

Weekly Emerging Markets Review

WEEK ENDING MAY 19TH, 2017

Market Technicals

EM sovereign spreads widened 17basis points (bps) to 312 bps over U.S. Treasuries, while EM local currency yields increased 7 bps to 6.49%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +5.4%, while the local currency JP Morgan GBI EM Global Diversified returned +7.6% (year-to-date through May 18, 2017).

News

In Brazil, President Michel Temer appeared to be caught up in the country's far-reaching Lava Jato corruption scandal, amid the prospective release of an incriminating audio recording. Brazil's currency and stock market initially fell by about 7% and 10%, respectively, as investors feared that the country's economic reform agenda could face delays. However, only a day after the news broke, Brazilian assets partially corrected as the audio recording turned out to be less directly incriminating than first believed.

Several countries released preliminary figures for first quarter 2017 GDP growth:

- A trio of Eastern European economies beat consensus estimates, with Poland, Hungary and Romania reporting expansions of 4.0% year-over-year (y/y), 4.1% y/y and 5.7% y/y, respectively. While underlying details are not yet available, stronger growth is thought to be caused by a resumption of EU funding that has boosted construction and investment in the countries. The advance growth estimate in Russia came slightly ahead of expectations, but remained sluggish at 0.5% y/y, while Ukraine's output was slower than anticipated at 2.4% y/y.
- Latin American countries Colombia and Chile both reported an (expected) slowdown versus the fourth quarter, to 1.1% y/y and 0.1% y/y, respectively. Colombia has seen weakness in the mining, construction and retail sectors. In Chile, net exports posed a headwind for the quarter, though consumption and investment showed improvement.
- In Asia, Malaysia reported growth of 5.6% y/y, well ahead of expectations. Improvement in private consumption and investment drove the release. Thailand also reported a growth pick-up to 3.3% y/y, led by recovering private consumption. Output in the Philippines slowed modestly to 6.4% y/y, led by softer contributions from investment and government consumption.

Notable monetary policy actions included Mexico, where the central bank hiked rates by 25 basis points to 6.75%, against estimates it would remain on hold. Officials have been tightening policy due to concerns about faster-than-expected inflation. In contrast, Chile's central bank cut the policy rate by 25 basis points to 2.5% in light of weak growth and falling inflation.

Indonesia consolidated its investment grade sovereign rating, with S&P taking a long-awaited action to move the country to BBB-, from BB+, recognizing structural improvements in the country's fiscal position. Moody's and Fitch upgraded Indonesia to investment grade in 2012 and 2011, respectively.

US Dollar-Denominated EM Bonds (in bps)

Spreads	05/18/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	312	342	415	353	308	257
Investment Grade	180	205	268	222	203	149
BB-rated	277	322	364	328	324	228
B-rated	456	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	05/18/17	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	11.01	11.10	16.03	12.59	12.32	8.16
Indonesia	7.34	8.03	8.92	7.96	8.73	5.75
Turkey	10.81	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan