

Weekly Emerging Markets Review

WEEK ENDING MARCH 17TH, 2017

Market Technicals

Sovereign spreads narrowed three basis points (bps) to 307 bps over U.S. Treasuries, while EM local sovereign yields compressed 10 bps to 6.68%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +3.0%, while the local currency JP Morgan GBI EM Global Diversified returned +5.8 % (year-to-date through March 16, 2017).

News

In Sri Lanka, fourth quarter GDP was released, coming in at 5.3% y/y, slightly below expectations for an expansion of 5.7% y/y. Calendar year growth in Sri Lanka printed 4.4% y/y, a modest deceleration from the 4.9% y/y expansion recorded in 2015.

In Turkey, the central bank left its monetary policy rate unchanged at 8%, but hiked the rate on its late liquidity window borrowing by 75 bps, to 11.75%. The move comes against a backdrop of an increase in price pressures, with inflation reaching 10.1% y/y in February. In Chile, the central bank cut its reference rate by 25 bps to 3.0%, in line with market expectations. In its statement, the board cited contained inflation dynamics against a backdrop of soft domestic activity. China raised its open-market-operations (OMO) rates by 10 bps. The PBOC pre-empted the perception of tighter monetary policy by clarifying that since OMO rates are market-based, the movements are not comparable to interest rate hikes. In Brazil, inflation data in February continued to undershoot expectations, printing 0.33% m/m. This leaves February inflation at 4.7% y/y, a notable deceleration from a high of 10.7% y/y recorded in January 2016.

Turning to ratings, Fitch left Colombia's sovereign rating at 'BBB' and moved the country's outlook from 'negative' to 'stable.' The change in outlook to 'stable' was notable as Colombia had, until a fiscal reform passed in late-2016, been seen as a candidate for a sovereign downgrade. Elsewhere in Latin America, Moody's changed Brazil's Ba2 sovereign outlook to 'stable' from 'negative.' In its statement, Moody's noted that the downside risks reflected in the 'negative' outlook had abated on signs of an economic recovery and better policy implementation.

Separately, there were three notable sovereign issues this week. Bolivia came to international markets for \$1 billion in 2028 bonds. Kuwait issued a total of \$8 billion, with \$4.5 billion in ten year bonds and \$3.5 billion in five year bonds. In Mexico, the sovereign opened an exchange offer in addition to issuing \$2.4 billion in 2027 bonds.

US Dollar-Denominated EM Bonds (in bps)

Spreads	3/16/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	307	342	415	353	308	257
Investment Grade	176	205	268	222	203	149
BB-rated	277	322	364	328	324	228
B-rated	462	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	3/16/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.68	6.79	7.13	6.50	6.85	5.45
Brazil	9.72	11.10	16.03	12.59	12.32	8.16
Indonesia	7.57	8.03	8.92	7.96	8.73	5.75
Turkey	11.02	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan