

Weekly Emerging Markets Review

WEEK ENDING JUNE 2ND, 2017

Market Technicals

EM sovereign spreads were roughly flat at 303 basis points (bps) over U.S. Treasuries, while EM local currency yields fell 12 bps to 6.27%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +6.4%, while the local currency JP Morgan GBI EM Global Diversified returned +10.3% (year-to-date through June 1, 2017).

News

Brazil reported first quarter GDP growth of -0.4% year-over-year (y/y), though quarter-on-quarter growth was positive at +1.0%, marking the first positive quarterly reading since the end of 2014. The reading was boosted by positive net exports, while consumption and investment remained weak. With inflation falling to the slowest pace in almost ten years, Banco Central do Brasil cut the Selic rate a further 100 basis points to 10.25%. However, amid the recent increase in political noise, the central bank signaled that the outlook for policy reforms had become less certain, and stated that the pace of monetary easing may need to be reduced going forward. Echoing concerns about the country's reform momentum, Moody's moved the outlook on Brazil's Ba2 credit rating to negative, from stable.

First quarter GDP growth in India came below expectations at 6.1% y/y. By expenditure, private and government consumption held up, while fixed investment showed a contraction. The weaker result may have represented the lingering effects of the country's demonetization process. Still, India's fiscal full year growth reading finished in line with consensus estimates at 7.1% (April 2016 – March 2017).

Purchasing Managers' Index (PMI) data for May were released in several countries. In China, while the government's manufacturing PMI print for May came ahead of expectations at 51.2, the Caixin reading was weaker than forecast at 49.6. Manufacturing PMI readings showed improvement in Brazil (to 52.0), Mexico (51.2), Turkey (53.5), Russia (52.4) and South Africa (51.5). The reading was weaker in countries including Poland (52.7), Indonesia (50.6) and India (51.6), though these figures remained in expansionary territory.

US Dollar-Denominated EM Bonds (in bps)

Spreads	06/01/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	303	342	415	353	308	257
Investment Grade	176	205	268	222	203	149
BB-rated	262	322	364	328	324	228
B-rated	441	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	06/01/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.27	6.79	7.13	6.50	6.85	5.45
Brazil	10.05	11.10	16.03	12.59	12.32	8.16
Indonesia	7.23	8.03	8.92	7.96	8.73	5.75
Turkey	10.36	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan