

Weekly Emerging Markets Review

WEEK ENDING JUNE 9TH, 2017

Market Technicals

EM sovereign spreads narrowed three basis points (bps) to 300 bps over U.S. Treasuries, while EM local currency yields also fell three bps to 6.24%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +6.9%, while the local currency JP Morgan GBI EM Global Diversified returned +10.6% (year-to-date through June 8, 2017).

News

In monetary policy developments, India's central bank (RBI) held its policy rate unchanged at 6.25%, in line with expectations. The RBI's statement was read as dovish, with the monetary policy committee highlighting a deceleration in inflation. Similarly, in Poland, the central bank stood pat at 1.5%; the Polish central bank has been on hold since early-2015. In Peru, the central bank (BCRP) announced that it would hold its reference rate unchanged at 4.0%; this follows a 25 bps cut in May. The decision was against market consensus which called for additional easing in the context of a moderation in economic activity.

South Africa released first quarter GDP results, with activity unexpectedly contracting by 0.7% quarter-over-quarter. After a downbeat Q4-16 reading, the negative Q1-17 print translated into a technical recession. In Latin America, Paraguay's Q1-17 GDP accelerated, with economic activity expanding 6.6% y/y, from 3.4% y/y in Q4-16. A sharp increase in investment (+26.4% y/y) was a significant contributor to the headline print.

In political news, a series of regional elections were held in Mexico last weekend. In the widely-followed State of Mexico, the PRI, the party of President Enrique Peña Nieto, was able to retain the governorship in a narrow victory. Going into the election, the race had been too close to call, with the left wing candidate from the newly-formed Morena party gaining significant traction during campaign.

In ratings news, S&P cut Qatar's sovereign rating from 'AA' to 'AA-' and left the sovereign on credit watch negative. The move comes on the back of a diplomatic feud between Qatar and its Middle Eastern neighbors. S&P underscored that regional tensions could weigh on Qatar's fiscal performance and magnify the country's external vulnerabilities. Moody's cut Qatar's sovereign rating on May 26th to 'Aa3,' from 'Aa2.'

US Dollar-Denominated EM Bonds (in bps)

Spreads	06/08/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	300	342	415	353	308	257
Investment Grade	170	205	268	222	203	149
BB-rated	260	322	364	328	324	228
B-rated	437	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	06/08/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.24	6.79	7.13	6.50	6.85	5.45
Brazil	10.04	11.10	16.03	12.59	12.32	8.16
Indonesia	7.23	8.03	8.92	7.96	8.73	5.75
Turkey	10.40	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan