

Weekly Emerging Markets Review

WEEK ENDING MAY 26TH, 2017

Market Technicals

EM sovereign spreads tightened 11 basis points (bps) to 301 bps over U.S. Treasuries, while EM local currency yields fell 10 bps to 6.39%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +6.2%, while the local currency JP Morgan GBI EM Global Diversified returned +9.9% (year-to-date through May 25, 2017).

News

Moody's lowered China's sovereign debt rating by one notch to A1 and revised the outlook to stable, from negative. Moody's attributed the change to China's increasing debt burden in the context of slower economic growth. However, it also cited China's resilience to shocks and prospects for reform as stabilizing medium-term factors. Market reaction to the news appeared limited, as the negative outlook had been in place for over a year.

S&P placed Brazil's BB credit rating on negative watch following the latest round of political uncertainty that emerged last week. The agency sees the country's fiscal adjustment and reform agenda at risk of stalling.

Mexico's final reading of first quarter GDP growth showed a slight improvement to 2.8% year-over-year (y/y). The primary and tertiary sectors showed a solid expansion, while secondary sector output was modest.

Among monetary policy decisions, the Central Bank of Egypt unexpectedly hiked the policy rate 200 basis points to 16.5%. Officials are responding to high inflation that has come in the wake of a significant currency devaluation in late 2016. The Bank of Thailand held its policy rate at 1.5%, the sixteenth consecutive such decision. Officials have stated optimism regarding growth prospects, while flagging external risks. The National Bank of Hungary held its record-low policy rate at 0.9% and made little adjustment to its accompanying statement.

The South African Reserve Bank kept its policy rate steady at 7%. The bank revised down its 2017-18 inflation forecasts, but remained concerned about elevated medium-term inflation expectations. In Ghana, the central bank opted to cut rates by 100 basis points, to 22.5%. Policymakers have been easing in response to moderating inflation and recovering growth prospects. Meanwhile, the Central Bank of Nigeria was on hold at 14%, balancing high inflation with weak economic activity. Nigeria's sub-par growth environment was confirmed by the release of first quarter GDP, which stayed in contractionary territory at -0.5% y/y.

US Dollar-Denominated EM Bonds (in bps)

Spreads	05/25/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	301	342	415	353	308	257
Investment Grade	174	205	268	222	203	149
BB-rated	263	322	364	328	324	228
B-rated	441	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	05/25/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.39	6.79	7.13	6.50	6.85	5.45
Brazil	10.20	11.10	16.03	12.59	12.32	8.16
Indonesia	7.23	8.03	8.92	7.96	8.73	5.75
Turkey	10.50	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan