

Weekly Emerging Markets Review

WEEK ENDING FEBRUARY 24TH, 2017

Market Technicals

Sovereign spreads tightened two basis points (bps) to 312 bps over U.S. Treasuries, while EM local sovereign yields decreased four bps to 6.59%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +3.2%, while the local currency JP Morgan GBI EM Global Diversified returned +5.2 % (year-to-date through February 23, 2017).

News

In Mexico, the central bank (Banxico) announced that it would be using FX forwards to support the peso in response to currency volatility in the last several months. The new intervention program will be capped at \$20 billion and has the advantage of being settled in local currency, leaving the central bank's FX reserves unchanged. In response to the news, the Mexican peso has appreciated almost 4% on the week.

In Brazil, the central bank (BCB) cut its reference rate (Selic) by 75 bps points as expected, to 12.25%. The BCB has reduced its policy rate 200 bps since October 2016 against the backdrop of decelerating inflation and a recession. Turning to economic activity, Mexico released Q4-16 growth figures which pointed to a 2.4% y/y expansion, leaving 2016 calendar year growth at 2.3% y/y. In Colombia, Q4-16 GDP increased by 1.6% y/y, translating into economic growth of 2% in 2016.

In politics, Ecuadorean presidential elections will go to a second round after last Sunday's initial vote. Lenin Moreno, the candidate from the incumbent's Alianza Pais party, came in just shy of the 40% of the popular vote necessary to win the first round outright.

In other news, the IMF announced a staff level agreement with Mongolia for a \$440 million three year Extended Fund Facility, with an additional \$5 billion in bilateral financing from China, Japan, and South Korea. The program mitigates concerns about upcoming bond maturities and Mongolia's low foreign exchange reserve levels.

In ratings news, Moody's changed Russia's Ba1 sovereign outlook to 'stable' from 'negative.' In its press release, Moody's cited Russia's fiscal consolidation program and the country's more constructive outlook economic outlook. Fitch downgraded Suriname's long-term foreign currency rating two notches to 'B-' and maintained the sovereign on 'negative' outlook. In its statement, the rating agency highlighted a notable deterioration in the public and external balance sheets.

US Dollar-Denominated EM Bonds (in bps)

Spreads	2/23/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	312	342	415	353	308	257
Investment Grade	181	205	268	222	203	149
BB-rated	284	322	364	328	324	228
B-rated	478	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	2/23/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.59	6.79	7.13	6.50	6.85	5.45
Brazil	9.79	11.10	16.03	12.59	12.32	8.16
Indonesia	7.78	8.03	8.92	7.96	8.73	5.75
Turkey	10.57	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan