

Weekly Emerging Markets Review

WEEK ENDING MARCH 31ST, 2017

Market Technicals

EM sovereign spreads declined five basis points to 304 basis points (bps) over U.S. Treasuries, while EM local currency yields were generally flat at 6.57%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +4.1%, while the local currency JP Morgan GBI EM Global Diversified returned +7.6% (year-to-date through March 30, 2017).

News

In South Africa, President Zuma ousted Finance Minister Gordhan. There is concern that, in the wake of Zuma's decision, the sovereign will face rating downgrades. The market reaction to the news was negative, with the South African rand sliding 7.4% on the week. In other political developments, the Venezuelan Supreme Court, which is aligned with President Maduro, declared the country's National Assembly "invalid." In a move viewed as a power grab, the Venezuelan Supreme Court will be taking over legislative functions.

In monetary policy developments, the Central Bank of Mexico (Banxico) increased its policy rate by 25 bps, to 6.5%, in line with expectations. Since U.S. elections, Banxico has increased its benchmark rate by 175 bps and introduced a currency intervention program to stem MXN volatility. In Colombia, the central bank (Banrep) delivered a 25 bps rate cut, leaving its policy rate at 7.0%. The move was expected and in response to a deceleration in inflation against a backdrop of lackluster growth.

In Hungary, the central bank maintained its policy rate unchanged at 0.9%, in line with consensus. However, at the same time, the central bank lowered the volume of commercial deposits that banks are permitted to keep at the benchmark interest rate--a form of unconventional easing which pushes commercial funds into the money market. In Thailand, the central bank maintained its policy rate unchanged at 1.5%, echoing market expectations. The Thai central bank has been on hold since mid-2015.

In Ghana, the central bank cut 200bps (to 23.5%), against expectations of 50-100bps. In its statement, the MPC highlighted a decline in inflation, a stabilization of the currency (after a sharp depreciation), and below-potential GDP growth. The South African central bank left its policy rate unchanged at 7%, in line with consensus forecasts. In its statement, the MPC signaled that, despite disappointing growth, it sees inflation risks to the upside due to currency volatility.

Turning to economic activity, Vietnam's Q1-17 GDP printed 5.1% y/y, below consensus for a 6.3% y/y expansion. In Turkey, Q4-16 GDP surprised to the upside, registering a 3.5% y/y expansion and leaving 2016 growth at 2.9% y/y. In ratings news, Saudi Arabia was downgraded by Fitch from 'AA-' to 'A+', with the rating agency underscoring a deterioration in the public sector's balance sheet.

US Dollar-Denominated EM Bonds (in bps)

Spreads	3/30/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	303	342	415	353	308	257
Investment Grade	172	205	268	222	203	149
BB-rated	270	322	364	328	324	228
B-rated	464	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	3/30/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.57	6.79	7.13	6.50	6.85	5.45
Brazil	9.59	11.10	16.03	12.59	12.32	8.16
Indonesia	7.35	8.03	8.92	7.96	8.73	5.75
Turkey	10.90	10.91	10.62	7.95	10.02	6.38