

Weekly Emerging Markets Review

WEEK ENDING MARCH 3RD, 2017

Market Technicals

Sovereign spreads tightened seven basis points (bps) to 304 bps over U.S. Treasuries, while EM local sovereign yields increased seventeen bps to 6.76%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +3.2%, while the local currency JP Morgan GBI EM Global Diversified returned +3.5 % (year-to-date through March 2, 2017).

News

PMI data for February were released in several countries. Both the government and Caixin readings of China's manufacturing PMI came above expectations at 51.6 and 51.7, respectively, and each showed improvement versus January. Prints in Mexico were mixed; the Markit manufacturing PMI was resilient at 50.6, while the government statistics version of PMI deteriorated to 46.8. Indonesia's manufacturing PMI eased below 50, to 49.3, while the reading for India ticked higher to 50.7. Russia's manufacturing PMI fell but remained in expansionary territory at 52.5, while Turkey's data improved but remained in contractionary territory at 49.7.

Countries continued to publish fourth quarter GDP statistics. Growth in India surprised significantly to the upside at 7.0% year-over-year (y/y), against consensus estimates of 6.1% y/y. The negative impact of the government's demonetization policy appeared to be overstated by analysts; the services, manufacturing and agriculture sectors all saw solid expansion. Croatia reported its first estimate of fourth quarter output at 3.4% y/y, bringing full-year 2016 growth to 2.9% y/y, up from 1.6% in 2015. The country's expansion was driven by robust tourism sector performance, stronger consumption and higher industrial production.

Bank Negara Malaysia held the policy rate at 3.0%, matching expectations. Officials noted a more favorable global growth and commodity environment, while seeing limited upward pressure on domestic core inflation. Hungary's central bank chose to keep rates steady at 0.9%. Authorities feel the recent increase in inflation is being driven by base effects, and they expect inflation to ease again in coming months.

US Dollar-Denominated EM Bonds (in bps)

Spreads	3/02/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	304	342	415	353	308	257
Investment Grade	174	205	268	222	203	149
BB-rated	278	322	364	328	324	228
B-rated	458	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	3/02/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.76	6.79	7.13	6.50	6.85	5.45
Brazil	9.89	11.10	16.03	12.59	12.32	8.16
Indonesia	7.75	8.03	8.92	7.96	8.73	5.75
Turkey	10.84	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan