

Weekly Emerging Markets Review

WEEK ENDING JANUARY 6TH, 2017

Market Technicals

Emerging market (EM) dollar-pay spreads tightened eight basis points (bps) to 331 bps over US Treasuries, while local debt yields were roughly flat at 6.78%. The US dollar-pay JP Morgan EMBI Global Diversified returned +1.3%, while the local currency JP Morgan GBI EM Global Diversified returned +0.4% (year-to-date through January 5, 2017).

News

Emerging markets saw a constructive start to 2017, with spreads tightening and most local currencies holding up against the U.S. dollar, though Mexico was an outlier. Despite the Mexican central bank's direct intervention to support the embattled peso, the currency lagged after President-elect Donald Trump spoke out against Ford's decision to open a production facility in Mexico, causing the automaker to cancel the investment.

As anticipated, the week saw several new mandate announcements, with corporates and sovereigns likely to begin printing deals next week. Argentina, for example, stated that \$10 billion in new supply could be forthcoming prior to the U.S. presidential inauguration.

Significant economic data releases early in the year were limited to December prints of the Purchasing Managers' Index (PMI). In China, both the government and Caixin manufacturing PMIs showed resilience, coming at 51.4 and 51.9, respectively. Brazil's manufacturing PMI remained in contractionary territory at 45.2, falling from 46.2. India's PMI prints weakened, with the manufacturing reading falling to 49.6 from 52.3; the recent currency swap program is thought to be causing temporary economic sluggishness.

US Dollar-Denominated EM Bonds (in bps)

Spreads	1/5/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	331	342	415	353	308	257
Investment Grade	199	205	268	222	203	149
BB-rated	310	322	364	328	324	228
B-rated	485	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	1/5/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.78	6.79	7.13	6.50	6.85	5.45
Brazil	10.95	11.10	16.03	12.59	12.32	8.16
Indonesia	7.88	8.03	8.92	7.96	8.73	5.75
Turkey	10.97	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan