

Weekly Emerging Markets Review

WEEK ENDING APRIL 21ST, 2017

Market Technicals

EM sovereign spreads were roughly flat at 314 basis points (bps) over U.S. Treasuries, while EM local currency yields declined 5 bps to 6.50%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +4.9%, while the local currency JP Morgan GBI EM Global Diversified returned +7.6% (year-to-date through April 20, 2017).

News

The IMF published its semi-annual World Economic Outlook, increasing the 2017 global growth forecast to 3.5% (from 3.4%), and maintaining a 3.6% expansion forecast for 2018. The revision was driven primarily by a better outlook for developed countries (particularly Japan and the UK). The overall 2017 growth forecast for developing countries was marginally lower at 4.5%, though underlying prospects were mixed. Russia is now forecast to have a stronger recovery from recession, while China's prospective growth has been moved up to 6.9%. Counter to this, regional growth forecasts for Latin America, the Middle East and Africa were revised lower.

Supporting the IMF's latest forecasts, China's headline GDP growth for the first quarter of 2017 printed above expectations at 6.9% year-over-year (y/y), versus consensus estimates of 6.8%. Monthly activity data for March also surprised to the upside. Fixed asset investment accelerated 9.2% year-to-date y/y, up from 8.9% the prior month, and industrial production increased 7.6% y/y (from 6.0%). Retail sales matched February's pace at 10.9% y/y, though this was significantly higher than the 9.7% forecast figure.

Turkey held its highly-anticipated constitutional referendum, voting on whether or not to approve changes that would enhance the powers of the presidency and eliminate the role of prime minister. The referendum passed by a margin of 51.4% to 48.6%, though several opposition groups claimed there were procedural problems with the vote. The result was seen as a victory for President Recep Tayyip Erdogan, who stands to gain greater executive authority in future elections.

Escalating social tensions in Venezuela were punctuated by large anti-government marches. The regime has experienced an increase in domestic resistance and international criticism in the weeks after the Supreme Court, which is seen as controlled by President Maduro, attempted to dismiss the National Assembly (since reversed).

Bank Indonesia chose to maintain its policy rate at 4.75%, matching expectations. Officials have communicated that they'd like to see balanced currency pressures, and they are studying the inflationary impacts of administrative and electricity price hikes.

US Dollar-Denominated EM Bonds (in bps)

Spreads	04/20/17	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	186	205	268	222	203	149
BB-rated	276	322	364	328	324	228
B-rated	476	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	04/20/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.50	6.79	7.13	6.50	6.85	5.45
Brazil	9.60	11.10	16.03	12.59	12.32	8.16
Indonesia	7.33	8.03	8.92	7.96	8.73	5.75
Turkey	10.72	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan