

Weekly Emerging Markets Review

WEEK ENDING APRIL 7TH, 2017

Market Technicals

EM sovereign spreads widened seven basis points to 311 basis points (bps) over U.S. Treasuries, while EM local currency yields were roughly flat at 6.56%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +4.3%, while the local currency JP Morgan GBI EM Global Diversified returned +6.3% (year-to-date through April 7, 2017).

News

The second round of Ecuador's presidential election resulted in a narrow victory for Lenin Moreno, the former vice president and incumbent party candidate. The count showed Moreno receiving 51.2% of the vote, versus 48.8% for opposition candidate Guillermo Lasso. Lasso said he would contest the results, though a change in outcome appears unlikely. Markets reacted negatively to the result, given that Moreno is expected to perpetuate the left-leaning policies of his predecessor, Rafael Correa, while Lasso was perceived as more orthodox and reform-oriented.

Paraguay experienced massive street protests in light of a controversial legislative decision by the ruling party that would allow President Horacio Cartes to eliminate term limits and run for re-election. Given the scale of the protests, the legislation was suspended at the lower house of Congress, pending discussions by Paraguayan leaders about steps to alleviate the crisis.

Argentina's credit rating was upgraded by S&P to B/stable from B-/stable. The agency cited improvements to the country's economic policies and institutions under the new political regime. In contrast, South Africa faced rating consequences from last week's cabinet reshuffle by President Zuma. S&P downgraded the country's rating to BB+/negative from BBB-/negative, dropping the rating below investment grade. Fitch made a similar move later in the week, moving South Africa to high yield at BB+/stable from BBB-/negative. Moody's put its Baa2/negative rating on negative watch, and said it would wait 30-90 days to assess the impact.

The latest round of emerging market PMI data was broadly positive. China's official manufacturing PMI showed a small uptick to 51.8, although the Caixin version of the data eased to 51.2. Manufacturing PMI in Brazil increased notably to 49.7 (from 46.9), while the Markit release in Mexico also improved to 51.5 (from 50.6). Indonesia's manufacturing PMI moved into expansionary territory at 50.5 (from 49.3), while the reading in India also rose to 52.5. Comparable data in Russia held steady at 52.4, while Turkey's PMI showed significant improvement, reaching 52.3 (from 49.7).

The Reserve Bank of India (RBI) opted to narrow the interest rate corridor around its 6.25% key rate by moving the reverse repo rate up 0.25% to 6% and lowering its marginal standing facility rate 0.25% to 6.5%. The RBI is looking to calibrate policy to reduce excess liquidity. Peru's central bank opted to hold rates at 4.25%, as it assessed a recent jump in inflation caused by severe flooding to be temporary. Central banks in Poland and Romania opted to hold rates steady at 1.5% and 1.75%, respectively. Underlying inflation pressures are expected to remain benign, despite a commodity recovery that has lifted headline inflation in the region.

US Dollar-Denominated EM Bonds (in bps)

Spreads	04/06/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	311	342	415	353	308	257
Investment Grade	182	205	268	222	203	149
BB-rated	273	322	364	328	324	228
B-rated	467	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	04/06/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.56	6.79	7.13	6.50	6.85	5.45
Brazil	9.66	11.10	16.03	12.59	12.32	8.16
Indonesia	7.30	8.03	8.92	7.96	8.73	5.75
Turkey	10.98	10.91	10.62	7.95	10.02	6.38