

# Weekly Emerging Markets Review

WEEK ENDING AUGUST 12TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads tightened twenty basis points (bps) to 341 bps over US Treasuries, while local debt yields declined by eight bps to 6.16%. The US dollar-pay JP Morgan EMBI Global Diversified returned +13.8%, while the local currency JP Morgan GBI EM Global Diversified returned +17.9% (year-to-date through August 11, 2016).

## News

In Thailand, a referendum on a new constitution was approved by 61.4% of the electorate. The constitution is expected to set the stage for parliamentary elections, possibly in late 2017, which would transition Thailand away from the military junta that has been in control since a coup in 2014. However, the constitution appears to give the military significant ongoing influence in politics by allowing it to appoint the upper house of parliament and giving that body the ability to vote for Prime Minister.

China reported weaker economic activity in July, with most data underperforming consensus estimates. Fixed asset investment fell to 4.0% year-over-year (y/y) from 7.4% in June, while industrial production eased to 6.0% y/y from 6.2%. Retail sales decelerated to 10.2% y/y, from 10.6% the prior month. Aggregate measures of lending and financing also fell substantially. In addition, trade data showed imports and exports declining by 12.5% y/y and 4.4% y/y, respectively, more than anticipated. Finally, consumer price inflation came at 1.8% y/y, slowing from 1.9% in June.

Countries continued to release second quarter GDP growth figures. Poland grew 3.1% y/y, up from 3.0% in Q1 but below analyst estimates. Hungary's 2.6% y/y expansion was ahead of expectations, led by services, industry and agriculture. Romania reported a strong 6.0% y/y advanced growth reading, up from 4.3% in Q1, likely propelled by strong household consumption. Russia's economic contraction continued to ease; the -0.6% y/y print improved from -1.2% in Q1. In Malaysia, GDP decelerated mildly to 4.0% y/y, with weaker results in the agriculture and mining sectors.

Among monetary policy decisions, Raghuram Rajan led his final meeting as governor of the Reserve Bank of India, holding the benchmark rate at 6.5%. Rajan's replacement has yet to be announced. A trio of Latin American central banks kept policy rates steady, including in Mexico (4.25%), Peru (4.25%) and Chile (3.5%). The Philippines' central bank also held its overnight rate at 3%, but continued to revise down its inflation forecasts for 2016-2017.

The IMF announced it had reached a staff-level Extended Fund Facility with Egypt that would provide \$12 billion of financing over three years, pending approval by the IMF's Executive Board. Egyptian officials are aiming to address balance-of-payments pressure, which would include a more flexible currency, and will embark on a much-needed fiscal consolidation.

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

Spreads	08/11/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	341	415	353	308	257	404
Investment Grade	205	268	222	203	149	275
BB-rated	286	364	328	324	228	333
B-rated	498	576	462	668	669	870

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

Yields	08/11/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.16	7.09	6.50	6.85	5.45	6.57
Brazil	11.57	15.99	12.59	12.32	8.16	10.58
Indonesia	7.04	8.92	7.96	8.73	5.75	6.57
Turkey	9.25	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan