

Weekly Emerging Markets Review

WEEK ENDING MARCH 10TH, 2017

Market Technicals

Sovereign spreads widened six basis points (bps) to 310 bps over U.S. Treasuries, while EM local sovereign yields increased 2 bps to 6.79%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +2.2%, while the local currency JP Morgan GBI EM Global Diversified returned +2.8 % (year-to-date through March 9, 2017).

News

In its fourth quarter 2016 GDP release, Brazil reported a contraction of 0.9% quarter-over-quarter (q/q) and 2.5% year-over-year (y/y), weaker than consensus expectations. The release left Brazil's 2016 full-year growth at -3.6%, similar to the -3.8% figure in 2015. The ongoing repercussions of the country's corruption scandal have taken a significant toll on consumption and investment, though Brazil is expected to emerge from recession in 2017.

South Africa's fourth quarter GDP growth was also worse than expected at -0.3% q/q, representing y/y growth of +0.7% and a full-year 2016 expansion of just 0.3%. The weak quarterly reading was driven by a contraction in private fixed investment and inventories, while household consumption was relatively strong.

Monthly data from China showed consumer price inflation slowing to 0.8% y/y, significantly below expectations. The decline was attributed to more volatile food prices, however, while non-food and core price measures remained fairly steady. China's foreign reserves rose back above \$3 trillion versus expectations that the level would fall. Also, export performance was weaker than expected at -1.3% y/y, while imports were stronger than expected at +38.1% y/y. As a result, the trade balance came significantly below estimates, at -\$9.2 billion. Several analysts pointed to Chinese New Year as creating some distortions in the trade data.

In Poland, the central bank kept the policy rate unchanged at 1.5% and signaled that it would likely remain on hold throughout 2017. Officials see the recent increase in inflation as driven by commodities and food, while core inflation near 0% suggests a lack of domestic demand pressure. Peru's central bank held rates for the thirteenth consecutive month at 4.25%. Headline inflation remains above the bank's 1-3% target, though core inflation has eased to recent lows at 2.6% y/y.

US Dollar-Denominated EM Bonds (in bps)

Spreads	3/09/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	310	342	415	353	308	257
Investment Grade	178	205	268	222	203	149
BB-rated	282	322	364	328	324	228
B-rated	467	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	3/09/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.79	6.79	7.13	6.50	6.85	5.45
Brazil	9.92	11.10	16.03	12.59	12.32	8.16
Indonesia	7.66	8.03	8.92	7.96	8.73	5.75
Turkey	11.23	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan