting Polish assets early in the week.

Indonesia reported second quarter GDP growth of 5.2% year-over-year (y/y), beating expectations and up from 4.9% y/y in the first quarter. Solid private consumption and rising government spending drove the improvement.

Monetary authorities in Thailand held the policy rate at 1.5%, but stated their concern that the strength of the Thai baht was creating a growth headwind. The National Bank of Romania maintained the key rate at an historic low of 1.75%, noting that the path of inflation was undershooting prior expectations.

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

Spreads	08/04/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	361	415	353	308	257	404
Investment Grade	222	268	222	203	149	275
BB-rated	305	364	328	324	228	333
B-rated	526	576	462	668	669	870

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

Yields	08/04/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.24	7.09	6.50	6.85	5.45	6.57
Brazil	11.64	15.99	12.59	12.32	8.16	10.58
Indonesia	7.09	8.92	7.96	8.73	5.75	6.57
Turkey	9.51	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan