

Weekly Emerging Markets Review

WEEK ENDING APRIL 13TH, 2017

Market Technicals

EM sovereign spreads widened three basis points to 314 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 +4.5%, while the local currency JP Morgan GBI EM Global Diversified returned +6.5% (year-to-date through April 12, 2017).

News

In monetary policy news, the central bank of Argentina (BCRA) increased its policy rate by 150 bps to 26.25% in an unexpected decision. The hike comes on the heels of a higher-than-expected March inflation print (+2.4% m/m) and inflation expectations that have persisted above the central bank's target ceiling (17%). Elsewhere in Latin America, the Brazilian central bank (BCB) delivered 100 bps in easing, leaving the policy rate 11.25%. The BCB has now cut 300 bps since October 2016 against a backdrop of a deep recession and a sharp deceleration in inflation.

In Kazakhstan, the central bank maintained its key rate at 11%, in line with expectations. The decision to pause this month follows 100 bps of easing in February. Elsewhere, the Ukrainian central bank surprised markets by cutting its policy rate by 100 bps to 13%. In its statement, the central bank noted that despite high inflation, looser monetary policy was appropriate to support growth. In related news, the Ukrainian central bank governor, Valeriya Gontareva, announced her resignation earlier this week. She cited corruption as one of the principal drivers behind her decision.

In credit rating developments, El Salvador was downgraded by S&P and Fitch to 'CCC' after the sovereign failed to pay a local pension fund obligation last Friday. The payment failure is linked to a domestic political dispute whereby the opposition party in Congress has refused to approve government financing absent a fiscal adjustment. The Salvadoran government maintains that this dispute will not affect international debt obligations.

US Dollar-Denominated EM Bonds (in bps)

Spreads	04/12/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	314	342	415	353	308	257
Investment Grade	185	205	268	222	203	149
BB-rated	277	322	364	328	324	228
B-rated	476	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	04/12/17	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	9.56	11.10	16.03	12.59	12.32	8.16
Indonesia	7.34	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