

Weekly Emerging Markets Review

WEEK ENDING APRIL 28TH, 2017

Market Technicals

EM sovereign spreads narrowed by 9 basis points (bps) to 306 bps over U.S. Treasuries, while EM local currency yields were largely flat at 6.49%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +5.2%, while the local currency JP Morgan GBI EM Global Diversified returned +7.7% (year-to-date through April 27, 2017).

News

In Turkey, the central bank maintained its benchmark policy rates unchanged but increased its late liquidity window rate (which funds commercial lending), by 50 bps, to 12.25%. The monetary tightening was unexpected, with the Turkish central bank citing risks associated with high inflation. In Russia, the central bank (CBR) delivered 50 bps in easing, against market expectations for a 25 bps cut. This marks the CBR's second consecutive rate cut this year; its benchmark policy rate now stands at 9.25%. In its statement, the central bank noted that inflation is decelerating towards its 4% target, which it expects to touch before the end of 2017. The Hungarian central bank stood pat, holding its policy rate at 0.9%.

Turning to growth, Mexican authorities reported a strong first quarter GDP flash print, with real GDP printing 2.7% y/y. High frequency data suggest that the services and primary sectors were the largest contributors to economic activity. Ghana reported an expansion of 4.1% y/y in Q4-16, leaving 2016 growth at 3.5% y/y on a calendar year basis.

In political news, last Friday, El Salvador cured the default on its local pension fund bonds that had precipitated multi-notch rating downgrades, including a decision by S&P to move the country into restricted default. Elsewhere in Latin America, Venezuela announced that it would be pulling out of the Organization of American States (OAS), an international organization that serves the states in the Americas. The decision comes in response to the OAS's increasing political pressure on the Venezuelan government to restore democratic processes.

The Caribbean nation of Trinidad and Tobago was downgraded by Moody's to 'Ba1' from 'Baa3' and by S&P from 'A-' to 'BBB+'. The decisions highlighted the negative impact that lower energy prices and production has had on the sovereign's credit standing. S&P downgraded Suriname's sovereign rating from 'B+' to 'B' and maintained the country on negative outlook. In its statement, S&P underscored the country's worsening economic prospects and higher debt. Separately, Moody's affirmed Mexico's sovereign rating at A3 with a negative outlook.

US Dollar-Denominated EM Bonds (in bps)

Spreads	04/27/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	306	342	415	353	308	257
Investment Grade	181	205	268	222	203	149
BB-rated	266	322	364	328	324	228
B-rated	461	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	04/27/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.49	6.79	7.13	6.50	6.85	5.45
Brazil	9.72	11.10	16.03	12.59	12.32	8.16
Indonesia	7.30	8.03	8.92	7.96	8.73	5.75
Turkey	10.45	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan